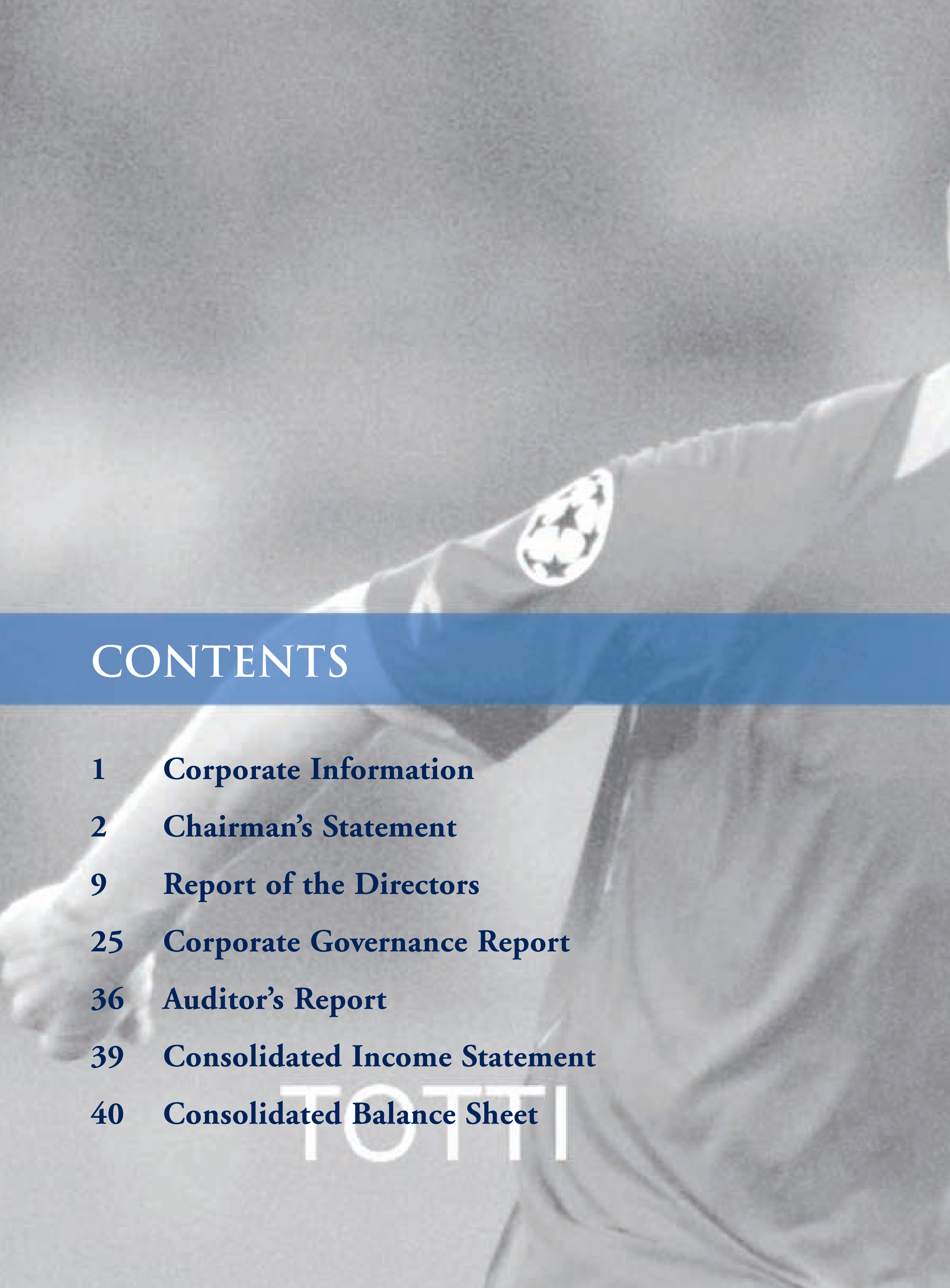
TAKSON HOLDINGS LIMITED
第一德勝控股有限公司

Annual Report 2006/07 年報

STOCK CODE : 918



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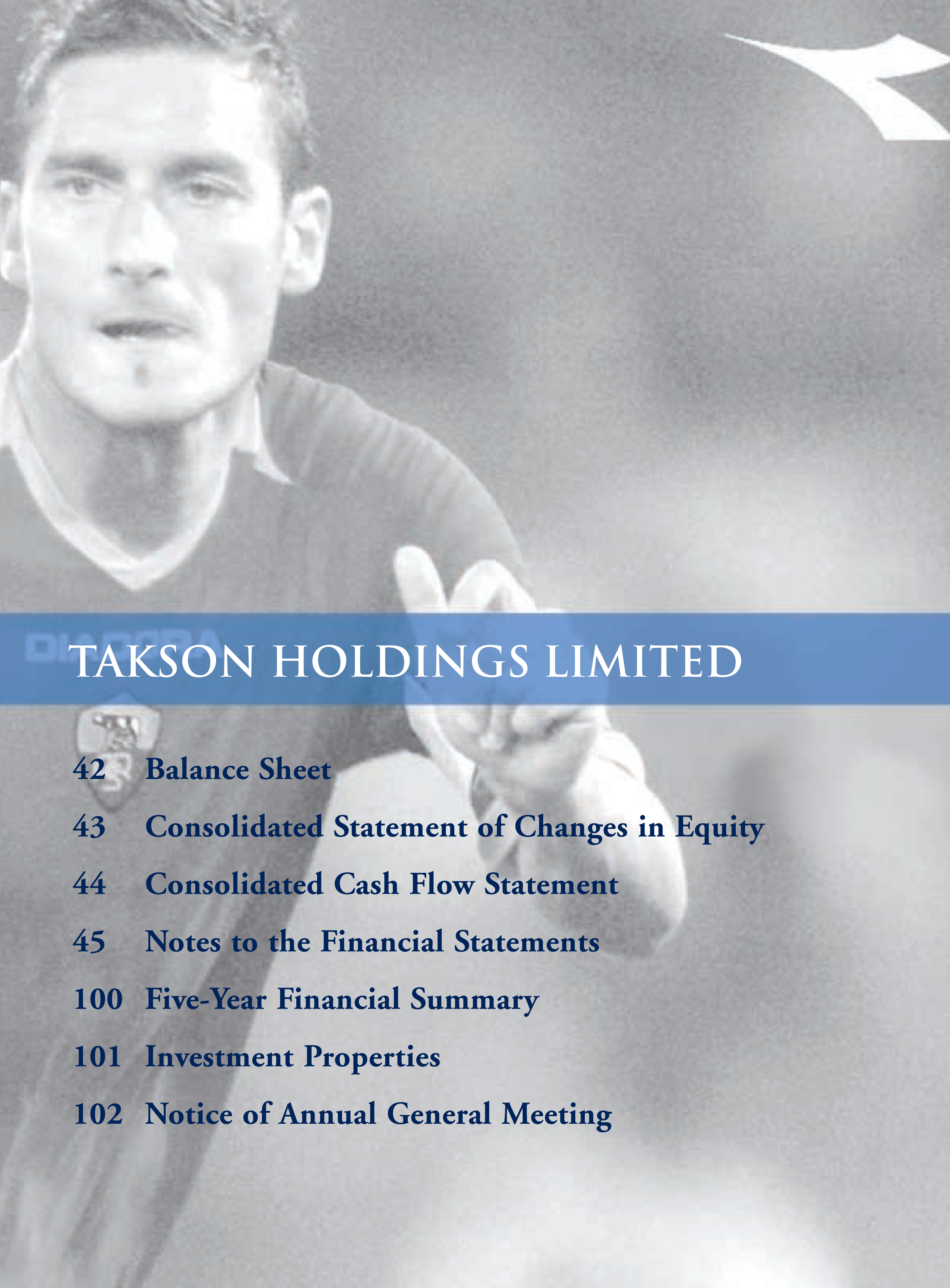

TAKSON HOLDINGS LIMITED

CORPORATE INFORMATION

Directors

Executive Directors:
Mr. Wong Tek Sun, Takson
Ms. Pang Shu Yuk, Adeline Rita

Non-executive Director:
Mr. Wong Tak Yuen

Independent Non-executive Directors:
Mr. Lee Kwok Cheung
Mr. Cunningham, James Patrick
Mr. Chau Tsun Ming, Jimmy

Company Secretary

Mr. Chan Siu Man

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

5th Floor, South Wing
Harbour Centre, Tower One
1 Hok Cheung Street
Hunghom, Kowloon
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Principal Bankers

Standard Chartered Bank
Bank of China (Hong Kong) Limited

Solicitors

Bermuda:
Conyers Dill & Pearman

Hong Kong:
Woo, Kwan, Lee & Lo

Share Registrars and Transfer Offices

Bermuda:
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong:
Abacus Share Registrars Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

Stock Code

0918

CHAIRMAN'S STATEMENT

Group Results

During the year ended 31st March, 2007 (the "Financial Year"), the Group recorded a turnover of approximately HK$138.1 million, representing an increase of 2% as compared to approximately HK$135.3 million recorded last year. Gross profit margin achieved 23%, compared to 32% in last year. The loss attributable to equity holders of the Company amounted to HK$35.8 million, compared to HK$20.5 million in last year.

Business Overview

The Group has two main business segments: the Export Business and the Licensee Business.

Export Business

The Group has been focusing on its business strategy to develop and expand the Export Business starting from the Financial Year. Turnover for the Financial Year decreased by 22% to HK$57.5 million (2006: HK$73.6 million) and the gross profit margin achieved was approximately 21% (2006: 26%). Although the gross profit margin decreased from that of the financial year ended 31st March, 2006, it was mainly due to the diversification of product varieties that had lower gross profit margins.

Moving forward, the Group will continue to expand this business segment of the Group and try to achieve higher gross profit margin in the coming years. Export sales still represented a major source of the revenue of the Group. For the Financial Year, the revenue derived from export sales amounted to 42% of the total turnover of Group (2006: 54%). It is the Group's vision to maintain a more balanced source of income between the Export Business and the Licensee Business.

Licensee Business

For the Licensee Business, the Group has continued its strategy to invest in the marketing and brand building of the products with brandname "Diadora".

For Diadora, the Group has established more than 320 Diadora's brand-owned shops in the People's Republic of China (the "PRC") and Hong Kong operated by the Group or the Group's business partners. In line with our established business strategy, the Group focused on product development and brand building while our business partners continued to expand the network of retail shop outlets. Various sales meetings were held in Shanghai during the Financial Year and the Group received positive feedbacks from its business partners. For the Financial Year, the turnover increased from HK$32.3 million for the year ended 31st March, 2006 to HK$54.5 million, representing an increase of 69%. However, gross profit margin decreased to 24% due to promotional activities and stock clearance exercise during the Financial Year.

For HEAD®, the exclusive license for the manufacturing, marketing and distribution of HEAD® apparels in the PRC, Hong Kong and Macau expired on 31st December, 2006 and the Group decided not to renew this exclusive license. The Group and HEAD International GmbH have mutually agreed to terminate amicably the distribution agreement effective on 31st March, 2007. The turnover decreased from HK$29.4 million for the year ended 31st March, 2006 to HK$26.1 million for the Financial Year, representing a decrease of 11%.

Financial Review

During the Financial Year, the Group has recorded a turnover of approximately HK$138.1 million as compared to HK$135.3 million last year, representing an increase of approximately 2%. The turnover for the Export Business was approximately HK$57.5 million (2006: HK$73.6 million) while the turnover for the Licensee Business was approximately HK$80.6 million (2006: HK$61.7 million). The decrease in turnover of the Export Business is mainly due to delays of orders from a number of large customers. On the other hand, the significant increase in the turnover of the Licensee Business was mainly driven by the expansion of wholesales and retail operations of the Diadora products in the PRC.

The gross profit margin of the Export Business was approximately 21% (2006: 26%) while the gross profit margin of the Licensee Business was approximately 24% (2006: 39%). The decrease in the gross profit margin of the Export Business was mainly due to the diversification of product varieties that lowered the gross profit margin. The decrease in the gross profit margin of the Licensee Business was mainly due to the Group's decision to offer very competitive product promotion campaigns to our dealers for market penetration in the PRC.

Due to the better control on the cost, the administrative expenses decreased by 16% to HK$43.7 million (2006: HK$52.2 million) while the selling, distribution and marketing costs increased by 44% to HK$26 million (2006: HK$18.1 million) is caused by continued expansion of Licensee Business of Diadora and Export Business.

Prospects

Export Business

In line with our existing business strategy for the Export Business, the Group will continue to expand its customer base and diversify the product varieties beyond outerwear so that a more balanced product mix will be achieved in the forthcoming years. After the Financial Year, the Group has successfully solicited some new large customers which have already placed orders to us. The Group expects that it can achieve a higher overall turnover in the Export Business in the forthcoming years with the expanded network and our effort to continue the expansion of the customer base. The Group is well prepared to build on our solid foundation for the years to come and believes that the additional customer base will help the Group to achieve economies of scale by fully utilizing the existing resources.

It is the Group's long-term vision to streamline its business and transfer most of its operations to the PRC for better cost control and for enhancing efficiency and effectiveness.

Licensee Business

The Group will reposition its business strategy of the Licensee Business for the Diadora products in the Greater China Market for the coming year. It is the Group's intention to re-structure the dealer network by attracting nationwide dealers to better cover the market by opening more branded-owned retail outlets in those second and third tier cities in the PRC (e.g. Hubei, Shandong, etc) for the Diadora products.

To improve productivity and efficiency, the Group will review the cost structure of the Licensee Business by streamlining certain business functions and reduce the capital investments on retail outlets. The management expects that there will be an increase in the overall turnover derived from the sales of the Diadora products by those dealers and retail shops for the coming financial years. However, the business is facing challenges such as keen competitions, heavy marketing and cash investments, increasing requirements for international brand owner support.

Liquidity and Financial Resources

The Group generally finances its operations by its own working capital, trade facilities and revolving bank loans provided by its principal bankers in Hong Kong. Total net cash outflow from operations amounted to approximately HK$7.5 million for the Financial Year (2006: HK$55.6 million).

As at 31st March, 2007, the Group's net borrowings comprised bank loans, obligations under finance leases and loans from a director who is a shareholder of the Company, the aggregate amount of which was approximately HK$65.3 million (2006: HK$57.3 million). Among the total outstanding amounts of bank loans, obligations under finance leases and loans from a director as at 31st March, 2007, 63% (2006: 82%) is repayable within the next year, 22% (2006: 1%) is repayable within the second year and the remaining balance repayable in the third to fifth year. The Group's bank loans are subject to floating interest rates while obligations under finance leases are subject to fixed interest rates.

The ratio of current assets to current liabilities of the Group was 0.77 as at 31st March, 2007 compared to 1.03 as at 31st March, 2006. The Group's gearing ratio as at 31st March, 2007 was 0.8 (2006: 0.6) which is calculated based on the Group's total liabilities of HK$112.1 million (2006: HK$103.3 million) and the Group's total assets of HK$133.9 million (2006: HK$157.8 million). As at 31st March, 2007, the Group's total cash and bank balances including the pledged bank deposit amounted to HK$19.3 million compared to HK$18.1 million as at 31st March, 2006. The cash and bank balances together with the available banking facilities and the financial support from a director who is a shareholder of the Company, which has advanced totally HK$19.8 million to the Group after the Financial Year as detailed in Note 32(b) to the consolidated financial statements, can provide adequate liquidity and capital resources for the ongoing operating requirements of the Group.

The monetary assets and liabilities and business transaction of the Group are mainly carried out and conducted in Hong Kong dollars, Renminbi and United States dollars. The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risks being minimized through balancing the monetary assets versus monetary liabilities, and foreign currency revenue versus foreign currency expenditure. The Group maintained a balanced match of Renminbi financing in its PRC projects where cash flows were denominated in that currency to mitigate currency risk. The Group did not use any financial instrument to hedge against foreign currency risk.

Charge of Assets

As at 31st March, 2007, the investment properties and leasehold land and buildings in Hong Kong and the PRC held by the Group with an aggregate carrying value of approximately HK$46.7 million (2006: HK$46.1 million) were pledged as first legal charge for the Group's banking facilities.

Contingent Liabilities and Litigation

The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. As at 31st March, 2007, facilities utilized amounted to HK$40.5 million (2006: HK$56.3 million).

CHAIRMAN'S STATEMENT

In February 2007, the Company initiated a legal action to claim the landlord of the Directors' quarters for damages and return of deposit as a result of wrongful repudiation of the tenancy agreement, which is quantified at HK$604,000 plus general damages and additional rent, rates and management fee to be assessed. The landlord commenced a separate legal action to counter-claim the Company for the amount of HK$2,035,000, being the outstanding and unpaid rent for the remainder of the term of the tenancy agreement, plus losses, damages, repair costs and re-instatement expenses to be assessed.

As the legal proceedings are still ongoing and the outcome is uncertain, the Directors are of the opinion that the amount of obligations (if any) cannot be ascertained at this stage and, accordingly, no provision for such liability has been made as at 31st March, 2007.

Except for the foregoing, as at 31st March, 2007, the Group had no other significant contingent liabilities or pending litigation.

Employees

As at 31st March, 2007, the Group had a total of 144 employees (2006: 219 employees). The decrease in the number of employees was due to the control of staff costs in Hong Kong and the PRC. During the Financial Year, total staff costs (including directors' remuneration) amounted to approximately HK$ 28.6 million (2006: HK$31.7 million). For the Financial Year, the Group has performed a restructuring of the manpower leading to the redundancy cost of approximately HK$0.9 million.

The Group remunerates its employees (including Directors) primarily with reference to industry practices, including contributory provident funds, insurance and medical benefits. The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Group has also adopted a discretionary bonus scheme for the management and the staff with awards which are determined annually based upon the performance of the Group and individual employees. As at 31st March, 2007, the Group has granted an aggregate of 23,270,000 share options to its Directors and employees for the purpose of providing incentives or rewards to the eligible employees for their contribution to the Group.

Appreciation

On behalf of the Board, I would like to thank our business partners and shareholders for their continued support and to express my appreciation to all managers and employees for their dedication.

Wong Tek Sun, Takson
Chairman

Hong Kong, 25th July, 2007

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") submit their report together with the audited accounts for the year ended 31st March, 2007 (the "Financial Year").

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the sourcing, subcontracting, marketing and selling of garments and sportswear products.

An analysis of the Group's results, assets and liabilities by business and geographical segments is set out in note 5 to the financial statements.

Major Customers and Suppliers

The percentages of sales and purchases for the Financial Year attributable to the Group's major customers and suppliers are as follows:

	2007	2006
	%	%
Sales		
— The largest customer	**25**	19
— Five largest customers combined	**48**	53
Purchases		
— The largest supplier	**24**	19
— Five largest suppliers combined	**71**	65

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers as mentioned above.

Analysis of the Group's Performance

An analysis of the Group's performance is shown in the Chairman's Statement on pages 2 to 8.

REPORT OF THE DIRECTORS

Results and Appropriations

The results of the Group for the Financial Year are set out in the consolidated income statement on page 39.

The Directors do not recommend the payment of a dividend in respect of the year ended 31st March, 2007 (2006: Nil).

Reserves

Movements in the reserves of the Group and of the Company during the Financial Year are set out in note 24 to the financial statements.

Statement of Changes in Equity

The consolidated statement of changes in equity of the Group during the Financial Year is shown on page 43.

Donations

Charitable and other donations made by the Group during the Financial Year amounted to Nil (2006: HK$47,400).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

Investment Properties

Details of the investment properties held by the Group are set out on page 101.

Share Capital

Details of the movements in the share capital of the Company are set out in note 23 to the financial statements.

Distributable Reserves

The Company had no distributable reserves as at 31st March, 2007 (2006: Nil).

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the Financial Year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Financial Year.

Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31st March, 2007 are set out in note 34 to the financial statements.

Analysis of Bank Loans and Other Borrowings

The Group's bank loans and other borrowings as at 31st March, 2007 were repayable over the following periods:

	Trust receipts and other bank loans *HK$'000*	**Other borrowings** *HK$'000*
Within one year	40,894	63
In the second year	723	—
In the third to fifth year inclusive	10,062	—
	51,679	63

Details of a loan from a Director are set out in note 32(b) to the financial statements.

REPORT OF THE DIRECTORS

Directors

The Directors during the Financial Year and up to the date of this report are as follows:

Mr. Wong Tek Sun, Takson *(Chairman)*
Ms. Pang Shu Yuk, Adeline Rita
Mr. Wong Tak Yuen*
Mr. Lee Kwok Cheung**
Mr. Zheng Jie** *(resigned on 8th May, 2007)*
Mr. Chau Tsun Ming, Jimmy**
Mr. Cunningham, James Patrick** *(appointed on 8th May, 2007)*

* *non-executive director*
** *independent non-executive directors*

All the Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Bye-law 87 of the Company's Bye-laws.

In accordance with the Company's Bye-laws, Ms. Pang Shu Yuk, Adeline Rita and Mr. Chau Tsun Ming, Jimmy will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

According to Bye-law 86(2) of the Company's Bye-laws, any Director appointed by the Board to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Cunningham, James Patrick was appointed as an independent non-executive director of the Company in May 2007. Accordingly, Mr. Cunningham, James Patrick shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election at that meeting.

Directors' Service Contracts

Each of Mr. Wong Tek Sun, Takson and Ms. Pang Shu Yuk, Adeline Rita has entered into a service contract with the Company which is determinable within one year without payment of compensation other than statutory compensation. Apart from the aforesaid, none of the Directors, including the Directors proposed for re-election at the forthcoming annual general meeting of the Company, has entered into any service contract with the Company.

Details of the Directors' emoluments are set out in note 9(a) to the financial statements.

Connected Transactions

Details of a loan from a Director are set out in note 32(b) to the financial statements. The loan from the Director constitutes a connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As the loan is on normal commercial terms where no security over the assets of the Group is granted in respect of such loan, the transaction is exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

Except for the foregoing, no connected transaction discloseable under the Listing Rules has been entered into by the Group during the Financial Year.

Contract of Significance

There was no contract of significance subsisting during or at the end of the Financial Year in which a Director is or was materially interested, either directly or indirectly.

REPORT OF THE DIRECTORS

Directors and Senior Management

Biographical details of Directors and senior management of the Group are set out as below:

Executive Directors

Mr. Wong Tek Sun, Takson, aged 56, is the Chairman and Chief Executive Officer of the Group. He received his tertiary education in the PRC before he co-founded the Group in 1972. He has over 30 years' experience and in-depth knowledge of marketing in the US and European markets and of the manufacturing of outerwear garments in the PRC and Hong Kong. He is responsible for corporate planning and strategy formulation, sales and marketing and overall management of the Group. Mr. Wong is also the director of 10 subsidiaries of the Group. Mr. Wong is the spouse of Ms. Pang Shu Yuk, Adeline Rita. As at the date hereof, Mr. Wong is deemed to be interested in 300,541,600 shares in the Company according to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

Ms. Pang Shu Yuk, Adeline Rita, aged 48, is the Deputy Chairman and Chief Operations Officer of the Group and is responsible for overseeing merchandising, production planning and control, and various operational and administrative matters of the Group. She holds a higher diploma in fashion and clothing technology from Hong Kong Polytechnic University. She joined the Group in 1983 and is the spouse of Mr. Wong Tek Sun, Takson. Ms. Pang is also the director of 9 subsidiaries of the Group. As at the date hereof, Ms. Pang is deemed to be interested in 300,541,600 shares in the Company according to Part XV of the SFO.

Non-Executive Director

Mr. Wong Tak Yuen, aged 51, has extensive experience in the PRC market for more than 20 years. He is a brother of Mr. Wong Tek Sun, Takson. He was appointed as a non-executive director of the Company in January, 2003.

Directors and Senior Management *(continued)*

Independent Non-executive Directors

Mr. Lee Kwok Cheung, aged 58, was appointed as an independent non-executive director of the Company in September 1997. Mr. Lee is a director of Management Capital Limited, a company engaged in the business of direct investment and financial advisory. Mr. Lee was the chief executive of Giordano Holdings Limited during the period between 1991 and 1993 and Polytec Holdings Limited, a company engaged in the business of textile and real estate, during the period between 1994 and 1995. Mr. Lee has also over eleven years of experience in banking.

Mr. Chau Tsun Ming, Jimmy, aged 34, was appointed as an independent non-executive director of the Company in July 2005. Mr. Chau is the Chief Financial Officer and Chief Operation Officer of 6688.com, an e-commerce and m-commerce service provider based in Beijing, China. He holds a Bachelor of Commerce degree from University of Toronto, Canada, and is a member of the American Institute of Certified Public Accountants. Before becoming an entrepreneur, Mr. Chau had worked for five years in the Listing Division of Hong Kong Exchanges and Clearing Limited.

Mr. Cunningham, James Patrick, aged 52, was appointed as an independent non-executive director of the Company in May 2007. Mr. Cunningham is currently an independent non-executive director of Pico Far East Holdings Limited, a company listed on the Main Board of the Stock Exchange. He obtained a Bachelor of Science degree in Business Administration from Adelphi University in Garden City, New York. He worked over for 25 years in the apparel industry in the United States of America and Asia and has been most recently the Senior Vice President and Corporate Officer of Gap Inc. for 14 years. He is now a private investor and also acts as a business advisor to both private and listed companies in the retail and apparel sourcing sectors.

Directors and Senior Management *(continued)*

Senior Management

Mr. Wong Wing Sang, Stephen, aged 48, joined the Group in 2006 and is the Executive Vice President — Corporate Development of the Group and is responsible for strategic business development of the Group. In addition, Mr. Wong is responsible for the development of business partner relationships and act as communication channels with the key Licensors. He also participates in strategic marketing activities and assists in the promotion of the various brands that the Group is working with. Mr. Wong holds a Bachelor of Commerce degree from University of Windsor, Canada, majoring in Accounting. Prior to joining the Group, Mr. Wong has over 20 years of expertise and experiences in sales & marketing, management consulting, and business development in different sectors including information technology, database management systems, enterprises resources programme, quality assurance, training and conference business.

Mr. Chan Siu Man, Barry, aged 39, joined the Group in 2006 and is the Chief Financial Officer and Company Secretary of the Company. Mr. Chan is responsible for the Group's overall financial and company secretarial matters. Mr. Chan holds a Bachelor of Accountancy degree of Hong Kong Polytechnic University. He also holds a Master of Business Administration degree from a university in Australia. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Prior to joining the Group, he had more than 10 years of experience in auditing, accounting and financial matters in various commercial and industrial sectors.

Mr. Peng Xin, aged 39, joined the Group in 2006 and is the Group Operation Director of the Company and he is responsible for sales and marketing strategy, business planning and operation control of the Group's licensee business in the PRC. He holds a Bachelor of Engineering of Tianjian Science and Engineering University. Prior to joining the Group, he had more than 13 years of experience in sales and marketing experience in the PRC.

Directors and Senior Management *(continued)*

Senior Management *(continued)*

Ms. Li Yuk Fong, Kerly, aged 49, joined the Group in 1990 and is the Operation Control Manager of the Group. She holds an international diploma in computer studies from NCC The National Centre for Information Technology in the United Kingdom and a diploma in management studies awarded jointly by Hong Kong Polytechnic University and Hong Kong Management Association. She is an associate member of the Hong Kong Institute of Human Resource Management. Prior to joining the Group, she had worked in the systems and control field for more than 4 years.

Ms. Xun Yu Ping, aged 36, joined the Group in 1994 and is our General Manager of Administration in the PRC. She graduated from the East China Normal University. She has held various senior administrative positions in the Group.

Directors' Interests in Contracts

Except for the Directors' service contracts as mentioned above, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the Financial Year.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and Associated Corporations

As at 31st March, 2007, the interests and short positions of each Director, chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions

	Number of ordinary shares in the Company beneficially held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Total interests**	**Percentage of holding**
Mr. Wong Tek Sun, Takson	4,621,600	10,800,000	285,120,000 *(Note)*	300,541,600	58.1%
Ms. Pang Shu Yuk, Adeline Rita	10,800,000	4,621,600	285,120,000 *(Note)*	300,541,600	58.1%

Note:

Such shares are held by Takson International Holdings Limited, the entire issued share capital of which is held by Wangkin Investments Inc. ("WII") as trustee of the Wangkin Investments Unit Trust (the "Unit Trust"). All issued and outstanding units in the Unit Trust are beneficially held by Guardian Trustee Limited as trustee of the Wang & Kin Family Trust (the "Family Trust"). The discretionary beneficiaries of the Family Trust are, inter alia, Ms. Pang Shu Yuk, Adeline Rita and the children of Mr. Wong Tek Sun, Takson and Ms. Pang Shu Yuk, Adeline Rita, namely, Mr. Wong Chi Wang, Calvin and Mr. Wong Chi Kin, Christopher.

Mr. Wong Tek Sun, Takson, being an executive Director of the Company, owns 50% of the issued share capital of WII and he, as one of the founders of the Family Trust, the husband of Ms. Pang Shu Yuk, Adeline Rita and the father of Mr. Wong Chi Kin, Christopher who is under the age of 18, is deemed to have interests in 285,120,000 shares held by Takson International Holdings Limited in the issued share capital of the Company under the SFO.

Ms. Pang Shu Yuk, Adeline Rita, being an executive Director of the Company, owns 50% of the issued share capital of WII and she, as one of the discretionary beneficiaries of the Family Trust and the mother of Mr. Wong Chi Kin, Christopher who is under the age of 18, is deemed to have interests in the 285,120,000 shares held by Takson International Holdings Limited in the issued share capital of the Company under the SFO.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

Save as disclosed above, as at 31st March, 2007, none of the Directors and chief executives of the Company (including their spouse and children under 18 years of age) had any other interests or short positions in the shares or underlying shares in, or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31st March, 2007, the Company had been notified of the following substantial shareholders' interests and long positions, being 5% or more of the Company's issued share capital.

Name of substantial shareholders	Capacity	Number of ordinary shares beneficially held	Percentage of holding
Wangkin Investments Inc. *(Note)*	Interest of a controlled corporation	285,120,000	55.1%
Takson International Holdings Limited *(Note)*	Beneficial owner	285,120,000	55.1%

Note: Takson International Holdings Limited is a wholly-owned subsidiary of Wangkin Investments Inc., which in turn is owned as to 50% by Mr. Wong Tek Sun, Takson, and as to 50% by Ms. Pang Shu Yuk, Adeline Rita, both of whom being the executive Directors of the Company.

Save as disclosed above, as at 31st March, 2007, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest or long positions in 5% or more of the issued share capital of the Company.

Share Option Scheme

Prior to 25th August, 2006, the Company operated a share option scheme whereby the Board of Directors may grant options to the Directors and employees of the Company and any of its subsidiaries to subscribe for shares of the Company (the "Old Share Option Scheme"). A total of 36,000,000 share options have been granted under the Old Share Option Scheme and all 36,000,000 share options have been exercised and no share option was outstanding or lapsed for the Old Share Option Scheme.

During the annual general meeting of the Company held on 25th August, 2006, the Old Share Option Scheme was terminated and a new share option scheme (the "New Share Option Scheme") was adopted, whereby the Board of Directors may grant share options to any eligible persons. Eligible persons of the New Share Option Scheme include any full-time or part-time employees of the Company or any member of the Group, including any Directors, advisors or consultants, suppliers or customers of the Group.

The New Share Option Scheme became effective on 4th October, 2006. The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other operative share option schemes of the Group may not in aggregate exceed 51,740,000, being 10% of the shares in issue of the Company as at 25th August, 2006, the date on which the New Share Option Scheme is adopted. It would be granted at nominal consideration of HK$1.00 for each lot of share options granted under the New Share Option Scheme.

The exercise price of the share options granted under the New Share Option Scheme (the "New Share Options") will be the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the Stock Exchange on the date of offer of the New Share Options and (iii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the New Share Options.

On 28th December, 2006, the Board of Directors granted a total of 23,270,000 New Share Options to the Directors and eligible employees at an exercise price of HK$0.413 per share. As at 31st March, 2007, 23,270,000 New Share Options were still outstanding, representing approximately 4.5% of the issued ordinary shares of the Company.

Share Option Scheme *(continued)*

Details of the movements of the New Share Options under the New Share Option Scheme during the Financial Year are as follows:

	Number of New Share Options granted during the year ended and outstanding at 31.3.2007	Exercise period of New Share Options
Executive Directors		
Mr. Wong Tek Sun, Takson	2,000,000	28/12/2007-27/12/2009
	2,000,000	28/12/2008-27/12/2010
Ms. Pang Shu Yuk, Adeline Rita	2,000,000	28/12/2007-27/12/2009
	2,000,000	28/12/2008-27/12/2010
Other employees		
In aggregate	10,770,000	28/12/2007-27/12/2009
	4,500,000	28/12/2008-27/12/2010
	23,270,000	

The vesting period of the share options is from the date of grant until the commencement of the exercise period. The share options would be fully exercisable from the commencement of the exercise period.

The fair value of the New Share Options granted on 28th December, 2006 was HK$3,541,000, based on the Black-Scholes-Merton option pricing model. The significant inputs into the model are as follows:

Market price at the date of grant	HK$0.39
Risk-free interest rate	3.527% to 3.598%
Expected life (in years)	2 to 3
Expected volatility	61.17% to 71.07%
Expected dividend per share	—

Share Option Scheme *(continued)*

The expected volatility was based on the historical volatility of the share prices of the Company over a period that is equal to the expected life before the date of grant. The Black-Scholes-Merton option pricing model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The fair value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Apart from the aforesaid, at no time during the Financial Year was the Company or any of its subsidiary a party to any arrangement to enable the Directors and chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the Financial Year, except for the deviations from Code Provisions A.2.1 and A.4.1. Details of such compliance are set out in the Corporate Governance Report on pages 25 to 35.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

Audit Committee *(continued)*

The Audit Committee provides an important link between the Directors and the Company's auditor in matters coming within the scope of the audit of the Group. It also reviews the effectiveness of the external audit, the internal controls and risk evaluation. Currently, the Audit Committee comprises two independent non-executive directors, namely, Mr. Lee Kwok Cheung and Mr. Chau Tsun Ming, Jimmy, and a non-executive director, Mr. Wong Tak Yuen. Two meetings were held during the Financial Year.

Pre-Emptive Rights

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

Management Contracts

No contracts, other than contracts of service with person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Financial Year.

Confirmation of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors, namely Mr. Lee Kwok Cheung, Mr. Zheng Jie, Mr. Chau Tsun Ming, Jimmy and Mr. Cunningham, James Patrick, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the Financial Year.

Auditor

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

For and on behalf of the Board

Wong Tek Sun, Takson
Chairman

Hong Kong, 25th July, 2007

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Board of Directors of the Company (the "Board") is committed to maintaining good corporate governance practices. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31st March, 2007 (the "Financial Year"), except for the deviations discussed below. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximized. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure compliance. Meetings were held from time to time and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to enhance their awareness of good corporate governance practices and keep them abreast of the latest development of the Listing Rules and other regulatory requirements.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of the chairman and the chief executive officer of the Company should be separate and should not be performed by the same individual.

The Company has deviated from the Code provision A.2.1 and the roles of the chairman and the chief executive officer of the Company are now performed by the same person. Mr. Wong Tek Sun, Takson now assumes the roles of both the chairman and chief executive officer of the Company. The Board intends to maintain this structure for the time being as it believes that this structure can provide the Group with strong and consistent leadership and allows more effective planning and execution of long-term business strategies.

Chairman and Chief Executive Officer *(continued)*

One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board always acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and fully discharges its responsibilities, and that all key issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda of the meetings of the Board.

The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the composition of the Board which comprises experienced independent non-executive Directors and experienced management team. The Board will also evaluate the existing structure from time to time.

Directors' Securities Transactions

Code provision A.5.4 stipulates that directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and, in addition, the Board should establish written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The Company has adopted a code of conduct (the "Company's Code") regarding directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code. None of the Directors is aware of any information that would indicate that the Company or any of its Directors is not or was not in compliance with the Model Code and the Company's Code. Upon specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code and the Company's Code for the Financial Year. The Company's Code also applies to other specified senior management of the Group, including those as set out in the paragraph headed of Directors and Senior Management in the Report of Directors on pages 14 to 17.

The Board of Directors

The Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors:

Mr. Wong Tek Sun, Takson *(Chairman)*
Ms. Pang Shu Yuk, Adeline Rita

Non-executive Director:

Mr. Wong Tak Yuen

Independent non-executive Directors:

Mr. Lee Kwok Cheung
Mr. Zheng Jie *(resigned on 8th May, 2007)*
Mr. Chau Tsun Ming, Jimmy
Mr. Cunningham, James Patrick *(appointed on 8th May, 2007)*

One of the independent non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise. Biographical details of the Directors and the relationships among the current members of the Board are set out in the paragraph headed of Directors and Senior Management in the Report of the Directors on pages 14 to 17.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and are subject to re-election.

The Company has deviated from the Code provision A.4.1. The non-executive Directors (including independent non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting pursuant to Bye-law 87 of the Company's Bye-laws.

The Board believes that, despite the absence of specified term of non-executive Directors, the Directors are committed to representing the long-term interests of the shareholders of the Company.

Independent Non-Executive Directors

The independent non-executive Directors are professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their participation in Board meetings could bring independent judgment on issues relating to the Group's strategy, internal control, performance, conflicts of interest and management process to ensure the interests of the shareholders are taken into account. The Board considers each of the independent non-executive Directors to be independent and that they all meet the independence criteria as set out under Rule 3.13 of the Listing Rules.

Responsibilities of Directors and Management

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate capital and managerial resources to implement the business strategies adopted, adequacy of systems of financial and internal controls and conduct of business in conformity with applicable laws and regulations. All Directors have made full and active contribution to the affairs of the Board and the Board has always acted in the best interests of the Group.

The executive Directors and the senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. Senior management is responsible for the day-to-day operations of the Group with divisional heads responsible for different aspects of the Group's business.

The Board is also responsible for the preparation of the financial statements. The Company has adopted the generally accepted accounting standards in Hong Kong in preparing the financial statements, appropriate accounting policies have been adopted and applied consistently, and reasonable and prudent judgment and estimates have been made. The publication of the financial statements of the Group is also in a timely manner.

Board Meeting

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. During the Financial Year, eleven meetings have been held by the Board and the attendance of each of the Directors is as follows:

	Number of Board Meetings attended	Attendance rate
Executive Directors		
Mr. Wong Tek Sun, Takson *(Chairman)*	11/11	100%
Ms. Pang Shu Yuk, Adeline Rita	10/11	91%
Independent non-executive Directors		
Mr. Lee Kwok Cheung	4/11	36%
Mr. Zheng Jie	4/11	36%
Mr. Chau Tsun Ming, Jimmy	4/11	36%
Non-executive Director		
Mr. Wong Tak Yuen	3/11	27%

Mr. Wong Tek Sun, Takson is the spouse of Ms. Pang Shu Yuk, Adeline Rita and the brother of Mr. Wong Tak Yuen.

Audit Committee

The Audit Committee was responsible for overseeing the audit process and reviewing the effectiveness of both financial reporting process, internal control and risk management systems of the Company. The Audit Committee has reviewed the interim results of the Company for the six months ended 30th September, 2006 and the annual consolidated results of the Company for the Financial Year. The Audit Committee also carried out and discharged its other duties as set out in the Code. Two of the members of the Audit Committee are independent non-executive Directors and the other one is the non-executive Director, comprising:

— Mr. Lee Kwok Cheung *(Chairman of the Audit Committee)*
— Mr. Chau Tsun Ming, Jimmy
— Mr. Wong Tak Yuen

During the Financial Year, two meetings have been held by the Audit Committee and the attendance of each of the committee members at the Audit Committee meeting is set out as follows:

Directors	**Number of meetings attended**	**Attendance rate**
Mr. Lee Kwok Cheung	2/2	100%
Mr. Chau Tsun Ming, Jimmy	2/2	100%
Mr. Wong Tak Yuen	0/0	0%

Remuneration Committee

Code provision B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference.

On 10th October, 2006, the Board established the Remuneration Committee. It comprises two independent non-executive Directors and one executive Director comprising:

— Mr. Chau Tsun Ming, Jimmy *(Chairman of the Remuneration Committee)*
— Mr. Lee Kwok Cheung
— Mr. Wong Tek Sun, Takson

The objectives of the Remuneration Committee are to determine and maintain an appropriate and competitive level of remuneration to attract, retain and motivate Directors and key executives to operate the Company successfully. The Remuneration Committee also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies. The Remuneration Committee is provided with other resources to enable it to fully discharge its duties. A set of written terms of reference, which described the authority and duties of the Remuneration Committee, was adopted by the Board and the contents of which are in compliance with the code provisions of the Code.

During the Financial Year, one Remuneration Committee meeting has been held and the attendance of each of the members of the Remuneration Committee is as follows:

Directors	**Number of meeting attended**	**Attendance rate**
Mr. Chau Tsun Ming, Jimmy	1/1	100%
Mr. Wong Tek Sun, Takson	1/1	100%
Mr. Lee Kwok Cheung	1/1	100%

Remuneration Committee *(continued)*

The Remuneration Committee had considered the following proposals and made recommendation to the Board:

- Annual salary review for 2006/07 of the Directors and senior executives

- Offer and grant of share options under the Company's Share Option Scheme to eligible employees and Directors

The Remuneration Committee shall consult the Chairman about their proposals relating to the remuneration of other Directors and have access to professional advice, if necessary.

Nomination Committee

Code provision A.4.4 stipulates that the Company should establish a nomination committee with specific written terms of reference.

On 10th October, 2006, the Board formed the Nomination Committee. It comprises two independent non-executive Directors and one executive Director comprising:

— Mr. Zheng Jie *(Chairman of the Nomination Committee — resigned on 8th May, 2007)*
— Mr. Cunningham, James Patrick *(Chairman of the Nomination Committee — appointed on 8th May, 2007)*
— Mr. Lee Kwok Cheung
— Mr. Wong Tek Sun, Takson

Nomination Committee *(continued)*

The objectives of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The Nomination Committee should identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals eligible for nomination of directorships, assess the independence of independent non-executive Directors, and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. A new Director will be informed of the role of the Board and his/her duties and obligation of being a director of a listed company.

The number of the Nomination Committee meetings held during the Financial Year for resolving the existing composition of all the committees and the Board to be in compliance with the Listing Rules in Hong Kong and the attendance of each of the Directors is as follows:

Directors	**Number of meeting attended**	**Attendance rate**
Mr. Zheng Jie	1/1	100%
Mr. Wong Tek Sun, Takson	1/1	100%
Mr. Lee Kwok Cheung	1/1	100%

Auditor's Remuneration

For the Financial Year, the remuneration of the Group's auditor for the provision of statutory audit and non-audit services in respect of interim results and tax advisory was HK$1,060,000 and HK$177,000 respectively.

Accountability

Being accountable for the proper stewardship of the Group's affairs, the Directors acknowledge their responsibility for ensuring that proper accounting records are kept and relevant financial statements, as in the Annual Report and the Interim Report, are prepared to give a true and fair view of the state of affairs of the Group for each of the financial periods.

In preparing the accounts for the Financial Year, the Directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants
- selected and applied consistently the appropriate accounting policies
- made judgments and estimates that are prudent and reasonable
- prepared the accounts on the going concern basis

The management of the individual businesses within the Group provides the Board with such information and explanations necessary to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The statement by the auditor of the Company about their reporting responsibilities are set out on pages 36 to 38 of this report.

Internal Control

The Board acknowledges its responsibility for the integrity of the Group's financial information and the effectiveness of the Group's system of internal controls and risk management processes. Accordingly, the Board established a clear organizational structure with appropriate delegation of responsibility to satisfy changing business needs while managing risks that are critical to the achievement of business objectives.

While the Audit Committee conducts continuous review on the adequacy and effectiveness of existing internal controls on behalf of the Board, the day-to-day responsibility for the conduct of these control procedures, the on-going monitoring of risks and the effectiveness of the corresponding internal controls rest with the management of each business units.

The Board hereby confirms that there is a process for identifying, evaluating and managing the significant risks that are critical to the achievement of the Groups' strategic objectives. The Board communicates on a regular basis with the Audit Committee on risk exposure. During the Financial Year, the Board has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKSON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Takson Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 99, which comprise the consolidated and company balance sheets as at 31st March, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Auditor's responsibility *(continued)*

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately HK$35,827,000 during the year ended 31st March, 2007 and, as at that date, the Group's current liabilities exceeded its current assets by approximately HK$17,137,000. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As described in Note 2 to the consolidated financial statements, the directors are taking steps to improve the Group's liquidity and financial performance. These steps include various measures to improve operating cash flows and financial position of the Group and obtaining the financial support from a director who is a shareholder of the Company.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25th July, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	5	**138,105**	135,278
Cost of sales	6	**(106,996)**	(92,149)
Gross profit		**31,109**	43,129
Other income	5	**8,077**	7,401
Selling, distribution and marketing expenses	6	**(25,966)**	(18,054)
Administrative expenses	6	**(43,665)**	(52,152)
Operating loss		**(30,445)**	(19,676)
Finance costs	7	**(5,064)**	(4,487)
Loss before taxation		**(35,509)**	(24,163)
Taxation (charge)/credit	10	**(318)**	1,734
Loss for the year		**(35,827)**	(22,429)
Attributable to:			
Equity holders of the Company		**(35,827)**	(20,454)
Minority interests		**—**	(1,975)
		(35,827)	(22,429)
Loss per share for loss attributable to the equity holders of the Company			
— basic *(HK cents)*	12	**(6.92)**	(4.46)

CONSOLIDATED BALANCE SHEET

As at 31st March, 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Intangible assets	*14*	**17,341**	21,951
Property, plant and equipment	*15*	**22,482**	26,749
Leasehold land and land use rights	*16*	**13,652**	25,394
Investment properties	*17*	**22,253**	5,743
Deferred tax assets	*28*	**—**	74
		75,728	79,911
Current assets			
Inventories	*19*	**14,693**	32,645
Trade receivables	*20*	**18,864**	13,800
Deposits, prepayments and other receivables		**5,322**	13,345
Pledged bank deposit	*21*	**10,521**	10,665
Cash at bank and in hand	*21*	**8,741**	7,457
		58,141	77,912
Total assets		**133,869**	157,823
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*23*	**51,740**	51,740
Reserves	*24*	**(29,949)**	2,828
Total equity		**21,791**	54,568

CONSOLIDATED BALANCE SHEET

As at 31st March, 2007

	Notes	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	26	**10,785**	8,281
Long-term liabilities	27	**11,517**	15,972
Deferred tax liabilities	28	**898**	1,243
Loans from a director	32(b)	**13,600**	2,150
		36,800	27,646
Current liabilities			
Trade payables	22	**14,581**	13,484
Other payables and accrued charges		**14,286**	10,520
Taxation payable		**1,000**	15
Bank borrowings	26	**40,957**	46,886
Current portion of long-term liabilities	27	**4,454**	4,704
		75,278	75,609
Total liabilities		**112,078**	103,255
Total equity and liabilities		**133,869**	157,823
Net current (liabilities)/assets		**(17,137)**	2,303
Total assets less current liabilities		**58,591**	82,214

Mr. Wong Tek Sun, Takson
Chairman

Ms. Pang Shu Yuk, Adeline Rita
Director

BALANCE SHEET

As at 31st March, 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	18	**33,312**	56,617
Current assets			
Other receivables		**755**	647
Cash at bank and in hand	21	**15**	17
		770	664
Total assets		**34,082**	57,281
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	**51,740**	51,740
Reserves	24	**(18,770)**	4,291
Total equity		**32,970**	56,031
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**—**	12
Current liabilities			
Other payables and accrued charges		**1,112**	1,238
Total liabilities		**1,112**	1,250
Total equity and liabilities		**34,082**	57,281
Net current liabilities		**(342)**	(574)
Total assets less current liabilities		**32,970**	56,043

Mr. Wong Tek Sun Takson
Chairman

Ms. Pang Shu Yuk Adeline Rita
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2007

	Attributable to equity holders of the Company			
	Share capital *HK$000*	Reserves *HK$000*	Minority interests *HK$000*	Total *HK$000*
Balance at 1st April, 2005	38,950	23,679	1,975	64,604
Exchange difference arising on translation of the financial statements of overseas subsidiaries	—	(87)	—	(87)
Surplus on revaluation of properties	—	330	—	330
Net income recognized directly in equity	—	243	—	243
Loss for the year	—	(20,454)	(1,975)	(22,429)
Total recognized loss for the year ended 31st March, 2006	—	(20,211)	(1,975)	(22,186)
Issue of shares	12,790	(640)	—	12,150
Balance at 31st March, 2006	51,740	2,828	—	54,568
Balance at 1st April, 2006	**51,740**	**2,828**	**—**	**54,568**
Exchange difference arising on translation of the financial statements of overseas subsidiaries	—	**(360)**	—	**(360)**
Surplus on revaluation of properties	—	**2,695**	—	**2,695**
Net income recognized directly in equity	—	**2,335**	—	**2,335**
Loss for the year	—	**(35,827)**	—	**(35,827)**
Total recognized loss for the year end 31st March, 2007	—	**(33,492)**	—	**(33,492)**
Shares-based compensation	—	**715**	—	**715**
Balance at 31st March, 2007	**51,740**	**(29,949)**	**—**	**21,791**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash outflow from operations	*25(a)*	**(7,524)**	(55,635)
Hong Kong profits tax paid		**(176)**	(166)
Net cash outflow from operating activities		**(7,700)**	(55,801)
Investing activities			
Proceeds from disposal of other investment		**—**	1,000
Proceeds from disposal of investment properties		**6,403**	32,900
Proceeds from disposal of property, plant and equipment		**58**	5
Proceeds from disposal of intangible assets		**3,880**	—
Disposal of a subsidiary	*25(b)*	**—**	2,340
Purchases of property, plant and equipment		**(4,864)**	(2,420)
Interest received		**535**	410
Net cash inflow from investing activities		**6,012**	34,235
Financing activities			
Issue of shares		**—**	12,790
Cost of share issuance		**—**	(827)
Director's loans granted		**11,100**	—
Bank loans granted		**82,285**	125,560
Repayment of bank loans		**(87,076)**	(104,775)
Repayment of obligations under finance leases		**(261)**	(355)
Release/(addition) of pledged bank deposit		**144**	(10,665)
Interest paid		**(3,465)**	(2,993)
Interest element of finance lease obligations		**(33)**	(40)
Net cash inflow from financing activities		**2,694**	18,695
Net increase/(decrease) in cash and cash equivalents		**1,006**	(2,871)
Cash and cash equivalents at the beginning of the year		**7,457**	10,328
Effects of exchange rate changes, net		**278**	—
Cash and cash equivalents at the end of the year	*25(c)*	**8,741**	7,457

1. General information

Takson Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the sourcing, subcontracting, marketing and selling of garments and sportswear products.

The Company is a limited liability company incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 5th Floor, South Wing, Harbour Centre, Tower One, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25th July, 2007.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and buildings.

The Group incurred a loss of approximately HK$35,827,000 for the year ended 31st March, 2007 (2006: HK$22,429,000) and had net current liabilities of approximately HK$17,137,000 as at 31st March, 2007 (2006: net current assets of HK$2,303,000). The directors are taking steps to improve the Group's liquidity and financial performance. These steps include active cost-saving and other measures to improve the Group's operating cash flows and financial position and obtaining the financial support from a director who is a shareholder of the Company as detailed in Note 32(b). The director has confirmed that he will not demand for repayment of the loans as detailed in Note 32(b) before 30th September, 2008.

The directors have given careful consideration to the Group's financial performance and liquidity position. On the basis that the Group's operating results and cash flows will be improved through the implementation of the measures described above and having considered the Group's current operation and business plan as well as the currently available banking facilities and support from a director mentioned above, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

New standards, amendments to existing standards and interpretations:

(a) Effect of adopting new HKFRS

During the year, the Group adopted the following amendments and interpretations of HKFRS, which are effective for the year ended 31st March, 2007 and are relevant to the Group's operations:

- HKAS 39 and HKFRS 4 (Amendments) require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of the amendments does not have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. The adoption of this interpretation does not have any significant impact on classification of the leases of the Group and on the expenses recognized in respect of them.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) ***Effect of adopting new HKFRS*** *(continued)*

The following standards, amendments and interpretations of HKFRS are effective for the year ended 31st March, 2007 but are not relevant to the Group's existing operations:

- HKAS 19 Amendment, Employee Benefits;
- HKAS 21 Amendment, Net Investment in a Foreign Operation;
- HKAS 39 Amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment, The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment, First-time Adoption of International Financial Reporting Standards and HKFRS 6 Amendment, Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electronically and Electronic Equipment; and
- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods commencing on or after 1st March, 2006);

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations of HKFRS have been issued but are not effective for the year ended 31st March, 2007 and have not been early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective for accounting periods commencing on or after 1st January, 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment to HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for the year ending 31st March, 2008;

- HKFRS 8, Operating Segments (effective for accounting periods commencing on or after 1st January, 2009). The Group will apply HKFRS 8 for the year ending 31st March, 2010, but it is not expected to have any significant impact on the Group's consolidated financial statements other than presentational changes and additional disclosures in respect of segment information; and

- HK(IFRIC)-Int 11, HKFRS 2 — Group and Treasury Share Transaction (effective for accounting periods commencing on or after 1st March, 2007). The Group will apply this interpretation in the year ending 31st March, 2008, but it is not expected to have a significant impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) *Standards, interpretations and amendments to published standards that are not yet effective* *(continued)*

The following interpretations of HKFRS have been issued but are not effective for the year ended 31st March, 2007 and are not relevant to the Group's existing operations:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for accounting periods commencing on or after 1st May, 2006);
- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for accounting periods commencing on or after 1st June, 2006);
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for accounting periods commencing on or after 1st November, 2006); and
- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for accounting periods commencing on or after 1st January, 2008).

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up for the year ended 31st March, 2007.

(a) *Subsidiaries*

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries *(continued)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2. Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses except for buildings which are stated at revalued carrying amount. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial year in which they are incurred.

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to accumulated losses.

Depreciation of property, plant and equipment is calculated to write off their cost over their expected useful lives as follows:

	Depreciation rates	**Method**
— Buildings	over the lease terms	straight-line
— Leasehold improvements	10 — 15% or over the lease terms, whichever is shorter	straight line
— Furniture and fixtures	10 — 20%	reducing balance
— Machinery, equipment and tools	10 — 18%	reducing balance
— Motor vehicles	10 — 18%	reducing balance
— Office and computer equipment	10 — 33%	reducing balance

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement. When revalued assets are sold, the valuation surplus included in reserves is transferred to retained earnings/accumulated losses.

2. Summary of significant accounting policies *(continued)*

2.6 Leasehold land and land use rights

Lease premium for land are up-front payment to acquire long-term interest in lease-occupied properties. The premium is stated at cost less accumulated amortization and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various buildings are situated. Amortization of lease premium for land is calculated on a straight-line basis over the period of the lease.

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. These valuations are performed by external valuers at least annually. Fair value is based on market prices, as adjusted (if necessary) for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the period in which they are incurred.

Changes in fair values are recognized in the income statement.

2. Summary of significant accounting policies *(continued)*

2.7 Investment properties *(continued)*

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment and/or leasehold land and land use rights becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Licenses

License rights on branded products are stated at cost less accumulated amortization and accumulated impairment losses, if any. They are initially measured at the fair value of the consideration given to acquire the license upon inception. The consideration given represents the capitalized present values of the fixed minimum periodic payments to be made in subsequent years in respect of the acquisition of the license rights.

License rights are amortized over the license period on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group.

2. Summary of significant accounting policies *(continued)*

2.9 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method and comprises direct materials, shipment costs and subcontracting expenses.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

2. Summary of significant accounting policies *(continued)*

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowing are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2. Summary of significant accounting policies *(continued)*

2.16 Deferred income tax *(continued)*

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Pension obligation

The Group continues to operate an occupational retirement scheme (a defined contribution plan) which has been granted exemption pursuant to Section 5 of the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the scheme, both the employers and employees are required to contribute an amount equal to 5% of the basic salary of the employees on a monthly basis. The Group's contributions to the scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

Besides, the Group operates a mandatory provident fund scheme ("the MPF Scheme"; a defined contribution plan) under which the Group and its employees are required to contribute 5% (subject to an aggregate maximum of HK$2,000 per month) of the employees' relevant income. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme.

Employees of the Group in the PRC participate in retirement benefit plans and the Group is required to make monthly contributions at rates ranging from 21% to 23% of the employee's basic salary.

Contributions for the above schemes are recognized as employee benefit expenses when they are due.

(b) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.17 Employee benefits *(continued)*

(b) ***Employee leave entitlements*** *(continued)*

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) ***Share-based compensation***

The Group operates a share options scheme, being an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of share options under the share option scheme is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumption about the number of share options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of share options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the share options are exercised.

2.18 Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resource will be required to settle the obligation; and the amount has been reliably estimated. Provision are not recognized for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2. Summary of significant accounting policies *(continued)*

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating the sales within the Group.

The Group recognizes revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved.

(a) Sale of goods

Sales of goods are recognized when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

(c) Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement on a straight-line basis over the lease periods. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

2.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalized as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2. Summary of significant accounting policies *(continued)*

2.21 Leases (as the leasee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding liabilities, net of finance charges, are included in current and non-current borrowings, as appropriate. The interest element of the finance cost is recognized in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.22 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required to the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognized but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognized.

3. Financial risk management

The Group's activities expose to a variety of financial risks including foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) Foreign exchange risk

Majority of the Group's assets and liabilities were denominated in Renminbi, United States dollars and Hong Kong dollars. The Group is exposed to foreign exchange risk with respect to United States dollars and Renminbi. Foreign exchange risk arises from commercial transactions, recognized assets and liabilities and net investments in foreign operations.

(b) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents, loans and bank facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of change in cash flow needs.

The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. As detailed in note 2, the Directors believe that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

(c) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank balances and bank borrowings. Bank balances and borrowings that are subject to fixed rates expose the Group to fair value interest rate risk. It has not hedged its cash flow and fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The Group regularly seeks out the most favorable interest rates available for its bank borrowings.

(d) Credit risk

The Group is exposed to concentrations of credit risk. To minimize the risk, the Group regularly reviews the credit terms and credit limits granted to individual customers. There are policies in place to ensure that sales are made to customers with satisfactory credit record.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of intangible assets, property, plant and equipment and leasehold land and land use rights

Management judgment is required in the area of asset impairment particularly in assessing: (1) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carry value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to recognize an impairment charge in the income statement.

(b) Write-downs of inventories

Inventories are written down to net realizable value based on an assessment of the realizability of inventories. The identification of write-downs requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories in the periods in which such estimate has been changed.

(c) Amortization of license rights

The Group amortizes its license rights on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group.

This calculation requires the use of judgments and estimates.

4. Critical accounting estimates and judgments *(continued)*

(d) Employee benefits — share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the life of the share option and the number of share options that are expected to become exercisable. When the outcome of the number of share options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

(e) Income tax provision

The Group is subject to income taxes in Hong Kong and certain overseas jurisdictions. Significant judgment is required in determining income tax provision. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

(f) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), with adjustments to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions occurred since the date of the relevant transactions; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts and, where possible, from external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5. Revenue and Segment Information

The Group is principally engaged in the sourcing, subcontracting, marketing and selling of outerwear garments and sportswear products. Revenues recognized during the year is as follows:

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**138,105**	135,278
Other income		
Income from sample sales	**166**	—
Interest income	**535**	760
Rental income	**135**	699
Profit on disposal of investment properties	**660**	4,214
Gain on revaluation of investment properties	**2,118**	294
Reversal of impairment loss on leasehold land and buildings	**—**	58
Gain on disposal of other investment	**—**	400
Gain on disposal of a subsidiary	**—**	242
Write-back of trade payables	**358**	652
Proceeds from disposal of intangible assets	**3,880**	—
Sundry income	**225**	82
	8,077	7,401

5. Revenue and Segment Information *(continued)*

The Group operates mainly in Hong Kong and PRC and in the following business segments:

- Export — sales of outerwear garments to overseas customers.
- Licensee — retailing and distribution of HEAD® and Diadora sportswear products in PRC and Hong Kong.

Primary reporting format — business segments

	2007		
	Export business *HK$'000*	**Licensee business** *HK$'000*	**Total** *HK$'000*
Turnover	57,460	80,645	138,105
Segment operating profit/(loss)	2,081	(19,061)	(16,980)
Interest income			535
Unallocated income			6,876
Unallocated corporate expenses			(20,876)
Operating loss			(30,445)
Finance costs			(5,064)
Loss before taxation			(35,509)
Taxation charge			(318)
Loss after taxation			(35,827)
Segment assets	30,413	71,917	102,330
Unallocated assets			31,539
Total assets			133,869
Segment liabilities	31,109	65,358	96,467
Unallocated liabilities			15,611
Total liabilities			112,078
Capital expenditure	872	3,992	4,864
Depreciation of property, plant and equipment	1,332	1,644	2,976
Amortization of leasehold land and land use rights	295	160	455
Gain on revaluation of investment properties	2,118	—	2,118
Amortization of intangible assets	—	4,610	4,610

5. Revenue and Segment Information *(continued)*

Primary reporting format — business segments *(continued)*

	2006		
	Export business *HK$'000*	Licensee business *HK$'000*	Total *HK$'000*
Turnover	73,578	61,700	135,278
Segment operating profit/(loss)	7,233	(1,978)	5,255
Interest income			760
Unallocated income			699
Unallocated corporate expenses			(26,390)
Operating loss			(19,676)
Finance costs			(4,487)
Loss before taxation			(24,163)
Taxation credit			1,734
Loss after taxation			(22,429)
Segment assets	63,247	87,924	151,171
Unallocated assets			6,652
Total assets			157,823
Segment liabilities	24,309	70,300	94,609
Unallocated liabilities			8,646
Total liabilities			103,255
Capital expenditure	443	4,362	4,805
Depreciation of property, plant and equipment	911	1,593	2,504
Amortization of leasehold land and land use rights	625	—	625
Impairment loss on an investment property	470	—	470
Impairment loss on goodwill	628	—	628
Amortization of intangible assets	—	2,940	2,940

5. Revenue and Segment Information *(continued)*

Secondary reporting format — geographical segments

	2007		
	Turnover ***HK$'000***	**Total assets** ***HK$'000***	**Capital expenditure** ***HK$'000***
Hong Kong	**7,878**	**57,482**	**872**
People's Republic of China (the "PRC")	**72,767**	**76,387**	**3,992**
United States of America	**41,479**	**—**	**—**
Europe	**10,831**	**—**	**—**
Canada	**3,879**	**—**	**—**
Australia	**1,040**	**—**	**—**
Others	**231**	**—**	**—**
	138,105	**133,869**	**4,864**

	2006		
	Turnover *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong	7,303	83,644	486
PRC	55,778	74,179	4,319
United States of America	53,962	—	—
Europe	12,571	—	—
Canada	4,000	—	—
Others	1,664	—	—
	135,278	157,823	4,805

Revenue is allocated based on the country in which the customer is located. Assets and capital expenditure are allocated based on where the assets are located.

6. Expenses by nature

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**106,996**	92,149
Amortization of intangible assets	**4,610**	2,940
Amortization of leasehold land and land use rights	**455**	625
Auditor's remuneration	**1,060**	879
Bad debts written off	**921**	—
Depreciation		
Owned property, plant and equipment	**2,871**	2,335
Leased property, plant and equipment	**105**	169
Impairment loss on goodwill	**—**	628
Impairment loss on an investment property	**—**	470
Net exchange loss/(gain)	**801**	(310)
Net loss on disposal of property, plant and equipment	**875**	50
Operating lease rentals in respect of land and buildings	**1,142**	1,288
Staff costs, including directors' emoluments *(Note 8)*	**28,554**	31,672
Other general and administrative expenses	**28,237**	29,460
	176,627	162,355

7. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans	**3,465**	2,993
Interest element of finance lease obligations	**33**	40
Other interest expense — unwinding of discount	**1,566**	1,454
	5,064	4,487

8. Staff costs

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries, wages and other benefits (including directors' emoluments)	**25,664**	30,888
Severance payments	**943**	—
Share-based compensation	**715**	—
Retirement benefit costs	**1,232**	784
	28,554	31,672

9. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each director of the Company for the year ended 31st March, 2007 is set out below:

	Fee	Salaries	Bonus	Other benefits	Contributions to defined contribution scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wong Tek Sun, Takson	—	3,025	—	1,322	27	4,374
Pang Shu Yuk, Adeline Rita	—	3,825	106	114	27	4,072
Lee Kwok Cheung	120	—	—	—	—	120
Wong Tak Yuen	240	—	—	—	—	240
Chau Tsun Ming, Jimmy	60	—	—	—	—	60
Zheng Jie	60	—	—	—	—	60
Total	480	6,850	106	1,436	54	8,926

9. Directors' and senior management's emoluments *(continued)*

(a) Directors' emoluments *(continued)*

The remuneration of each director of the Company for the year ended 31st March, 2006 is set out below:

	Fee	Salaries	Bonus	Other benefits	Contributions to defined contribution scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wong Tek Sun, Takson	—	3,025	—	1,358	27	4,410
Pang Shu Yuk, Adeline Rita	—	3,825	106	—	27	3,958
Lee Kwok Cheung	120	—	—	—	—	120
Wong Tak Yuen	240	—	—	—	—	240
Chau Tsun Ming, Jimmy	42	—	—	—	—	42
Zheng Jie	60	—	—	—	—	60
Tsao Kwang Yung, Peter	30	—	—	—	—	30
Total	492	6,850	106	1,358	54	8,860

9. Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	**1,782**	2,683
Pensions	**56**	72
	1,838	2,755

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
HK$Nil — HK$1,000,000	**3**	2
HK$1,000,001 — HK$1,500,000	**—**	1
	3	3

10. Taxation

The amount of taxation charged/(credited) to the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current tax	**—**	120
Under/(over)-provision in previous years	**161**	(53)
Overseas taxation		
Current tax	**1,000**	—
Over-provision in previous years	**—**	(23)
Deferred taxation relating to the origination and reversal of temporary differences	**(843)**	(1,778)
Taxation charge/(credit)	**318**	(1,734)

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit arising in Hong Kong during the year. For the year ended 31st March, 2006, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits for that year.

(b) Overseas taxation represents income taxes provided by certain subsidiaries, calculated at the tax rates prevailing in the countries in which the subsidiaries operate.

10. Taxation charge/(credit) *(continued)*

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using Hong Kong profits tax rate as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Loss before taxation	**(35,509)**	(24,163)
Tax at Hong Kong profits tax rate of 17.5% (2006: 17.5%)	**(6,214)**	(4,229)
Effect of different taxation rates in other countries	**(1,542)**	4
Income not subject to taxation	**(757)**	(1,311)
Expenses not deductible for taxation purposes	**1,379**	2,141
Utilization of previously unrecognized tax losses	**(1,667)**	(2,212)
Unrecognized tax losses	**8,958**	3,423
Temporary differences not previously recognized	**—**	526
Under/(Over)-provision in previous years	**161**	(76)
Taxation charge/(credit)	**318**	(1,734)

11. Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$23,776,000 (2006: HK$13,069,000).

12. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Loss attributable to the equity holders of the Company *(HK$'000)*	**35,827**	20,454
Weighted average number of ordinary shares in issue *(thousands)*	**517,400**	459,086
Basic loss per share *(HK cents per share)*	**6.92**	4.46

No diluted loss per share is presented as the outstanding share options were anti-dilutive.

13. Retirement benefit costs

The retirement benefit costs charged to the consolidated income statement represent gross contributions payable by the Group to the retirement scheme of HK$1,424,000 (2006: HK$1,001,000) less forfeited contributions utilized of HK$192,000 (2006: HK$ 217,000). Contributions of HK$132,000 (2006: HK$57,000) were payable to the scheme at the year end and are included in current liabilities within accrued charges. As at 31st March, 2007, there were no unutilized forfeited contributions (2006: Nil).

14. Intangible assets

	License rights HK$'000	Goodwill HK$'000	Total HK$'000
At 1st April, 2005			
Cost	29,530	661	30,191
Accumulated amortization and impairment	(4,639)	(33)	(4,672)
Net Book Amount	24,891	628	25,519
Year ended 31st March, 2006			
Opening net book amount	24,891	628	25,519
Amortization	(2,940)	—	(2,940)
Impairment loss	—	(628)	(628)
Closing net book amount	21,951	—	21,951
At 31st March, 2006			
Cost	29,530	—	29,530
Accumulated amortization and impairment	(7,579)	—	(7,579)
Net Book Amount	21,951	—	21,951
Year ended 31st March, 2007			
Opening net book amount	**21,951**	**—**	**21,951**
Amortization	**(4,610)**	**—**	**(4,610)**
Closing net book amount	**17,341**	**—**	**17,341**
At 31st March, 2007			
Cost	**29,530**	**—**	**29,530**
Accumulated amortization and impairment	**(12,189)**	**—**	**(12,189)**
Net Book Amount	**17,341**	**—**	**17,341**

15. Property, plant and equipment

	Buildings	Leasehold improvements	Furniture and fixtures	Machinery, equipment and tools	Motor vehicles	Office and computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April, 2005							
Cost or valuation	21,577	4,472	5,418	622	3,664	9,772	45,525
Accumulated depreciation	(1,863)	(2,614)	(3,881)	(300)	(1,637)	(8,152)	(18,447)
Net book amount	19,714	1,858	1,537	322	2,027	1,620	27,078
Year ended 31st March, 2006							
Opening net book amount	19,714	1,858	1,537	322	2,027	1,620	27,078
Exchange differences	—	20	18	4	7	5	54
Transfer to investment properties	(685)	—	—	—	—	—	(685)
Revaluation surplus	338	—	—	—	—	—	338
Reversal of impairment	17	—	—	—	—	—	17
Additions	—	325	3,155	58	—	1,267	4,805
Disposals	(2,254)	(75)	—	(11)	—	(14)	(2,354)
Depreciation	(400)	(674)	(491)	(37)	(329)	(573)	(2,504)
Closing net book amount	16,730	1,454	4,219	336	1,705	2,305	26,749
At 31st March, 2006							
Cost or valuation	18,582	4,642	8,584	612	3,673	10,779	46,872
Accumulated depreciation	(1,852)	(3,188)	(4,365)	(276)	(1,968)	(8,474)	(20,123)
Net book amount	16,730	1,454	4,219	336	1,705	2,305	26,749
Year ended 31st March, 2007							
Opening net book amount	**16,730**	**1,454**	**4,219**	**336**	**1,705**	**2,305**	**26,749**
Exchange differences	**—**	**36**	**242**	**12**	**15**	**54**	**359**
Transfer to investment properties	**(5,581)**	**—**	**—**	**—**	**—**	**—**	**(5,581)**
Additions	**—**	**899**	**3,885**	**22**	**—**	**58**	**4,864**
Disposals	**—**	**(162)**	**(458)**	**(43)**	**(25)**	**(245)**	**(933)**
Depreciation	**(315)**	**(815)**	**(1,131)**	**(40)**	**(221)**	**(454)**	**(2,976)**
Closing net book amount	**10,834**	**1,412**	**6,757**	**287**	**1,474**	**1,718**	**22,482**
At 31st March, 2007							
Cost or valuation	**11,965**	**4,390**	**11,523**	**583**	**3,578**	**10,029**	**42,068**
Accumulated depreciation	**(1,131)**	**(2,978)**	**(4,766)**	**(296)**	**(2,104)**	**(8,311)**	**(19,586)**
Net book amount	**10,834**	**1,412**	**6,757**	**287**	**1,474**	**1,718**	**22,482**

15. Property, plant and equipment *(continued)*

(a) Buildings were pledged to secure certain banking facilities (see Note 29) granted to the Group.

(b) As at 31st March, 2007, the net book value of motor vehicles includes assets held by the Group under finance leases which amounted to HK$292,000 (2006: HK$958,000).

(c) The Group's buildings were last revalued on 31st March, 2006 by independent valuers. Valuations were carried out by Dudley Surveyors Limited, an independent firm of chartered surveyors. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in equity (Note 24). If the buildings were stated on the historical cost basis, the amounts would be as follows:

	2007	2006
	HK$'000	*HK$'000*
Cost	**11,635**	18,252
Accumulated depreciation	**(1,124)**	(1,852)
Net book amount	**10,511**	16,400

16. Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years		
At the beginning of the year	**18,175**	21,792
Revaluation surplus upon transfer to investment properties	**3,267**	—
Transfer to investment properties	**(14,554)**	—
Reversal of Impairment loss	**—**	32
Amortization	**(295)**	(465)
Disposals	**—**	(3,184)
At the end of the year	**6,593**	18,175
Outside Hong Kong held on:		
Leases of between 10 to 50 years		
At the beginning of the year	**7,219**	8,847
Transfer to investment properties	**—**	(1,468)
Amortization	**(160)**	(160)
At the end of the year	**7,059**	7,219
Total	**13,652**	25,394

Leasehold land and land use rights were pledged to secure certain banking facilities (see Note 29) granted to the Group.

17. Investment properties

	Group	
	2007	2006
	HK$'000	*HK$'000*
Beginning of the year	**5,743**	26,969
Transfer from leasehold properties	**20,135**	2,153
Fair value gains	**2,118**	294
Impairment loss	**—**	(470)
Disposals	**(5,743)**	(23,203)
End of the year	**22,253**	5,743

(a) Investment properties were revalued as at 31st March, 2007 on the basis of their open market value by Dudley Surveyors Limited, an independent firm of Chartered Surveyors. The revaluation surplus transferred to the income statement for the year ended 31st March, 2007 amounted to HK$2,118,000 (2006: HK$294,000).

(b) The investment properties were pledged to secure certain banking facilities (see Note 29) granted to the Group.

18. Interests in subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares/investments at cost	**68,496**	68,192
Amounts due from subsidiaries	**42,292**	87,400
Amount due to a subsidiary	**(402)**	(367)
	110,386	155,225
Less: Provision for impairment losses	**(77,074)**	(98,608)
	33,312	56,617

(a) Particulars of the subsidiaries of the Group are set out in note 34 to the financial statements.

(b) Amounts due from subsidiaries are unsecured, interest-free and not repayable within next twelve months from the balance sheet date.

(c) Amount due to a subsidiary is unsecured, interest-free and not repayable within next twelve months from the balance sheet date.

19. Inventories

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**100**	273
Work in progress	**217**	86
Finished goods	**14,376**	32,286
	14,693	32,645

20. Trade receivables

The ageing analysis of trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current	**13,286**	8,007
1 to 3 months	**5,311**	4,919
Over 3 months	**691**	876
	19,288	13,802
Less: provision for bad and doubtful debts	**(424)**	(2)
	18,864	13,800

Trade receivables are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	*HK$'000*
US dollars	**4,614**	1,387
Renminbi	**13,534**	11,365
Hong Kong dollars	**716**	1,048
	18,864	13,800

(a) Majority of the Group's export sales are on open account of 45 days and letter of credit at sight. The Group's licensee sales are with the credit terms of between 30 to 90 days.

(b) As at 31st March, 2007, trade receivables were factored to banks in the amount of HK$3,497,000 (2006: Nil).

21. Bank balances and cash

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**8,741**	7,457	**15**	17
Pledged bank deposit	**10,521**	10,665	**—**	—
	19,262	18,122	**15**	17

Bank balances and cash are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
US dollars	**1,102**	1,842	**—**	—
Renminbi	**5,711**	4,903	**—**	—
Hong Kong dollars	**12,439**	11,338	**15**	17
Euros and others	**10**	39	**—**	—
	19,262	18,122	**15**	17

The effective interest rate on short-term bank deposits was 3.34% (2006: 4.26%); these deposits had an average maturity of 7 days (2006: 7 days).

The conversion of bank balances and cash of the Group denominated in Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of PRC.

22. Trade payables

The ageing analysis of trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current	**4,948**	5,254
1 to 3 months	**7,616**	5,110
4 to 6 months	**1,164**	1,777
Over 6 months	**853**	1,343
	14,581	13,484

Trade payables are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	*HK$'000*
US dollars	**6,597**	7,732
Renminbi	**7,271**	5,473
Hong Kong dollars and others	**713**	279
	14,581	13,484

Payment terms with suppliers are on letters of credit and open account. Certain suppliers grant credit terms between 30 to 60 days.

23. Share capital

(a) Authorized and issue capital

	Number of shares	Ordinary shares *HK$'000*
Authorized:		
At 31st March, 2006 and 2007		
Ordinary shares of HK$0.1 each	1,000,000,000	100,000
Issued and fully paid:		
At 31st March, 2006 and 2007	517,400,000	51,740

(b) Share option scheme

The share option scheme (the "Share Option Scheme") which became effective on 4th October, 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme. The offer of a grant may be accepted upon payment of a nominal consideration of HK$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing prices of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a trading day; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 28th December, 2006, the Board granted a total of 23,270,000 share options to the Directors and eligible employees at an exercise price of HK$0.413 per share under the Share Option Scheme. As at 31st March, 2007, 23,270,000 share options were outstanding and none was exercisable.

23. Share capital *(continued)*

(b) Share option scheme *(continued)*

Share options outstanding at the end of the year have the following expiry dates:

Exercise period	**Number of share options**
28/12/2007-27/12/2009	14,770,000
28/12/2008-27/12/2010	8,500,000
	23,270,000

The vesting period of the share options is from the date of grant until the commencement of the exercise period. The share options would be fully exercisable from the commencement of the exercise period.

The fair value of the share options granted on 28th December, 2006 determined using the Black-Scholes-Merton valuation model was approximately HK$3,541,000, of which approximately HK$715,000 was recognized in the income statement for the year ended 31st March, 2007 (2006: Nil). The significant inputs into the model are as follows:

Market price at the date of grant	HK$0.39
Risk-free interest rate	3.527% to 3.598%
Expected life (in years)	2 to 3
Expected volatility	61.17% to 71.07%
Expected dividend per share	—

24. Reserves

(a) Group

	Share premium HK$'000	Revaluation reserve HK$'000	Share-based compensation reserve HK$'000	Consolidation reserve (Note a) HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1st April, 2005	42,032	—	—	2,214	7	(20,574)	23,679
Surplus on revaluation	—	330	—	—	—	—	330
Cost of share issuance	(640)	—	—	—	—	—	(640)
Exchange difference arising on translation of the financial statements of overseas subsidiaries	—	—	—	—	(87)	—	(87)
Loss for the year	—	—	—	—	—	(20,454)	(20,454)
Balance at 31st March, 2006	41,392	330	—	2,214	(80)	(41,028)	2,828
Balance at 1st April, 2006	**41,392**	**330**	**—**	**2,214**	**(80)**	**(41,028)**	**2,828**
Share-based compensation	**—**	**—**	**715**	**—**	**—**	**—**	**715**
Surplus on revaluation							
— gross	**—**	**3,267**	**—**	**—**	**—**	**—**	**3,267**
— tax	**—**	**(572)**	**—**	**—**	**—**	**—**	**(572)**
Exchange difference arising on translation of the financial statements of overseas subsidiaries	**—**	**—**	**—**	**—**	**(360)**	**—**	**(360)**
Transfer from reserve	**—**	**(7)**	**—**	**—**	**—**	**7**	**—**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(35,827)**	**(35,827)**
Balance at 31st March, 2007	**41,392**	**3,018**	**715**	**2,214**	**(440)**	**(76,848)**	**(29,949)**

24. Reserves *(Continue)*

(b) Company

	Share premium *HK$'000*	Contributed surplus *(Note b)* *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Balance at 1st April, 2005	42,032	67,992	—	(92,024)	18,000
Cost of share issuance	(640)	—	—	—	(640)
Loss for the year	—	—	—	(13,069)	(13,069)
Balance at 31st March, 2006	41,392	67,992	—	(105,093)	4,291
Balance at 1st April, 2006	**41,392**	**67,992**	**—**	**(105,093)**	**4,291**
Share-based compensation	**—**	**—**	**715**	**—**	**715**
Loss for the year	**—**	**—**	**—**	**(23,776)**	**(23,776)**
Balance at 31st March, 2007	**41,392**	**67,992**	**715**	**(128,869)**	**(18,770)**

Notes:

(a) Reserve on consolidation represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the exchange of shares on group reorganization.

(b) The contributed surplus represents the excess of the consolidated net assets value of Takson (B.V.I.) Limited upon its merger with the Company over the nominal value of the Company's shares issued in the exchange thereof. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to the equity holders, unless there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

25. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before taxation to net cash outflow from operations

	Group	
	2007	2006
	HK$'000	*HK$'000*
Loss before taxation	**(35,509)**	(24,163)
Amortization of intangible assets	**4,610**	2,940
Amortization of leasehold land and land use rights	**455**	625
Depreciation of owned property, plant and equipment	**2,871**	2,335
Depreciation of property, plant and equipment held under finance leases	**105**	169
Impairment loss on goodwill	**—**	628
Cost of placement	**—**	187
Loss on disposal of property, plant and equipment	**875**	50
Profit on disposal of a subsidiary	**—**	(242)
Profit on disposal of investment properties	**(660)**	(4,214)
Profit on disposal of other investment	**—**	(400)
Changes in fair value of investment properties	**(2,118)**	(294)
Share-based compensation expense	**715**	—
Proceeds from disposal of intangible assets	**(3,880)**	—
Reversal of impairment loss on leasehold land and buildings	**—**	(58)
Impairment loss on an investment property	**—**	470
Interest income	**(535)**	(760)
Interest on bank loans and overdrafts	**3,465**	2,993
Interest element of finance lease obligations	**33**	40
Other interest expense	**1,566**	1,454
Operating loss before working capital changes	**(28,007)**	(18,240)
Decrease/(increase) in inventories	**17,952**	(27,047)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	**2,959**	(22,125)
Increase in trade payables, other payables and accrued charges	**4,863**	16,270
Decrease in license fees payable	**(5,921)**	(4,493)
Translation adjustment on working capital	**630**	—
Net cash outflow from operations	**(7,524)**	(55,635)

25. Notes to the Consolidated Cash Flow Statement *(continued)*

(b) Disposal of a subsidiary

	Group	
	2007	2006
	HK$'000	*HK$'000*
Net asset disposed of		
Property, plant and equipment	—	2,166
Inventory	—	82
Accounts and other receivable	—	544
Cash and bank balances	—	1,530
Accounts and other payable	—	(636)
	—	3,686
Exchange reserve upon disposal	—	(58)
Profit on disposal	—	242
	—	3,870
Satisfied by:		
Cash consideration	—	3,870
Cash consideration	—	3,870
Cash and bank balances disposed of	—	(1,530)
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	—	2,340

25. Notes to the Consolidated Cash Flow Statement *(continued)*

(c) Analysis of the balances of cash and cash equivalents

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cash at bank and in hand *(Note 21)*	**8,741**	7,457

26. Bank borrowings

At 31st March, 2007, the Group's bank loans and obligations under finance leases are repayable as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Non-current		
Long term bank loans — secured	**10,785**	8,218
Obligations under finance lease	**—**	63
	10,785	8,281
Current		
Short-term bank loans — secured	**40,220**	46,199
Current portion of long term bank loans — secured	**674**	426
Obligations under finance lease	**63**	261
	40,957	46,886
Total borrowings	**51,742**	55,167

26. Bank borrowings *(continued)*

(a) At 31st March, 2007, the Group's bank loans are repayable as follows:

	Bank loans		Obligations under finance lease	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**40,894**	46,625	**63**	261
In the second year	**723**	464	**—**	63
In the third to fifth year inclusive	**10,062**	7,754	**—**	—
Wholly repayable within 5 years	**51,679**	54,843	**63**	324

The carrying amounts of the bank borrowings are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong Dollars	**5,063**	6,386
Renminbi	**30,942**	29,808
United States Dollars	**15,737**	18,973
	51,742	55,167

The effective interest rates for the Group's bank loans at the balance sheet date were as follows:

	2007	2006
Hong Kong Dollars	**7.5%**	5.8%
Renminbi	**5.9%**	5.8%
United States Dollars	**7.5%**	6.1%

27. Long-term liabilities

	Group	
	2007	2006
	HK$'000	*HK$'000*
Non-current		
License fees payable	**11,254**	15,709
Post employment benefits	**263**	263
	11,517	15,972
Current		
Current portion of license fee payable	**4,454**	4,704
Total long-term liabilities	**15,971**	20,676

The effective interest rate for the license fees payable at the balance sheet date is 7% (2006: 7%). The license fees payable is denominated in United States Dollars.

28. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%) for the subsidiaries operating in Hong Kong. Deferred taxation for subsidiaries operates in overseas is calculated at the rates of taxation prevailing in the countries in which the subsidiaries operate.

The movements on the deferred tax liabilities are as follows:

	Revaluation of properties *HK$'000*	Accelerated depreciation *HK$'000*	Total *HK$'000*
Deferred tax liabilities			
At 1st April, 2005	—	3,395	3,395
Deferred taxation credited to income statements due to the change accounting policy	—	(1,899)	(1,899)
Deferred taxation credit to income statement	—	(253)	(253)
At 31st March, 2006	—	1,243	1,243
At 1st April, 2006	**—**	**1,243**	**1,243**
Deferred taxation charged/(credited) to income statement	**326**	**(1,243)**	**(917)**
Deferred taxation charged to equity	**572**	**—**	**572**
At 31st March, 2007	**898**	**—**	**898**

28. Deferred taxation *(continued)*

The movements on the deferred tax assets are as follows:

	Tax losses
	HK$'000
Deferred tax assets	
At 1st April, 2005	448
Deferred taxation charged to income statement	(374)
At 31st March, 2006	74
At 1st April, 2006	**74**
Deferred taxation charged to income statement	**(74)**
At 31st March, 2007	—

Deferred tax assets are recognized for tax losses carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized tax losses of HK$118,176,000 (2006: HK$73,618,000) to carry forward against future taxable income. The tax losses have no expiry date.

29. Banking facilities

As at 31st March, 2007 the Group's banking facilities amounting to approximately HK$73,718,000 (2006: HK$75,666,000) were secured by the following:

(a) first legal charge over the Group's investment properties and leasehold land and buildings in Hong Kong and the PRC with an aggregate carrying value of approximately HK$46,739,000 (2006: approximately HK$46,117,000);

(b) bank deposit of HK$10,521,000 (2006: HK$10,665,000); and

(c) corporate guarantees from the Company and certain of its subsidiaries.

30. Contingent liabilities

(a) The Company has executed guarantees with respect to certain banking facilities of its subsidiaries. Such facilities utilized as at 31st March, 2007 amounted to HK$40,473,000 (2006: HK$56,301,000).

(b) In February 2007, the Company initiated a legal action to claim the landlord of the Directors' quarters for damages and return of deposit as a result of wrongful repudiation of the tenancy agreement, which is quantified at HK$604,000 plus general damages and additional rent, rates and management fee to be assessed. The landlord commenced a separate legal action to counter-claim the Company in the amount of HK$2,035,000, being the outstanding and unpaid rent for the remainder of the term of the tenancy agreement, plus losses, damages, repair costs and re-instatement expenses to be assessed.

As the legal proceedings are still ongoing and the outcome is uncertain, the Directors are of the opinion that the amount of obligations (if any) cannot be reliably measured at this stage and, accordingly, no provision for such liabilities has been made in the financial statements.

31. Commitments

(a) Capital commitments

As at 31st March, 2007, the Group had the following capital commitments which are contracted but not provided for:

	2007	2006
	HK$'000	*HK$'000*
Purchase of property, plant and equipment	**320**	—

The Company had no material capital commitments as at 31st March, 2007 and 2006.

31. Commitments *(continued)*

(b) Commitments under operating leases

(i) At 31st March, 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**1,712**	937
Later than one year and not later than five years	**363**	—
	2,075	937

(ii) At 31st March, 2007, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**967**	110
Later than one year and not later than five years	**1,419**	—
	2,386	110

32. Related-party transactions

Parties are considered to be related to the Group if the Group or any member of its key management personnel or their close family members has the ability, directly or indirectly, to exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or significant influence. Related parties may be individuals or entities.

Takson International Holdings Limited, a company incorporated in the British Virgin Islands, owns 55.1% in the Company's shares. The directors regard Wangkin Investments Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

(a) Key management compensation

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**10,764**	11,615

(b) Loans from a director

Loans from a director on the Group's consolidated balance sheet represent unsecured and interest-free loans advanced by Mr. Wong Tek Sun, Takson, a director and a shareholder of the Company. Mr. Wong Tek Sun, Takson has confirmed that he will not demand for repayment of the loans before 30th September, 2008. Commencing from 6th July, 2007, the loans from a director have become interest bearing at Hong Kong Prime lending rate less 0.5%.

Subsequent to the balance sheet date, Mr. Wong Tek Sun, Takson further advanced to the Group unsecured loans of HK$19.8 million and confirmed that he will not demand for repayment of the loans before 30th September, 2008. The loans bear interest at Hong Kong Prime lending rate less 0.5%.

33. Subsequent events

Save as disclosed in the notes 32(b) to the financial statements, there are no other significant subsequent events.

34. Particulars of Subsidiaries

The subsidiaries of the Group at 31st March, 2007 are as follows:

Name of subsidiary	Country/Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/establishment)	Particulars of issued share capital/registered capital	Attributable equity interest
Interest held directly				
Global Sportswear Inc.	British Virgin Islands ("BVI")	Investment holding and selling of sporting apparel, footwear and accessories	1 ordinary share of US$1	100%
Takson (B.V.I.) Limited	BVI	Investment holding	1,000 ordinary shares of US$1 each	100%
Interest held indirectly				
Shanghai Global Sportswear Inc.*	PRC	Manufacturing and sale of sporting products	Registered capital of US$400,000	100%
Heide Sporting Goods (Shanghai) Co Limited*	PRC	Distributing and sale of sporting products	Registered capital of US$200,000	100%
Suzhou Fan Shing International Limited*	PRC	Distributing and sale of sporting products	Registered capital of US$65,000	100%
Shanghai Diadora International Trading Company Limited*	PRC	Distributing and sale of sporting products	Registered capital of US$2,250,000	100%
Global Sports Limited	Hong Kong	Inactive	1 ordinary share of HK$1 each	100%
Takson Down Manufacturing, Inc.	United States of America	Trading of outerwear garments supplied by a group company	200,000 ordinary shares of US$1 each	100%
Takson Garment Manufacturing (Malaysia) Limited	Labuan, Malaysia	Inactive and under liquidation in process	1 ordinary share of US$1	100%

34. Particulars of Subsidiaries *(continued)*

Name of subsidiary	Country/Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/establishment)	Particulars of issued share capital/registered capital	Attributable equity interest
***Interest held indirectly** (continued)*				
Takson Garment Manufacturing Company Limited	Hong Kong	Sourcing and sales of outerwear garments, property holding in the PRC and provision of manufacturing and accounting services to fellow subsidiaries	20 ordinary shares of HK$10,000 each	100%
Takson Garment Services Limited	BVI	Inactive	10 ordinary shares of US$1 each	100%
Takson Properties Limited	BVI	Properties holding in Hong Kong	1 ordinary share of US$1	100%
Fan Shing International Company Limited	Hong Kong	Sourcing, subcontracting and selling of sporting apparel, footwear and accessories	500 ordinary shares of HK$1,000 each	100%
^Wuhan Hande Sportswear Co. Ltd.	PRC	Inactive	Registered capital of RMB$6,000,000	75.5%

Note:

* Wholly foreign-owned enterprise
^ Sino-foreign equity joint venture enterprise

FIVE-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for each of the last five financial years are as follows:

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**138,105**	135,278	110,608	208,185	258,701
(Loss)/profit attributable to equity holders	**(35,827)**	(20,454)	11,424	(15,203)	2,312
Assets and Liabilities					
Total assets	**133,869**	157,823	136,826	82,223	95,901
Total liabilities	**(112,078)**	(103,255)	(72,222)	(30,288)	(28,264)
Net assets	**21,791**	54,568	64,604	51,935	67,637

INVESTMENT PROPERTIES

Particulars of investment properties held by the Group at 31st March, 2007 are as follows:

Location	**Saleable area** *(sq. ft.)*	**Type**	**Tenure**
Workshop Units No. 11 and 12 On 5th Floor, Tower One, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong	10,597	Commercial	Medium Lease

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Takson Holdings Limited (the "Company") will be held at Salon 1, 7th Floor, Harbour Plaza Metropolis, 7 Metropolis Drive, Hunghom, Kowloon, Hong Kong on Friday, 24 August, 2007 at 4:00 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the audited financial statements and the reports of the directors (the "Directors") and auditors (the "Auditors") of the Company for the year ended 31 March, 2007.

2. To re-elect Directors and to authorize the Directors to fix their remuneration.

3. To re-appoint the Auditors and to authorize the Directors to fix their remuneration.

SPECIAL BUSINESS

4. To consider as special business and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

   (A) "**THAT**:

   (a) subject to paragraph (c) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require Shares to be allotted be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require Shares to be allotted after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) an issue of Shares pursuant to the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes or other securities of the Company or (iii) an issue of Shares upon the exercise of subscription rights under any option scheme or similar arrangement of shares or rights to acquire Shares or (iv) an issue of Shares pursuant to any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the memorandum of association and the bye-laws of the Company ("Bye-laws") , shall not exceed 20 per cent. of the aggregate nominal amount of the Shares as at the date of passing of this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or the Companies Act 1981 of Bermuda or any other applicable laws of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company ("Shareholders") in general meeting revoking or varying the authority given to the Directors by this resolution; and

"Rights Issue" means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares, open for a period fixed by the Directors to Shareholders, or any class of Shares, whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or where appropriate such other securities) as at the date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(B) "**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the Shares may be listed and is recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited ("Stock Exchange") for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the Shares in issue as at the date of passing of the resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or the Companies Act 1981 of Bermuda or any other applicable laws of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by this resolution."

(C) "**THAT** subject to the passing of the resolutions pursuant to Ordinary Resolution nos. 4(A) and 4(B) of the notice convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with additional Shares pursuant to Ordinary Resolution no. 4(A) as set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the Shares repurchased by the Company under the authority granted pursuant to Ordinary Resolution no. 4(B) as set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the Shares as at the date of the passing of the said Ordinary Resolutions."

5. To consider as special business and, if thought fit, pass the following resolution as a special resolution, with or without amendments:

"**THAT** the bye-laws of the Company be and are amended in the following manner:

(a) By deleting the first sentence of the existing Bye-law 84(2) and substituting thereof with a new sentence 'Where a member is a clearing house (or its nominee(s) and, in each case, being a corporation), it may authorize such person(s) as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of Members provided that the authorization shall specify the number and class of shares in respect of which each such representative is so authorized.';

(b) (i) By deleting the existing Bye-law 86(2) in its entirety and substituted thereof with the following:

'The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board provided that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.'; and

(ii) by replacing the word 'special' by 'ordinary' immediately after the words 'Subject to any provision to the contrary in these Bye-laws the Members may, at any general meeting convened and held in accordance with these Bye-laws, by' in the existing Bye-law 86(4).';

(c) (i) By deleting the existing Bye-law 154(1) in its entirety and substituting thereof with the following:

'Subject to Section 88 of the Act, the Company shall at each annual general meeting appoint one or more firms of auditors to hold office until the conclusion of the next annual general meeting, but if an appointment is not made, the Auditors in office shall continue in office until a successor is appointed. A Director, officer or employee of the Company or of any of its subsidiaries or a partner, officer or employee of any such Director, officer or employee shall not be appointed Auditors of the Company.'; and

NOTICE OF ANNUAL GENERAL MEETING

(ii) by replacing the word 'twenty-one(21)' by 'twenty-one (21) clear' immediately after the words 'Subject to Section 89 of the Act, a person, other than a retiring Auditor, shall not be capable of being appointed Auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of Auditor has been given not less than' in the existing Bye-law 154(2);

(d) By deleting the existing Bye-law 156 in its entirety and substituting thereof with the following:

'Save as otherwise provided by the Act, the remuneration of the Auditors shall be fixed by or on the authority of the Company in the annual general meeting except that in any particular year of the Company in general meeting may delegate the fixing of such remuneration to the Directors and the remuneration of any Auditors appointed to fill any casual vacancy may be fixed by the Directors.'; and

(e) by deleting the existing Bye-law 157 in its entirety and substituting thereof with the following:

'The Directors may fill any casual vacancy in the office of Auditors, but while any such vacancy continues the surviving or continuing Auditor or Auditors (if any) may act.'"

By order of the Board
Chan Siu Man
Company Secretary

Hong Kong, 27 July, 2007

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and Principal Place
of Business in Hong Kong:
5th Floor, South Wing
Harbour Centre
Tower One
1 Hok Cheung Street
Hunghom, Kowloon
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, the proxy form together with the power of attorney of other authority (if any) under which it is signed or a certified copy of that power of authority, must be deposited at the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).

3. Completion and return of the proxy form will not preclude members from attending and voting at the aforesaid meeting.

4. The register of members will be closed from 21 August, 2007 (Tuesday) to 24 August, 2007 (Friday) (both dates inclusive), during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the annual general meeting of the Company to be held on 24 August, 2007 (Friday), all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Abacus Share Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 20 August, 2007 (Monday).