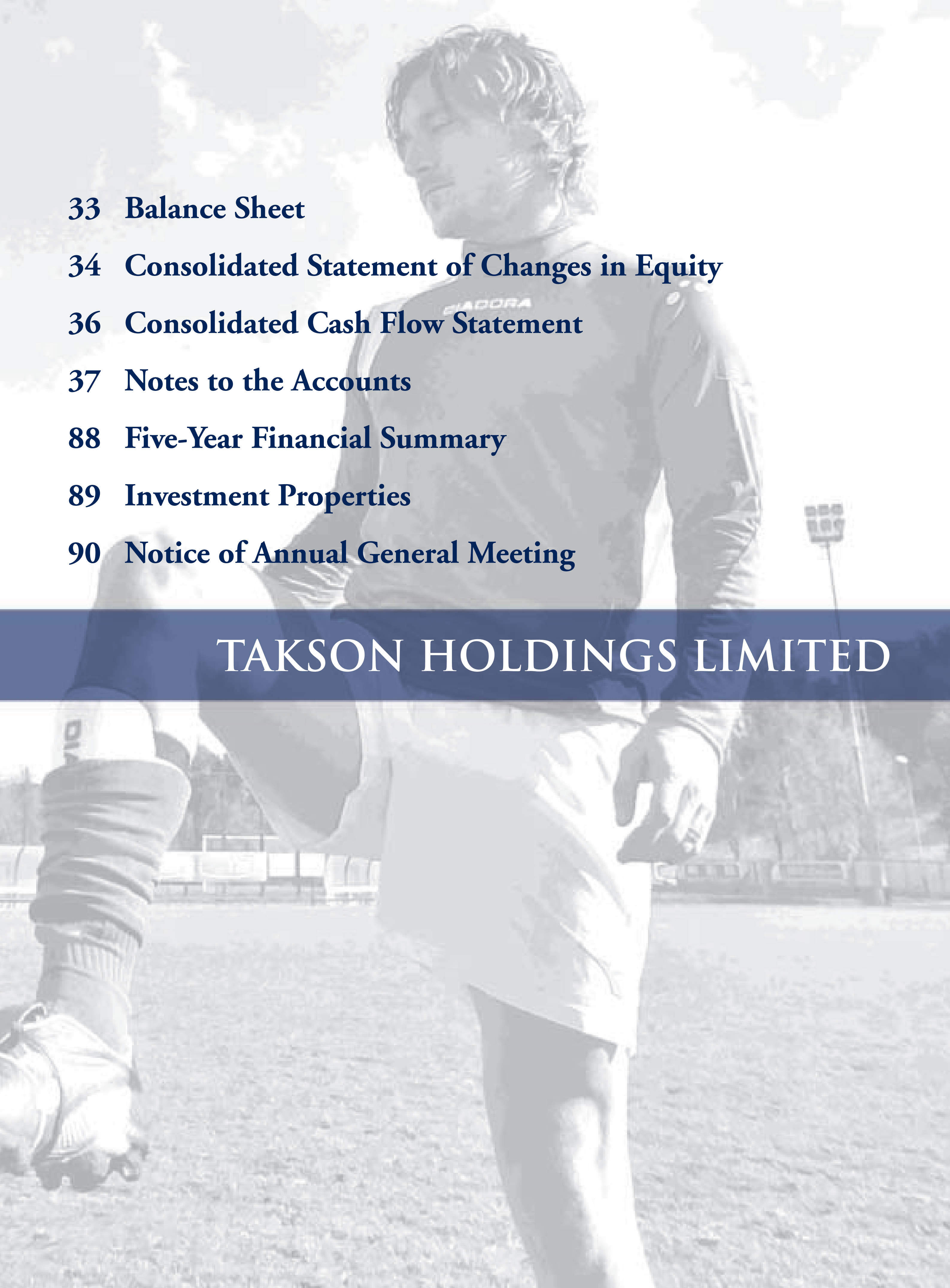
TAKSON HOLDINGS LIMITED
第一德勝控股有限公司

STOCK CODE : 918

Annual Report 2005/06 年報



TAKSON HOLDINGS LIMITED

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CORPORATE INFORMATION

Directors

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

Independent Non-executive Directors:
Mr. Lee Kwok Cheung
Mr. Zheng Jie
Mr. Chau Tsun Ming, Jimmy

Non-Executive Director:
Mr. Wong Tak Yuen

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

CHAIRMAN'S STATEMENT

Group Results

During the year ended 31st March, 2006 (the "Financial Year"), the Group recorded a turnover of approximately HK$135.3 million, representing an increase of 22% as compared to approximately HK$110.6 million recorded in last year. Gross profit margin achieved 32%, compared to 28% in last year. The loss attributable to equity holders of the Company amounted to HK$20.5 million compared to the profit attributable to equity holders of the Company of HK$11.4 million (restated) last year.

Business Overview

Export Business

For the Financial Year, the management of the Company ("Management") continued the established strategy to focus on high-valued customers with better profit margins. Although the export sales decreased by 28% to HK$73.6 million (2005: HK$100.8 million), the Export Business segment of the Group was able to maintain the gross profit margin of 26% (2005:25%). This proves to be an effective and profitable strategy whereby the Group can concentrate on those high-valued customers who are willing to pay for quality products and services. However, intense competition among suppliers of similar products remains the major threat, which may result in severe price reductions.

Moving forward, the Group is prepared to continue its expansion in this area and try to achieve reasonable 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 54% of the total turnover of Group (2005: 91%). It is the Group's vision to maintain a more balanced revenue mix between the Export Business and the Licensee Business.

CHAIRMAN'S STATEMENT

Licensee Business

The Licensee Business for sportswears of the Group in the PRC is considered to be the most promising new business strategy for the Group in the future.

Since 2002, the Group has obtained the exclusive license for the manufacturing, marketing and distribution of HEAD® apparels in the PRC, Hong Kong and Macau. Starting from July 2005, the Group also becomes the exclusive distributor for HEAD® hardware including HEAD® tennis racquets, HEAD® skis, and other accessories in the Greater China market. This strategic move has enabled the Group to become the exclusive licensee and distributor for all HEAD® products in the Greater China Region (including the PRC, Hong Kong and Macau) which makes the sales and marketing operations much efficient and effective. As at 31st March, 2006, the Group has established more than 150 outlets and retail shops operated by the Group's business partners in the Greater China Region for HEAD®'s products. Sales increased significantly from HK$9.8 million for the year ended 31st March, 2005 to HK$29.4 million for the Financial Year, representing a significant increase of 200%.

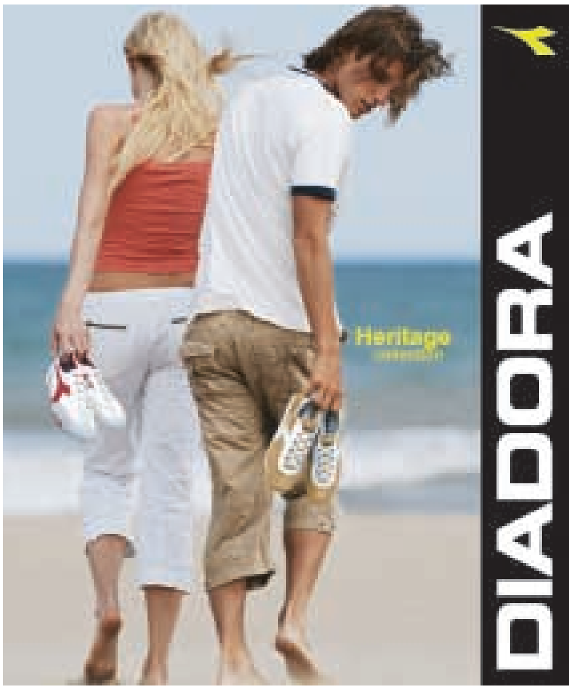
For DIADORA, the second licensed brand of the Group, the year 2005 proves to be a very important first year whereby the Group has established over 240 retail brand box shops operated by the Group's business partners in the PRC and Hong Kong. In line with our established business strategy, the Group focused 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 and the Group received encouraging feedbacks from the business partners. For the Financial Year, we recorded a turnover of HK$32.3 million for the wholesales of the products under the brand name of DIADORA.

During the Financial Year, the Group has invested intensively in product development, advertising and promotion, retail shops design and fixtures installation, and market channel establishment for HEAD® and DIADORA. Such expenditures were within the estimates of the Management and we believe that it will be reduced significantly in the coming year.

CHAIRMAN'S STATEMENT

Financial Review

During the Financial Year, the Group has recorded a turnover of approximately HK$135.3 million as compared to HK$110.6 million last year, representing an increase of approximately 22%. The turnover for the Export Business was approximately HK$73.6 million (2005: HK$100.8 million) while the turnover for the Licensee Business was approximately HK$61.7 million (2005: HK$9.8 million). The decrease in the turnover of the Export Business was the result of our strategy to concentrate on a small number of high-valued customers who are willing to pay for quality products and services. On the other hand, the significant increase in the turnover of Licensee Business was mainly brought about by the expansion of wholesales operations of HEAD® and DIADORA in the PRC.



In terms of gross profit margin, the Export Business recorded a gross profit margin of approximately 26% (2005: 25%) while the gross profit margin of the Licensee Business was 39% (2005: 59%). The gross profit margin for the Export Business was more or less the same as that of last year as the Group continues to focus on high-valued customers. As to the Licensee Business, the last year sales represented the retails sales while the Financial Year's sales were mainly sales from wholesale customers. Hence, the Group's focus on wholesales customers rather than retails shops had led to the drop in the overall gross profit margin of the Licensee Business.

Due to the continued expansion of licensee and distributorship business of HEAD® and new establishment of licensee business of DIADORA, administrative expenses increased by 31% to HK$52.5 million (2005 restated: HK$40.0 million), while selling, distribution and marketing costs increased by 54% to HK$18.1 million (2005 restated: HK$11.7 million).

CHAIRMAN'S STATEMENT

Prospects

Export Business

Although the gross profit margin was maintained at a fairly healthy level of 26% for the Export Business, the Management is fully aware of the need to sustain a higher revenue level in order to achieve a better result With the increasing demands from certain long-term customers, the Group is diversifying its product range (e.g. products other than outerwear) which can significantly increase revenue but still contribute a reasonable gross profit margin to the Group. In addition, the Group is endeavouring to undertake orders for more than one season for the coming year. The Group believes that the additional customer base will help the Group to achieve economies of scale by fully utilizing the existing resources.

DIADORA NOW AGAIN Press Conference in Shanghai

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

Licensee Business

With the rising consumer purchasing power and continued demand for sports goods in the PRC, Hong Kong and Macau, the Management is of the view that the Licensee Business will grow in a much faster scale compared to other business segment of the Group.

As a long-term strategy, more focus will be placed on the development of market presence in second and third tier cities in the PRC (e.g. Hubei, Hangzhou, etc) for both HEAD® and DIADORA. We expect the number of retail outlets for HEAD® and DIADORA will increase to 200 and 330 respectively by the end of next financial year. Although the rate of increase for retail shops will not be very high, the Management expects that there will be significant increase in the turnover in each retail shops for the coming year. Besides, after taking into account the actual sales and delivery after the year ended 31st March, 2006 and the present sales order on hand, the Management is confident that the turnover of the Licensee Business in the PRC will increase in the coming year as compared to the Financial Year.

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 flow used in operation amounted to approximately HK$55.8 million for the Financial Year (2005 restated: HK$18.6 million).

The Group's net borrowings comprise bank loans, obligations under finance leases and director's loan amounted to approximately HK$57.3 million as at 31st March, 2006 (2005: HK$37.2 million). Among the total outstanding amounts of bank loans, obligations under finance leases and director's loan as at 31st March, 2006, 82% (2005: 73%) are repayable within the next year, 1% (2005: 6%) are 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 18th China International Sporting Goods Show

The ratio of current assets to current liabilities of the Group was 1.03 as at 31st March, 2006 compared to as 0.6 (restated) as at 31st March, 2005. The Group's gearing ratio as at 31st March, 2006 was 0.6 (2005 restated: 0.5) which is calculated based on the Group's total liabilities of HK$103.3 million (2005 restated: HK$72.2 million) and the Group's total assets of HK$157.8 million (2005 restated: HK$136.8 million). As at 31st March, 2006, the Group's total cash and bank balances including the pledged time deposit amounted to HK$18.2 million compared to HK$10.3 million as at 31st March, 2005. The cash and bank balances together with the available banking facilities can provide adequate liquidity and capital resources for the ongoing operating requirements of the Group. The Company has done a rights issue (one new share for every five existing shares) in May 2005 resulting in the issue of 77,900,000 shares of HK$0.1 each for a total consideration HK$7,790,000 and a placing of new shares (50 million new shares at the placing price of HK$0.10 per new share for a total consideration of HK$5,000,000 to not less than six placees) and have raised net proceeds of about HK$7.2 million and HK$4.7 million respectively. Such proceeds had been used for general working capital of the Group and for the business expansion under the licensing agreements with HEAD® and DIADORA.

CHAIRMAN'S STATEMENT

As the Group's earnings and borrowings are primarily denominated in United States dollars, Hong Kong dollars and Renminbi, it has no significant exposure to foreign exchange rate fluctuations.

Charge of Assets

As at 31st March, 2006, the investment properties and leasehold land and buildings in Hong Kong held by the Group with an aggregate carrying value of HK$46.1 million (2005: HK$75.6 million) together with the time deposit of HK$10.7 million (2005: Nil) were pledged as first legal charge for the Group's banking facilities.

Employees

As of 31st March, 2006, the Group had a total of 219 employees (2005: 200 employees). The increase in the number of employees was due to the expansion of HEAD®'s distributorship and licensee business, and DIADORA's licensee business. Total staff costs including directors' remuneration were approximately HK$31.7 million and HK$22.2 million for the Financial Year and the year ended 31st March, 2005 respectively.

The Group remunerates its employees primarily based on industry practices, including contributory provident funds, insurance and medical benefits. 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. Moreover, the Group will propose at the forthcoming annual general meeting of the Company to adopt a new share option scheme 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 staff for their dedication.

Wong Tek Sun, Takson
Chairman

Hong Kong, 27th July, 2006

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, 2006.

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 in export business and selling of sportswear products in licensee business.

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

Major Customers and Suppliers

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

	2006	2005
	%	%
Sales		
— The largest customer	**19**	33
— Five largest customers combined	**53**	85
Purchases		
— The largest supplier	**19**	29
— Five largest suppliers combined	**65**	74

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers as noted 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 year are set out in the consolidated income statement on page 30.

The Directors do not recommend the payment of a dividend in respect of the year ended 31st March, 2006 (2005: HK$ Nil).

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 22 to the accounts.

Statement of Changes in Equity

The consolidated statement of changes in equity of the Group during the year is shown on page 34.

Donations

Charitable and other donations made by the Group during the year amounted to HK$47,400 (2005: HK$290,000).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

Investment Properties

Details of the investment properties held by the Group are set out on page 89.

Share Capital

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

Distributable Reserves

The Company had no distributable reserves as at 31st March, 2006 (2005: HK$ 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 88.

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, 2006 are set out in note 33 to the accounts.

Analysis of Bank Loans, Overdrafts and Other Borrowings

The Group's bank loans and other borrowings as at 31st March, 2006 were repayable over the following periods:

	Trust receipts and other bank loans	**Other borrowings**
	HK$'000	*HK$'000*
Within one year	**46,625**	261
In the second year	**464**	63
In the third to fifth year inclusive	**7,754**	—
	54,843	324

Details of a loan from a director are set out in note 30(b) to the accounts.

REPORT OF THE DIRECTORS

Directors

The Directors during the year and up to the date of this report are as follow:

Mr. Wong Tek Sun, Takson *(Chairman)*
Ms. Pang Shu Yuk, Adeline Rita
Mr. Tsao Kwang Yung, Peter* *(deceased on 5th June, 2005)*
Mr. Lee Kwok Cheung*
Mr. Wong Tak Yuen**
Mr. Zheng Jie*
Mr. Chau Tsun Ming, Jimmy* *(appointed on 21st July, 2005)*

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

All the current 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, Mr. Wong Tek Sun, Takson and Mr. Lee Kwok Cheung will retire by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting of the Company.

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 13 to the accounts.

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 55, is 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 the development of corporate planning and strategy, sales and marketing and overall management of the Group. Mr. Wong is also the director of 12 subsidiaries of the Company.

Ms. Pang Shu Yuk, Adeline Rita, aged 47, is 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 the Hong Kong Polytechnic University. She joined the Group in 1983 and is the wife of Mr. Wong Tek Sun, Takson. Ms. Pang is also the director of 11 subsidiaries of the Company.

Non-Executive Directors

Mr. Lee Kwok Cheung, aged 57, 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 Polytec Holdings Limited, a textile and real estate group, from 1994 to 1995, and the chief executive of Giordano Holdings Limited from 1991 to 1993. Mr. Lee has over eleven years' of experience in banking. He was appointed as an independent non-executive director of the Company in September 1997.

Mr. Zheng Jie, aged 38, has extensive sales and marketing experience in the sports market in PRC. He holds a bachelor's degree of Management Science from Fudan University. He was appointed as an independent non-executive director of the Company in September 2004.

Directors and Senior Management *(continued)*

Non-Executive Directors *(continued)*

Mr. Chau Tsun Ming, Jimmy, aged 33, was appointed as an independent non-executive director of the company since 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 the University of Toronto, Canada, and is a member of the American Institute of Certified Public Accountants. Before becoming an entrepreneur, Mr. Chau had spent five years in the Listing Division of Hong Kong Exchange and Clearing Limited.

Mr. Wong Tak Yuen, aged 50, 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.

Senior Management

Mr. Chan Siu Man, Barry, aged 38, is Chief Financial Officer and Company Secretary of the Company and is responsible for the Group's overall financial and company secretarial matters. Mr. Chan holds a bachelor's degree in Accountancy from The Hong Kong Polytechnic University. He also holds a master's degree in Business Administration from a university in Australia. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He joined the Group in 2006. Prior to joining the Group, he had more than 10 year's experience in auditing, accounting and financial matters in various commercial and industrial sectors.

Mr. Peng Xin, aged 38, 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 degree of engineering in Tianjian Science and Engineering University. Prior to joining the Group in 2006, 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 48, is 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 the Hong Kong Polytechnic University and the Hong Kong Management Association. She is an associate member of the Hong Kong Institute of Human Resource Management. Prior to joining the Group in 1990, she had worked in the systems and control field for more than four years.

Ms. Shirley Sun, aged 35, is our General Manager of Administration in the PRC. She graduated from the East China Normal University. She joined the Group in 1994 and 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 of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year.

Directors' and Chief Executives' Benefits from Rights to Acquire Shares or Debentures

During the year, the Company, its subsidiaries, its holding companies or its fellow subsidiaries were not a party to any arrangement to enable the Directors and chief executives 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.

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, 2006, the interests and long 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 Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed 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**	**Other interests**	**Total interests**	**Percentage of holding**
Wong Tek Sun, Takson	4,621,600	10,800,000	285,120,000 *(Note 1)*	—	300,541,600	58.1%
Pang Shu Yuk, Adeline Rita	10,800,000	4,621,600	285,120,000 *(Note 1)*	—	300,541,600	58.1%

Note:

(1) 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, Mr. Wong Chi Wang, Calvin, and Mr. Wong Chi Kin, Christopher, both the children of Mr. Wong Tek Sun, Takson and Ms. Pang Shu Yuk, Adeline Rita.

Mr. Wong Tek Sun, Takson owns 50% of the issued share capital of WII and his children as two of the discretionary beneficiaries of the Family Trust are deemed to have interests in the 285,120,000 shares in the issued share capital of the Company under the SFO.

Ms. Pang Shu Yuk, Adeline Rita, owns 50% of the issued share capital of WII and she, as one of the discretionary beneficiaries of the Family Trust is deemed to have interests in the 285,120,000 shares 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, 2006, 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 the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

As at 31st March, 2006, the interests and short positions of substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Number of ordinary shares held	Percentage
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. Therefore, all of these shares are entirely duplicated.

Substantial Shareholders *(continued)*

Save as disclosed herein, as at 31st March, 2006, no other person is recorded in the register of substantial shareholders maintained under Section 336 of the SFO as having an interest or short positions in 5% or more of the issued share capital of the Company.

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 year ended 31st March, 2006, except for the deviations from Code Provisions A.2.1, A.4.1, A.4.4 and B.1.1. Further details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 27.

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.

The Audit Committee provides an important link between the directors and the Company's auditors in matters coming within the scope of the audit of the Group. It also reviews the effectiveness of the external audit and 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 year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws of Bermuda.

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

Connected Transaction

During the year, a subsidiary of the Company disposed 25% interest in Takson (Suzhou) Garment Manufacturing Co Ltd to Chongqing Union-4 at a consideration of RMB1,837,000. Chongqing Union-4, by virtue of its substantial ownership in Takson (Suzhou) Garment Manufacturing Co Ltd and thus is a connected person of the Company.

Sufficiency of Public Float

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

Auditors

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, 27th July, 2006

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, 2006, except for the deviations discussed below. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that its business activities are regulated in a proper and prudent manner.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of the chairman and 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 chairman and 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 for more effective planning and execution of long-term business strategies.

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.

Directors' Securities Transactions *(continued)*

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 year ended 31st March, 2006. The Company's Code also applies to other specified senior management of the Group, including those as set out in the paragraph headed Directors and Senior Management in the Report of Directors on pages 9 to 20.

The Board of Directors

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

Executive Directors:

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

Independent non-executive Directors:

Mr. Tsao Kwang Yung, Peter *(deceased on 5th June, 2005)*
Mr. Lee Kwok Cheung
Mr. Zheng Jie
Mr. Chau Tsun Ming, Jimmy *(appointed on 21st July, 2005)*

Non-executive Director:

Mr. Wong Tak Yuen

The Board of Directors *(continued)*

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 of Directors and Senior Management in the Report of the Directors on pages 9 to 20.

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 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 represent 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 skills and expertise can ensure strong independent views and judgment on the Board. They also serve important function of ensuring and monitoring the effectiveness of the corporate governance framework of the Company. The Board considers each of the independent non-executive Directors independent and that they all meet the independence criteria as set out under Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Role and Function of the Board

The main role and function of the Board include the formulation of overall strategies and policies of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations. The day-to-day operational matters of the Group are delegated by the Board to the management. The Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

Board Meeting

The number of the Board meetings held during the year ended 31st March, 2006 and the attendance of each of the Directors is as follows:

Directors	Number of Board Meetings attended	Attendance rate
Executive Directors		
Mr. Wong Tek Sun, Takson	11/11	100%
Ms. Pang Shu Yuk, Adeline Rita	11/11	100%
Independent non-executive Directors		
Mr. Tsao Kwang Yung, Peter *(deceased on 5th June, 2005)*	1/11	9%
Mr. Lee Kwok Cheung	7/11	64%
Mr. Zheng Jie	7/11	64%
Mr. Chau Tsun Ming, Jimmy *(appointed on 21st July, 2005)*	4/11	36%
Non-executive Director		
Mr. Wong Tak Yuen	6/11	55%

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 half-yearly results of the Company for the six months ended 30th September, 2005 and the annual consolidated results of the Company for the year ended 31st March, 2006. 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. Tsao Kwang Yung, Peter *(deceased on 5th June, 2005)*
Mr. Chau Tsun Ming, Jimmy *(appointed on 21st July, 2005)*
Mr. Wong Tak Yuen

During the year ended 31st March, 2006, two meetings have been held by the Audit Committee and the attendance of each of the committee members at the Audit Committee meeting during the year ended 31st March, 2006 is set out as follows:

Directors	**Number of meetings attended**	**Attendance rate**
Mr. Lee Kwok Cheung *(Chairman of the Audit Committee)*	2/2	100%
Mr. Tsao Kwang Yung, Peter *(deceased on 5th June, 2005)*	1/2	50%
Mr. Chau Tsun Ming, Jimmy *(appointed on 21st July, 2005)*	1/2	50%
Mr. Wong Tak Yuen	2/2	100%

Remuneration Committee

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

The Company has deviated from the Code provision B.1.1 as the Company did not establish a remuneration committee. It is the responsibility of the Board to formulate the Company's policy and structure for all remuneration of Directors and members of senior management of the Company and to determine the specific remuneration packages of all Directors and members of the senior management of the Company. Hence, the remuneration of the Directors are now determined by all members of the Board from time to time. All Directors are required to be present at the Board meeting held for the purpose of determining the remuneration of the Directors. The Directors consider that the present arrangement is adequate to determine the remuneration of the Directors. During the year ended 31st March, 2006, all the Board members (including Mr. Wong Tek Sun Takson, Ms. Pang Shu Yuk Adeline Rita, Mr. Lee Kwok Cheung, Mr. Zheng Jie, Mr. Chau Tsun Ming Jimmy and Mr. Wong Tak Yuen) have attended one Board meeting for the purpose of determining the remuneration of the Directors with reference to the respective expertise, experience, performance of the each of the Directors as well as the market practice and condition. The Directors did not participate in determining his/her own remuneration. The Board will consider to set up a remuneration committee with specific terms of reference in the next fiscal year.

Nomination of Directors

Code provision A.4.4 stipulates that the Company should establish a nomination committee. A majority of the members of the nomination committee should be independent non-executive directors.

Nomination of Directors *(continued)*

The Company has deviated from the Code provision A.4.4 as the Company did not establish a normalisation committee. The Board has not established the nomination committee at the present moment. It is the responsibility of the Board to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis. Appointment of new Directors is required to be considered by all members of the Board and all Directors are required to be present at the Board meeting held for the purpose of considering the nomination of new Directors. A new Director is expected to possess such expertise to qualify him/her to make positive contribution to the Company and to give sufficient time and attention to the affairs of the Company. All Directors are subject to retirement by rotation and re-election by shareholders of the Company at the annual general meetings in accordance with the Bye-laws of the Company. 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.

During the Board meeting held on 21st July, 2005, all the Board members at that time (including Mr. Wong Tek Sun Takson, Ms. Pang Shu Yuk Adeline Rita, Mr. Lee Kwok Cheung, Mr. Zheng Jie and Mr. Wong Tak Yuen) approved to appoint Mr. Chau Tsun Ming, Jimmy, as an independent non-executive Director. The Board considered that Mr. Chau possessed appropriate professional accounting qualification and financial management expertise and believed that Mr. Chau could make positive contribution to the Group.

Auditor's Remuneration

For the year ended 31st March, 2006, the total remuneration of the Group's auditors for the provision of statutory audit service and non-audit service amounted to HK$879,000 and HK$24,000 respectively.

Respective Responsibilities of Directors and Auditors

The Directors acknowledge that they are responsible for the preparation of the accounts. The Auditors acknowledge their responsibilities for forming an independent opinion, based on the audit, on the accounts prepared by the Directors and report the opinion solely to the shareholders of the Company.

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF
TAKSON HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 30 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

AUDITORS' REPORT

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27th July, 2006

CONSOLIDATED INCOME STATEMENT

	Notes	2006 HK$'000	(Restated) 2005 HK$'000
Turnover	5	**135,278**	110,608
Cost of sales		**(92,149)**	(79,556)
Gross profit		**43,129**	31,052
Other income	5	**2,835**	4,040
Selling, distribution and marketing expenses		**(18,054)**	(11,717)
Administrative expenses		**(52,152)**	(39,969)
Gain on disposal of investment properties and leasehold land and buildings		**4,214**	—
Gain on revaluation of investment properties		**294**	12,694
Reversal of impairment loss on leasehold land and buildings		**58**	19,365
Operating (loss)/profit	6	**(19,676)**	15,465
Finance costs	7	**(4,487)**	(2,707)
(Loss)/profit before taxation		**(24,163)**	12,758
Taxation credit/(charge)	9	**1,734**	(2,176)
(Loss)/profit for the year		**(22,429)**	10,582
Attributable to:			
Equity holders of the company		**(20,454)**	11,424
Minority interest		**(1,975)**	(842)
		(22,429)	10,582
Basic (loss)/earning per share for (loss)/profit attributable to the equity holders of the Company (express in cents per share)	11	**(4.46 cents)**	2.93 cents

CONSOLIDATED BALANCE SHEET

As at 31st March, 2006

	Notes	2006 HK$'000	(Restated) 2005 HK$'000
ASSETS			
Non-current assets			
Intangible assets	*14*	**21,951**	25,519
Property, plant and equipment	*15*	**26,749**	27,078
Leasehold land and land use rights	*16*	**25,394**	30,639
Investment properties	*17*	**5,743**	26,969
Deposit for purchase of office premises		**—**	2,385
Other investment, at cost		**—**	600
Deferred income tax assets	*26*	**74**	448
		79,911	113,638
Current assets			
Inventories	*19*	**32,645**	5,598
Trade receivables	*20*	**13,800**	2,351
Deposits, other receivables and prepayments		**13,345**	4,911
Pledged time deposit	*27*	**10,665**	—
Cash and cash equivalents	*24*	**7,457**	10,328
		77,912	23,188
Total assets		**157,823**	136,826
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*22*	**51,740**	38,950
Reserves	*23*	**2,828**	23,679
		54,568	62,629
Minority interest		**—**	1,975
Total equity		**54,568**	64,604

CONSOLIDATED BALANCE SHEET

As at 31st March, 2006

	Notes	2006 HK$'000	(Restated) 2005 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term liabilities	*25*	**24,253**	30,169
Deferred income tax liabilities	*26*	**1,243**	3,395
Director's loan	*30 (b)*	**2,150**	—
		27,646	33,564
Current liabilities			
Trade payables	*21*	**13,484**	3,226
Current portion of long-term liabilities	*25*	**5,391**	5,959
Trust receipt and other bank loans	*27*	**46,199**	22,324
Provision for taxation		**112**	238
Director's loan		**—**	2,500
Provisions for other liabilities and charges		**10,423**	4,411
		75,609	38,658
Total liabilities		**103,255**	72,222
Total equity and liabilities		**157,823**	136,826
Net current assets/(liabilities)		**2,303**	(15,470)
Total assets less current liabilities		**82,214**	98,168

BALANCE SHEET

As at 31st March, 2006

	Notes	2006 *HK$'000*	(Restated) 2005 *HK$'000*
Non-current assets			
Investment in subsidiaries	*18*	**56,617**	56,195
Other investment, at costs		**—**	600
		56,617	56,795
Current assets			
Other receivables		**647**	641
Cash and cash equivalents		**17**	166
		664	807
Total assets		**57,281**	57,602
EQUITY			
Share capital	*22*	**51,740**	38,950
Reserves	*23*	**4,291**	18,000
		56,031	56,950
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**12**	—
Current liabilities			
Tax payable		**—**	22
Provision for other liabilities and charges		**1,238**	630
		1,238	652
Total liabilities		**1,250**	652
Total equity and liabilities		**57,281**	57,602
Net current (liabilities)/assets		**(574)**	155
Total assets less current liabilities		**56,043**	56,950

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2006

	Attributable to equity holders of the Company			
	Share capital	**Reserves**	**Minority Interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April, 2004 as previously reported as equity	38,950	11,625	—	50,575
Balance at 1st April, 2004, as previously separately reported as minority interest	—	—	729	729
Effect on adoption of HKAS 17	—	(40)	—	(40)
Effect on adoption of HKAS 38	—	1,329	—	1,329
Deferred tax arising from the adoption of news accounting standards	—	(658)	—	(658)
Balance at 1st April, 2004, as restated	38,950	12,256	729	51,935
Gain on dilution of minority interest	—	—	661	661
Capital contribution by minority interest	—	—	1,415	1,415
Exchange difference	—	(1)	12	11
Net income/(expense) recognised directly in equity	—	(1)	2,088	2,087
Profit for the year	—	11,424	—	11,424
Share of loss by minority interest	—	—	(842)	(842)
	—	11,423	1,246	12,669
Balance at 31st March, 2005	38,950	23,679	1,975	64,604

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2006

	Attributable to equity holders of the Company			
	Share capital	**Reserves**	**Minority Interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April, 2005 as per above	38,950	23,679	1,975	64,604
Balance at 1st April, 2005, as restated	38,950	23,679	1,975	64,604
Shares issued pursuant to the Rights Issue	7,790	(640)	—	7,150
Shares issued pursuant to private placement	5,000	—	—	5,000
Exchange difference	—	(87)	—	(87)
Increase in revaluation reserve on building	—	330	—	330
Net income recognised directly in equity	12,790	(397)	—	12,393
Loss for the year	—	(20,454)	(1,407)	(21,861)
Disposal of a subsidiary	—	—	(568)	(568)
	12,790	(20,851)	(1,975)	(10,036)
Balance at 31st March, 2006	51,740	2,828	—	54,568

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2006 HK$'000	2005 HK$'000
Net cash used in operations	24(a)	**(55,635)**	(18,947)
Hong Kong profits tax (paid)/refunded		**(166)**	8
Overseas taxation refunded		**—**	302
Net cash used in operating activities		**(55,801)**	(18,637)
Investing activities			
Proceeds from disposal of other investment		**1,000**	—
Proceeds from disposal of properties		**32,900**	—
Proceeds from disposal of property, plant and equipment		**5**	—
Disposal of a subsidiary	24(d)	**2,340**	—
Purchases of fixed assets		**(2,420)**	(12,983)
Deposits paid for purchase of office premises		**—**	(2,385)
Interest received		**410**	2,150
Net cash inflow/(outflow) from investing activities		**34,235**	(13,218)
Net cash used before financing		**(21,566)**	(31,855)
Financing activities	24(b)		
Issued of shares — placement		**5,000**	—
Issued of shares — rights issue		**7,790**	—
Cost of placements		**(187)**	—
Cost of rights issue		**(640)**	—
Capital contribution by minority interest		**—**	1,415
Director's loan granted		**—**	2,500
Bank loans granted		**125,560**	89,487
Repayment of bank loans		**(104,775)**	(72,996)
Payment of capital element of finance leases		**(355)**	(326)
Pledged time deposit		**(10,665)**	—
Interest paid		**(2,993)**	(2,234)
Interest element of finance leases		**(40)**	(46)
Net cash inflow from financing		**18,695**	17,800
Decrease in cash and cash equivalents		**(2,871)**	(14,055)
Cash and cash equivalents at 1st April		**10,328**	24,383
Cash and cash equivalents at 31st March	24(c)	**7,457**	10,328

1. General information

Takson Holdings Limited (the Company) and its subsidiaries (together the Group) engaged in the sourcing, subcontracting, marketing and selling of garments, including licenced products.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is 5th Floor, South Wing, Harbour Centre, Tower One, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated accounts have been approved for issue by the Board of Directors on 27th July, 2006.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated accounts of Takson Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated accounts have been prepared under the historical cost convention, except that financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, are carried at fair value.

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

The Group recorded loss for the year of HK$22,429,000 (2005 restated: profit for the year HK$10,582,000) and net cash used in operating activities of HK$55,801,000 (2005 restated: HK$18,637,000) for the year ended 31st March, 2006. Notwithstanding these, the accounts have been prepared on a going concern basis as the Directors, having considered the current operation and business plan of the Group as well as the availability of banking facilities are of the opinion that the Group will have sufficient working capital to enable the Group to operate as a going concern.

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS

During the year ended 31st March, 2006, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combination
HKAS Int 21	Income Taxes — Recovery of Revalued Non — Depreciated Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 18, 21, 23, 24, 27, 32, 33, 36, 38, 39, 40 and HKAS-Int 21 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 32, 33, 39, 40 and HKAS-Int 21 had no material effect on the Group's policies

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entities' accounts.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. In previous years, owner-occupied leasehold land and buildings were included in fixed assets and measured using the cost model at cost less accumulated depreciation and any impairment losses. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis.

The adoption of HKAS 40 has resulted in a change in accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expense in the income statement.

HKAS40 — the Group has adopted the fair value model. The Group has previously disclosed publicly the fair value of investment properties and has restated comparative information, including the reclassification of any amount held in revaluation surplus for investment properties.

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

The adoption of revised HKAS Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st March, 2005, goodwill was:

— Amortised on a straight line basis over a period but not exceeding 20 years; and assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

— The Group ceased amortization of goodwill from 1st April, 2005;

— Accumulated amortization as at 31st March, 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ending 31st March, 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 38 — the Group has reassessed the useful lives of its intangible assets in accordance with the provision of HKAS 38. The impairment is made in current year.

— HKAS 39 — does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1st April, 2005.

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

The effects of adoption of revised HKAS 17 are summarized as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**25,756**	31,060
Increase in leasehold land and land use right	**25,394**	30,639
(Decrease)/increase in administrative expenses	**(59)**	381
Increase in accumulated losses	**362**	421
Increase/(decrease) in basic earnings per share (HK cents)	**0.0129**	(0.098)

The effects of adoption of revised HKAS 38 are summarized as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in licence fees payable	**20,413**	23,452
Increase in intangible assets	**21,951**	24,891
Decrease in administrative expenses	**1,534**	537
Increase in finance costs	**1,435**	426
Decrease in accumulated losses	**1,538**	1,439
Increase in basic earnings per share (HK cents)	**0.021**	0.028

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

The effects of adoption of HKAS Int 21 and HKAS 40 are summarized as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in gain on disposal of investment properties	**12,989**	—
Increase in gain on revaluation of investment properties	**—**	12,694
Decrease in investment properties revaluation reserve	**2,176**	15,165
Increase in deferred tax liabilities	**381**	2,653
Decrease in accumulated losses	**1,795**	12,512
(Decrease)/increase in tax expense	**(2,272)**	2,221
(Decrease)/increase in basic earnings per share (HK cents)	**(2.33)**	2.69

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

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Groups operation and become effective for the Group's accounting periods beginning on or after 1st January, 2006 or later periods but which the Group has not early adopted, as follows:

— HKAS 19 (Amendment), Employee Benefits (effective from 1st January, 2006).

— HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January, 2006).

— HKAS 39 (Amendment), The Fair Value Option (effective from 1st January, 2006).

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

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

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

— HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January, 2006).

— HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective from 1st January, 2007).

— HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January, 2006).

The Group is in the course of accessing the impact of those new standards on the financial statements for the year ending 31st March, 2007.

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st March.

Subsidiaries are all 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 another entity.

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

2.2 Consolidation *(continued)*

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's equity holders therein. Minority interest consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

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

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 translation*

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 Group'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.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) 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

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

2.4 Foreign currency translation *(continued)*

(c) Group companies *(continued)*

(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 entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; 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 fair value reserve to retained earnings.

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

2.5 Property, plant and equipment *(continued)*

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is recognised.

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.

2.6 Lease land and land use right

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 for a period of 50 years from the date the respective right was granted. Amortization of lease premium for land is calculated on a straight — line basis over the period of the lease.

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

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 companies in the consolidated Group, is classified as investment property.

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

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 2.18(c).

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.

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/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities 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.

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

2.8 Intangible assets *(continued)*

(b) Licences

License rights on branded products are stated at cost, which represent capitalization of the minimum license fees payments in accordance with the license agreements. License rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is made in accordance with the pattern of economic inflow to the Group.

License fees payable are recognized initially at fair value using the effective interest method and subsequently stated at amortised cost less the amounts paid.

(c) Trademarks

Trademarks are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of trademarks is calculated to write off their costs on a straight line basis over a period of 15 years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

2.9 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which 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 amortisation 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. Summary of significant accounting policies *(continued)*

2.10 Inventories

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

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

2.11 Trade and other receivable

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised 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. 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 at call with banks.

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, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised 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.

2.14 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.

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 utilised.

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. Summary of significant accounting policies *(continued)*

2.15 Employee benefits

(a) Pension obligation

The Group continues to operate an occupational retirement scheme 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 continues to operate a mandatory provident fund scheme ("the MPF Scheme") under which the Group and staff 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.

Contributions for the above schemes are charged to the income statements as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group and managed by independent professional fund managers.

(b) Employee leave entitlements

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

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

2.16 Provisions

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 resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are not recognized for future operating losses.

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

2.17 Revenue recognition

(a) Sale of goods

Sales of goods are recognized when a Group entity 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

Rental income is recognized on a straight line basis.

2.18 Leases

(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 capitalised 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 rental obligations, 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. The investment properties acquired under finance leases are carried at their fair value.

3. Financial risk management

The Group's activities expose to variety of financial risks, foreign exchange risk, credit risk, liquidity risk and cash from interest rate risk.

(a) Foreign exchange risk

Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. The Group's export business is mainly to the United States, and its licences business operates in the People's Republic of China and Hong Kong. The Group is exposed to foreign exchange risk with respect to the United States dollars and Renminbi. Management considers that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

(b) Liquidity risk

The Group ensures that it maintains sufficient cash and availability of bank facilities for operating cash flow needs and to meet its liquidity requirements.

(c) Cash flow and fair value interest rate risk

The Group's interest bearing assets are principally bank deposits. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group is also exposed to changes in interest rates in respect of its bank borrowings. 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 deposits and bank borrowings.

4. Critical accounting estimates and judgements

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.

(a) Impairment of property, plant and equipment, leasehold land and depreciation

Property, plant and equipment, leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations.

These calculations require the use of judgments and estimates.

(b) Write-downs of inventories

Inventories are written down to net realizable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. 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 and write-downs of inventories in the periods in which such estimate has been changed.

(c) Intangible assets

The Group has used the pattern of future economic inflow amortisation method to amortise the capitalised minimum annual licence payments.

The calculations require the use of judgement and estimates.

5. Revenue and Segment Information

The Group is principally engaged in the sourcing, subcontracting, marketing and selling of outerwear garments and licenses business Revenues recognised during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**135,278**	110,608
Other income		
Income from sample sales	**—**	98
Interest income	**760**	2,151
Rental income	**699**	1,791
Gain on disposal of other investment	**400**	—
Gain on disposal of a subsidiary	**242**	—
Write-back of long outstanding trade payables	**652**	—
Sundry income	**82**	—
	2,835	4,040
Total	**138,113**	114,648

5. Revenue and Segment Information *(continued)*

Primary reporting format — business segments

	Year ended 31st March, 2006 HK$'000		
	Export business	Licensee business	Total
Turnover	73,578	61,700	135,278
Segment operating profit/(loss)	7,233	(1,978)	5,255
Interest income			760
Rental income			699
Unallocated costs			(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	911	1,593	2,504
Amortization of leasehold land	625	—	625
Impairment loss on investment property	470	—	470
Impairment of Goodwill	628	—	628
Amortization of capitalized licence fees	—	2,940	2,940

(a) Export business mainly represents export sales of outerwear garments to overseas customers.

(b) Licensee business represents the retailing distributing and wholesaling of HEAD® and DIADORA products in Greater China Region including Hong Kong and Macau.

5. Revenue and Segment Information *(continued)*

Primary reporting format — business segments *(continued)*

	Year ended 31st March, 2005 *HK$'000* (Restated)		
	Export business	Licensee business	Total
Turnover	100,798	9,810	110,608
Segment operating profit	22,164	734	22,898
Interest income			2,151
Rental income			1,791
Unallocated costs			(11,375)
Operating profit			15,465
Finance costs			(2,707)
Profit before taxation			12,758
Taxation charge			(2,176)
Profit after taxation			10,582
Segment assets	66,552	40,574	107,126
Unallocated assets			29,700
Total assets			136,826
Segment liabilities	19,507	42,786	62,293
Unallocated liabilities			9,929
Total liabilities			72,222
Capital expenditure	15,545	2,585	18,130
Depreciation	1,301	816	2,117
Amortization and impairment loss on trademarks	498	—	498
Reversal of impairment loss on leasehold land and buildings	19,365	—	19,365
Amortization of capitalised licence fees	—	1,354	1,354
Amortization of leasehold land	607	—	607

5. Revenue and Segment Information *(continued)*

Secondary reporting format — geographical segments

	Year ended 31st March, 2006 *HK$'000*			
	Turnover	**Segment operating profit/(loss)**	**Total assets**	**Capital expenditure**
United States of America	**53,962**	**4,627**	**274**	**—**
Europe	**12,571**	**1,570**	**1,386**	**—**
Canada	**4,000**	**685**	**—**	**—**
Hong Kong	**7,303**	**(1,837)**	**81,984**	**486**
PRC	**55,778**	**(140)**	**74,179**	**4,319**
Others	**1,664**	**350**	**—**	**—**
	135,278	**5,255**	**157,823**	**4,805**
Interest income		**760**		
Rental income		**699**		
Unallocated costs		**(26,390)**		
Operating loss		**(19,676)**		

	Year ended 31st March, 2005 *HK$'000* (Restated)			
	Turnover	Segment operating profit/(loss)	Total assets	Capital expenditure
United States of America	76,075	5,913	1,692	—
Europe	23,012	2,630	91	—
Canada	1,410	94	3	—
Hong Kong	4,234	27,190	101,202	13,833
PRC	5,576	(12,761)	33,115	4,297
Others	301	(168)	723	—
	110,608	22,898	136,826	18,130
Interest income		2,151		
Rental income		1,791		
Unallocated costs		(11,375)		
Operating profit		15,465		

6. Operating (loss)/profit

Operating (loss)/profit is stated after crediting and charging the following:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Crediting		
Net exchange gain	**310**	324
Charging		
Amortisation of intangible assets	**2,940**	1,522
Amortisation of goodwill	**—**	33
Amortisation of leasehold land	**625**	607
Impairment loss on goodwill	**628**	—
Impairment loss on trademarks	**—**	330
Impairment loss on investment properties	**470**	—
Auditors' remuneration	**879**	801
Depreciation		
— Owned fixed assets	**2,335**	1,918
— Leased fixed assets	**169**	199
Net loss on disposal of fixed assets	**50**	170
Staff costs, including directors' emoluments *(Note 8 & 13)*	**31,672**	22,176

7. Finance cost

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Interest on bank loans and overdrafts	**2,993**	2,234
Interest element of finance leases	**40**	46
Other interest	**1,454**	427
Total borrowing costs incurred	**4,487**	2,707

8. Staff costs

	Group	
	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**21,965**	12,717
Retirement benefit costs	**847**	557
Total staff costs, excluding Directors' emoluments	**22,812**	13,274

9. Taxation (credit)/charge

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Hong Kong profits tax		
Current tax	**120**	121
Over provision in previous years	**(53)**	—
Overseas taxation		
Current tax	**—**	20
Over provision in previous years	**(23)**	(203)
Deferred taxation relating to the origination and reversal of temporary differences	**(1,778)**	2,238
Taxation (credit)/charge	**(1,734)**	2,176

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the 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.

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
(Loss)/profit before taxation	**(24,163)**	12,758
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**(4,229)**	2,233
Effect of different taxation rates in other countries	**4**	113
Income not subject to taxation	**(1,311)**	(3,457)
Expenses not deductible for taxation purposes	**6,765**	1,078
Utilisation of previously unrecognised tax losses	**(313)**	(51)
Unrecognised tax losses	**(1,201)**	2,058
Temporary differences recognized	**(1,899)**	—
Temporary differences not previously recognised	**526**	405
Over provision in previous years	**(76)**	(203)
Taxation (credit)/charge	**(1,734)**	2,176

10. Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of HK$13,069,000 (2005: HK$13,492,000).

11. (Loss)/earning per share

Basic (loss)/earnings per share is calculated by dividing the Group's (loss)/profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2006	2005
(Loss)/profit attributable to equity holders of the Company *(in HK$'000)*	**(20,454)**	11,424
Weighted average number of ordinary shares in issue *(in thousands of shares)*	**459,086**	389,500
Basic (loss)/earnings per share *(HK cents)*	**(4.46)**	2.93

No diluted earnings per share is presented as there is no dilutive potential ordinary share for the years ended 31st March, 2006 and 2005.

12. 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$1,001,000 (2005: HK$694,000) less forfeited contributions utilised of HK$217,000 (2005: HK$86,000). Contributions of HK$57,000 (2005: HK$107,000) were payable to the scheme at the year end and are included in current liabilities under accrued charges. As at 31st March, 2006, there were no unutilised forfeited contributions (2005: NIL).

13. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	Fee		Other emolument		Contributions to defined contribution scheme	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Wong Tek Sun, Takson	**—**	—	**4,383**	4,337	**27**	27
Pang Shu Yuk, Adeline Rita	**—**	—	**3,931**	3,931	**27**	27
Tsao Kwang Yung, Peter	**30**	155	**—**	—	**—**	—
Lee Kwok Cheung	**120**	155	**—**	—	**—**	—
Wong Tak Yuen	**240**	240	**—**	—	**—**	—
Chau Tsun Ming, Jimmy	**42**	—	**—**	—	**—**	—
Zheng Jie	**60**	30	**—**	—	**—**	—
Total	**492**	580	**8,314**	8,268	**54**	54

Directors' fee disclosed above represent amount paid to the non-executive Directors.

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2006	2005
Emolument bands		
HK$Nil — HK$1,000,000	**4**	3
HK$3,500,001 — HK$4,000,000	**1**	1
HK$4,000,001 — HK$4,500,000	**1**	1
	6	5

13. 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 (2005: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries	**2,447**	1,234
Bonuses	**236**	108
Pensions	**72**	65
	2,755	1,407

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$Nil — HK$1,000,000	**2**	3
HK$1,000,001 — HK$1,500,000	**1**	0
	3	3

14. Intangible assets

	Trademarks and Licences HK$'000 (Restated)	Goodwill HK$'000	Total HK$'000 (Restated)
At 1st April, 2004			
Cost	8,082	—	8,082
Accumulated amortisation and impairment	(2,787)	—	(2,787)
Net Book Amount	5,295	—	5,295
Year ended 31st March, 2005			
Opening net book amount	5,295	—	5,295
Additions	21,448	661	22,109
Amortisation	(1,522)	(33)	(1,555)
Impairment	(330)	—	(330)
Closing net book amount	24,891	628	25,519
At 1st April, 2005			
Cost	29,530	661	30,191
Accumulated amortisation 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**
Amortisation	**(2,940)**	**—**	**(2,940)**
Impairment	**—**	**(628)**	**(628)**
Closing net book amount	**21,951**	**—**	**21,951**

15. Property, plant and equipment

	Buildings HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Machinery, equipment and tools HK$'000	Motor vehicles HK$'000	Office and computer equipment HK$'000	Total HK$'000
As at 1st April, 2004							
Cost or valuation	40,583	3,167	5,036	440	3,350	9,423	61,999
Accumulated depreciation	(23,908)	(2,015)	(3,614)	(265)	(1,303)	(7,739)	(38,844)
Net book amount	16,675	1,152	1,422	175	2,047	1,684	23,155
Year ended 31st March, 2005							
Opening net book amount	16,675	1,152	1,422	175	2,047	1,684	23,155
Effect on adoption HKAS 17	(11,133)	—	—	—	—	—	(11,133)
As restated	5,542	1,152	1,422	175	2,047	1,684	12,022
Additions	7,853	1,590	382	182	315	349	10,671
Disposals	—	(170)	—	—	—	—	(170)
Reversal of impairment loss	6,672	—	—	—	—	—	6,672
Depreciation	(353)	(714)	(267)	(35)	(335)	(413)	(2,117)
Closing net book amount	19,714	1,858	1,537	322	2,027	1,620	27,078
As at 31st March, 2005							
Cost or valuation	21,578	4,472	5,418	622	3,664	9,772	45,526
Accumulated depreciation	(1,864)	(2,614)	(3,881)	(300)	(1,637)	(8,152)	(18,448)
Net book amount	19,714	1,858	1,537	322	2,027	1,620	27,078
As at 1st April, 2005							
Cost or valuation	55,895	4,472	5,418	622	3,664	9,772	79,843
Accumulated depreciation	(5,121)	(2,614)	(3,881)	(300)	(1,637)	(8,152)	(21,705)
Net book amount	50,774	1,858	1,537	322	2,027	1,620	58,138
Year ended 31st March, 2006							
Opening net book amount	50,774	1,858	1,537	322	2,027	1,620	58,138
Effect on adoption HKAS 17	(31,060)	—	—	—	—	—	(31,060)
As restated	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	330	—	—	—	—	—	330
Reversal of impairment loss	26	—	—	—	—	—	26
Additions	—	325	3,155	58	—	1,267	4,805
Disposal	(2,255)	(75)	—	(11)	—	(14)	(2,355)
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

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

(a) Buildings were pledged to secure general banking facilities for the Group during the year. For details, please refer to note 27 to the accounts.

(b) As at 31st March, 2006, the net book value of motor vehicles includes assets held by the Group under finance leases amounted to HK$958,000 (2005: HK$1,127,000).

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 analysed as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
In Hong Kong held on:		
Leases of between 10 to 50 years		
At 1st April	**—**	—
Effect on adoption HKAS 17	**21,792**	9,601
Reversal of impairment loss	**32**	12,693
Amortisation	**(465)**	(502)
Disposal	**(3,184)**	—
At 31st March	**18,175**	21,792
Outside Hong Kong held on:		
Leases of between 10 to 50 years		
At 1st April	**—**	—
Effect on adoption HKAS 17	**8,847**	1,493
Addition	**—**	7,459
Transfer to investment properties	**(1,468)**	—
Amortisation for the year	**(160)**	(105)
At 31st March	**7,219**	8,847
Total	**25,394**	30,639

Leasehold land and land use rights were pledged to secure generate banking facilities. For details, please refer to note 27 to the accounts.

17. Investment properties

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Beginning of the year	**26,969**	14,275
Transfer from leasehold properties	**2,153**	—
Fair value gains	**294**	12,694
Impairment loss	**(470)**	—
Disposal	**(23,203)**	—
End of the year	**5,743**	26,969

(a) Investment properties were revalued as at 31st March, 2006 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 amounted to HK$294,000 (2005 restated: HK$12,694,000).

(b) The investment properties were pledged to secure general banking facilities. For details, please refer to note 27 to the accounts.

(c) On 18th May, 2006, the Group entered into a Sale and Purchase Agreement with a third party independent of the Group, to dispose of an investment property for RMB1,750,000. The impairment loss thereon of approximately HK$470,000 has been recognized in the year ended 31st March, 2006.

18. Investments in subsidiaries

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares/investment at cost	**68,192**	68,192
Amounts due from subsidiaries	**87,400**	74,377
Amount due to a subsidiaries	**(367)**	—
	155,225	142,569
Less: Provision for impairment losses	**(98,608)**	(86,374)
	56,617	56,195

(a) Particulars of the Company's subsidiaries are set out in note 33 to the accounts.

(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.

(d) On 23rd January, 2006, Takson Garment Manufacturing Company Limited, a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with independent third parties for the transfer of its 55% equity interests in Takson (Suzhou) Garment Manufacturing Co. Limited, for a consideration of HK$3,870,000.

19. Inventories

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**273**	496
Work in progress	**86**	35
Finished goods	**32,286**	5,067
	32,645	5,598

The cost of inventories recognized as expenses and included in cost of sales amounted to approximately HK$92,149,000 (2005: HK$79,556,000).

NOTES TO THE ACCOUNTS

For the year ended 31st March, 2006

20. Trade receivables

The ageing analysis of trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**8,007**	1,714
1 to 3 months	**4,919**	542
4 to 6 months	**570**	6
Over 6 months	**306**	409
	13,802	2,671
Less: provision for bad and doubtful debts	**(2)**	(320)
	13,800	2,351

(a) The majority of the Group's export sales are on letter of credit of 30 days. The remaining sales which were not covered by letter of credit are with credit terms of 30 to 45 days.

(b) As at 31st March, 2006, no trade receivables were factored to banks. (2005: HK$1,278,000).

21. Trade payables

The ageing analysis of trade payables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**5,254**	480
1 to 3 months	**5,110**	522
4 to 6 months	**1,777**	328
Over 6 months	**1,343**	1,896
	13,484	3,226

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

22. Share capital

	Number of shares	Ordinary shares *HK$'000*
Authorized		
At 31st March, 2005 and 31st March, 2006 Ordinary shares of HK$0.1each	1,000,000,000	100,000
Issued and fully paid:		
At 31st March, 2005	389,500,000	38,950
Issues of shares		
— rights issue	77,900,000	7,790
— placement of shares	50,000,000	5,000
At 31st March, 2006	517,400,000	51,740

(a) On 4th April, 2005, a rights issue on the basis of one rights share for every five existing shares held by shareholders on the register of members on 26th April, 2005 was made, at an issue price of HK$0.1 per right shares, resulting in the issue of 77,900,000 shares of HK$0.1 each for a total consideration, before share issue expenses, of approximately HK$7,790,000. The net proceeds of the right issue of approximately HK$7,200,000 have been used as additional working capital and for the business expansion under exiting licence agreements with HEAD® and DIADORA. The shares of right issue rank pari passu in all respects with the existing issued share capital of the Company.

(b) On 6th March, 2006, the Company entered into a placing agreement for the placing of 50,000,000 new shares ("Placing Shares") at a price of HK$0.1 per Placing Share (the "Placement"). The Placing Shares represented 10.70% of the existing issued share capital of the Company. Upon completion of the Placement, the Placing Shares represented approximately 9.66% of the issued share capital of the Company as enlarged by the issue of 50,000,000 placing shares. The net proceeds of the Placement of approximately HK$4.7 million have been used as additional working capital and for the business expansion under existing licence agreements with HEAD® and DIADORA. The Placing Shares rank pari passu in all respects with the existing issued share capital of the Company.

23. Reserves

(a) Group

	Share premium HK$'000	Buildings revaluation HK$'000	Investment properties revaluation HK$'000	Consolidation reserve HK$'000	Translation HK$'000	Accumulated losses HK$'000	Total
Balance at 1st April, 2004, as previously reported	42,032	—	2,471	2,214	8	(35,100)	11,625
Adjustments on adoption of							
— HKSA 40	—	—	(2,471)	—	—	2,471	—
— HKSA 17	—	—	—	—	—	(40)	(40)
— HKSA 38	—	—	—	—	—	1,329	1,329
Deferred taxation arising from the opening adjustments	—	—	—	—	—	(658)	(658)
Balance at 1st April, 2004, as restated	42,032	—	—	2,214	8	(31,998)	12,256
Surplus on revaluation	—	—	12,694	—	—	—	12,694
Adjustments on adoption of HKAS 40	—	—	(12,694)	—	—	—	(12,694)
Exchange difference arising on translation of the accounts of overseas subsidiaries	—	—	—	—	(1)	—	(1)
Profit for the year	—	—	—	—	—	11,424	11,424
Balance at 31st March, 2005	42,032	—	—	2,214	7	(20,574)	23,679
Balance at 31st March, 2005, as per above	42,032	—	—	2,214	7	(20,574)	23,679
Balance at 1st April, 2005, as restated	42,032	—	—	2,214	7	(20,574)	23,679
Surplus on revaluation	—	330	—	—	—	—	330
Rights issue cost	(640)	—	—	—	—	—	(640)
Exchange difference arising on translation of the accounts 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

23. Reserves *(continued)*

(b) Company

	Share Premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Balance at 1st April, 2004, as previously reported	42,032	67,992	(78,532)	31,492
Loss for the year	—	—	(13,492)	(13,492)
Balance at 31st March 2005	42,032	67,992	(92,024)	18,000
Balance at 1st April, 2005, as per above	42,032	67,992	(92,024)	18,000
Rights issue cost	(640)	—		(640)
Loss for the year	—	—	(13,069)	(13,069)
Balance at 31st March, 2006	41,392	67,992	(105,093)	4,291

(a) The contributed surplus represents the excess of the consolidated net asset value of Takson (B.V.I.) Limited on its merger with the Company over the nominal value of the Company's shares issued in the exchange therefor. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to the shareholders, 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 realisable 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.

(b) Reserve on consolidation, 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 reorganisation.

24. Notes to the Consolidated Cash Flow Statement

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

	Group	
	2006	2005 Restated
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(24,163)**	12,758
Amortisation of capital licence payment	**2,940**	1,353
Amortisation of advanced lease payment	**625**	607
Amortisation of trademarks	**—**	168
Amortisation of goodwill	**—**	33
Provision for impairment loss on trademarks	**—**	330
Depreciation of owned fixed assets	**2,335**	1,918
Depreciation of fixed assets held under finance leases	**169**	199
Impairment loss on goodwill	**628**	—
Cost of placement	**187**	—
Loss on disposal of fixed assets	**50**	170
Gain on disposal of a subsidiary	**(242)**	—
Gain on disposal of properties	**(4,214)**	—
Gain on disposal of other investment	**(400)**	—
Revaluation gain on investment properties	**(294)**	(12,694)
Reversal of impairment loss on leasehold land and buildings	**(58)**	(19,365)
Provision for long service payments	**—**	(383)
Impairment loss on investment properties	**470**	—
Interest income	**(760)**	(2,151)
Interest on bank loans and overdrafts	**2,993**	2,234
Interest element of finance leases	**40**	46
Operating loss before working capital changes	**(19,694)**	(14,777)
Increase in inventories	**(27,047)**	(2,158)
Increase in trade, other receivables, prepayments and deposits	**(22,125)**	(2,605)
Increase in trade and other payables	**13,231**	593
	(55,635)	(18,947)

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

(b) Analysis of changes in financing during the year

	Share capital including share premium		Group trust receipts and others bank loans		Finance lease	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1st April, 2005	**80,982**	80,982	**34,058**	17,567	**679**	1,005
Cash inflow/(outflow) from financing	**12,150**	—	**20,785**	16,491	**(355)**	(326)
At 31st March, 2006	**93,132**	80,982	**54,843**	34,058	**324**	679

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cash and cash equivalents	**7,457**	10,328

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

(d) Disposal of subsidiary

	Group	
	2006	2005
	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)**	—
Gain on disposal	**242**	—
	3,870	—
Satisfied by:		
Cash consideration	**3,870**	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2006	2005
	HK$'000	*HK$'000*
Cash consideration	**3,870**	—
Cash and bank bank balance disposed of	**(1,530)**	—
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	**2,340**	—

25. Long-term liabilities

At 31st March, 2006, the Group's bank loans and obligations under finance leases are repayable as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Bank loans — secured	**8,644**	11,734
Obligation under finance leases	**324**	679
Licence fee payable	**20,413**	23,452
Post employment benefits	**263**	263
	29,644	36,128
Less: Current portion of long term liabilities	**(5,391)**	(5,959)
	24,253	30,169

(a) At 31st March, 2006, the Group's bank loans are repayable as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Within one year	**426**	2,564
In the second year	**464**	1,873
In the third to fifth year inclusive	**7,754**	7,297
	8,644	11,734

The effective interest rates at the balance sheet date were as follows:

	2006 HK$	2006 US$	2006 RMB	2005 HK$	2005 US$	2005 RMB
Bank borrowings	**5.8%**	**—**	**5.8%**	4.5%	—	5.8%
Trust receipt	**—**	**6.1%**	**—**	—	4.6%	—

25. Long-term liabilities *(continued)*

(b) At 31st March, 2006, the Group's finance lease liabilities are repayable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**261**	355
In the second year	**63**	324
In the third to fifth year inclusive	**—**	—
	324	679

(c) At 31st March, 2006, the Group's licence fee payable are repayable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,704**	3,040
In the second year	**4,454**	4,704
In the third to fifth year inclusive	**11,255**	15,708
	20,413	23,452

26. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 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.

26. Deferred taxation *(continued)*

The movement on the deferred tax liabilities and assets are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Deferred tax (liabilities)		
At the beginning of the year	**(3,395)**	(672)
Deferred taxation credited/(charged) to income statement due to the change in accounting policy	**1,899**	(2,832)
Deferred taxation credited to income statement	**253**	109
At the end of the year	**(1,243)**	(3,395)
Deferred tax assets		
At the beginning of the year	**448**	621
Deferred taxation credited to income statement	**(374)**	(173)
At the end of the year	**74**	448

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$73,618,000 (2005: HK$53,288,000) to carry forward against future taxable income. The tax losses have no expiry date.

Deferred income tax liabilities have not been established for the withholding taxation that would be payable on the unmerited earnings of a subsidiary.

27. Banking facilities

As at 31st March, 2006, the Group's banking facilities amounting to approximately HK$75,666,000 (2005: HK$186,051,000) were secured by the following:

(a) first legal charge over investment properties and leasehold land and buildings in Hong Kong held by the Group with an aggregate carrying value of approximately HK$46,117,000 (2005: approximately HK$75,618,000);

(b) bank time deposit of HK$10,665,000 (2005: Nil); and

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

28. Contingent liabilities

The Group had a no material contingent liabilities as at 31st March, 2006 and 2005.

The Company has executed guarantees with respect to banking facilities mark available to its subsidiaries. Such facilities utilized as at 31st March, 2006 amounted to HK$56,301,000 (2005: HK$ 35,451,000)

29. Commitments

(a) Capital commitments

As at 31st March, 2006, the Group had the following capital commitments which are contracted but not provided for:

	2006	2005
	HK$'000	*HK$'000*
Investment in PRC subsidiary	**1,560**	—
Investment in a joint venture	—	3,350
Investment in fixed assets	—	896
	1,560	4,246

The Company had no material capital commitments as at 31st March, 2006 and 31st March, 2005.

29. Commitments *(continued)*

(b) Commitments under operating leases

(i) At 31st March, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**937**	2,827
Later than one year and not later than five years	**—**	4,105
	937	6,932

The balances above do not include operating lease payment obligation in respect of certain operating leases on properties of the Group with variable rentals which are calculated based on certain percentage of the gross revenues of the subsidiaries.

(ii) At 31st March, 2006, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**110**	1,244
Later than one year and not later than five years	**—**	110
	110	1,354

30. 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 decision, or vice versa, or where the Group and the parties are subject to common significant influence. Related parties may be individuals or entities.

(a) Key management compensation

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**11,530**	10,309

(b) Director's loan

This represents an unsecured and interest-free loan advance by Mr. Wong Tek Sun, Takson, a director of the Company. The director has confirmed that the balance is unsecured, interest-free and will not be demanded for repayment until the Group is in a position to do so. However, the Group have projected that it will be in position to repay the loan in full in the next two years.

Subsequent to the balance sheet date, Mr. Wong Tek Sun, Takson made further unsecured and interest-free loans of totally HK$8,100,000 to the Group. These loans have no fixed repayment term.

30. Related-party transactions *(continued)*

(c) Transactions

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business:

	2006	2005
	HK$'000	*HK$'000*
Takson Holding Limited dealing with:		
Takson Properties Limited		
Consultancy fee income	**360**	—
Takson Garment Manufacturing Company Limited		
Management fee income	**10,080**	3,013
Takson Garment Manufacturing (Malaysia) Ltd.		
Management fee income	**—**	7,427
Sales of Global Sportswear Inc dealing with:		
Shanghai Heide International Trading Co Limited	**12,950**	—
Sales of Shanghai Global Sporting Goods Company Limited dealing with:		
Global Sportswear Inc	**90**	1,563
Wuhan Hande Sport-wear Company Limited	**1,496**	2,111
Suzhou Fan Shing International Limited	**7,838**	—
Heide Sporting Goods (Shanghai) Co Limited	**3,112**	—
Sales of Fan Shing International Company Limited dealing with:		
Suzhou Fan Shing International Limited	**402**	—
Heide Sporting Goods (Shanghai) Co Limited	**1,017**	—
Purchases of Fan Shing International Company Limited dealing with:		
Suzhou Fan Shing International Limited	**313**	—
Takson Down Manufacturing Inc. dealing with:		
Takson Garment Manufacturing Company Limited		
Management fee paid	**1,364**	2,136
Purchases	**3,128**	5,167
Takson Garment Manufacturing Company Limited dealing with:		
Takson (Suzhou) Garment Manufacturing Company Limited		
Subcontracting expenses	**4,440**	—
Takson Garment Manufacturing (Malaysia) Limited		
Management fee paid	**—**	3,035
Takson Properties Limited dealing with		
Takson Garment Manufacturing Company Limited		
Management fee paid	**360**	120
Rental income	**906**	1,043

31. Subsequent events

Save as disclosed in the notes 17 and 30(b) to the accounts, there are no other significant subsequent events.

32. Comparative amounts

As explained in note 2 to the accounts, due to the adoption of the new HKFRSs during the year, certain comparative figures have been restated to conform with the current year's presentation

33. Particulars of Subsidiaries

The subsidiaries of the Company at 31st March, 2006 are as follows:

Name	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%
Union Sports Limited	Hong Kong	General trading	1 ordinary share of HK$1 each	100%

33. Particulars of Principal Subsidiaries *(continued)*

Name	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				
Powderhorn Establishment	Liechtenstein	Holding of trademarks	Swiss Franc 30,000	100%
*Shanghai Global Sporting Goods Co, Ltd.	PRC	Manufacturing and sale of garments	Registered capital of US$400,000	100%
*Heide Sporting Goods (Shanghai) Co Limited	PRC	Distributing and storing of sporting products	Registered capital of US$200,000	100%
*Suzhou Fan Shing International Limited	PRC	Distributing and storing of sporting products	Registered capital of US$65,000	100%
*Shanghai Diadora International Trading Company Limited	PRC	Distributing and storing of sporting products	Registered capital of US$200,000	100%
*Unison Sports (Shanghai) Co Limited	PRC	Not yet commence business	Registered capital of US$200,00	100%
Global Sports Limited	Hong Kong	General trading	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	Sourcing and sales of outerwear garments	1 ordinary share of US$1	100%

33. Particulars of Principal Subsidiaries *(continued)*

Name	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 Provision of manufacturing and accounting service 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	Property 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	Sales of sportswear	Registered capital of RMB$6,000,000	75.5%

* Wholly Foreign-owned Enterprise

^ Sino Foreign Equity Joint Venture Enterprise

34. Ultimate holding Company

The Directors regard Wangkin Investments Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

FIVE-YEAR FINANCIAL SUMMARY

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

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**135,278**	110,608	208,185	258,701	238,564
(Loss)/profit attributable to shareholders	**(20,454)**	11,424	(15,203)	2,312	(33,709)
Assets and Liabilities					
Total assets	**157,823**	136,826	82,223	95,901	120,875
Total liabilities	**(103,255)**	(72,222)	(30,288)	(28,264)	(55,753)
Net assets	**54,568**	64,604	51,935	67,637	65,122

INVESTMENT PROPERTIES

Particulars of investment properties held by the Group at 31st March, 2006 are as follows:

Location	Gross area *(sq. ft.)*	Type	Tenure
Workshop Unit Nos. 7 on 5th Floor, Tower One, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong	2,897	Commercial	Medium Lease
中華人民共和國上海市長寧區宣化路299弄富都花園2號23D室	1,845	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 Ming I, 4th Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 25th August, 2006 at 4:00 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the audited accounts and the reports of the directors and the auditors for the year ended 31st March, 2006.

2. To re-elect directors and to authorise the board of directors to fix their remuneration.

3. To re-appoint the auditors and to authorise 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 of the Company 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 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 of the Company) 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 authorise the directors of the Company 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 of the Company) 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 of the Company 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 of the Company 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 of the Company in accordance with the memorandum of association and the bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company 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 of the Company 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 in general meeting revoking or varying the authority given to the directors of the Company by this resolution; and

"Rights Issue" means an offer of shares in the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares in the Company, or any class of shares of the Company, 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 of the Company 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 of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the share capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and is recognized by the Securities and Futures Commission of Hong Kong and the 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 of the Company 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 share capital of the Company in issue 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 of the Company 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 in general meeting revoking or varying the authority given to the directors of the Company 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 of the Company to exercise the powers of the Company to allot, issue and deal with additional shares in the Company 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 share capital of the Company 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 issued share capital of the Company as at the date of the passing of the said Ordinary Resolution."

(D) "**THAT**

(a) subject to and conditional upon the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the shares of the Company (the "Shares") to be issued pursuant to the exercise of any such options granted under the share option scheme of the Company (the "New Share Option Scheme"), (the rules of the New Share Option Scheme are contained in the document marked "A" produced to the meeting and for the purposes of identification signed by the Chairman thereof), the New Share Option Scheme be and is hereby approved and adopted and the directors of the Company be and is hereby authorised to do all acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the New Share Option Scheme, including without limitation:

(i) to administer the New Share Option Scheme under which options will be granted to participants eligible under the New Share Option Scheme to subscribe for the Shares;

(ii) to modify and/or amend the New Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the New Share Option Scheme relating to the modification and/or amendment;

(iii) to issue and allot from time to time such number of Shares as may be required to be issued pursuant to the exercise of the options under the New Share Option Scheme and subject to the Rules Governing the Listing of Securities on the Stock Exchange;

(iv) to make application at appropriate time or times to the Stock Exchange and any other stock exchange upon which the issued Shares may for the time being listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of options under the New Share Option Scheme; and

(v) to consent, if he/she so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the New Share Option Scheme.

(b) subject to the adoption of the New Share Option Scheme, the existing share option scheme (the "Existing Share Option Scheme") of the Company which was adopted by the Company and approved by ordinary resolution of the Company dated 23rd September, 1997 be and is hereby terminated with effect from the adoption of the New Share Option Scheme."

By order of the Board
Chan Siu Man
Company Secretary

Hong Kong, 31st July, 2006

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 23rd August, 2006 (Wednesday) to 25th August, 2006 (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 25th August, 2006, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars 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 22nd August, 2006 (Tuesday) 2006.