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Directors*Executive Directors:*

Wong Tek Sun, Takson
 Pang Shu Yuk, Adeline Rita
 Cheung Man Ki
 Lian Cheng Chi

Independent Non-Executive Directors:

Tsao Kwang Yung, Peter
 Lee Kwok Cheung

Secretary

Cheung Man Ki

Registered Office

Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

Principal Office

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

Auditors

PricewaterhouseCoopers
Certified Public Accountants
 23rd Floor, Sunning Plaza
 10 Hysan Avenue
 Hong Kong

Principal Bankers

Standard Chartered Bank
 Citibank N.A.
 Rabobank
 Hua Chiao Commercial Bank Limited
 Citic Ka Wah Bank Limited
 Hang Seng Bank Limited
 Belgian Bank
 The Hongkong and Shanghai Banking
 Corporation Limited
 UniCredito Italiano S.p.A.

Solicitors*Bermuda:*

Conyers Dill & Pearman

Hong Kong:

Kwok & Yih

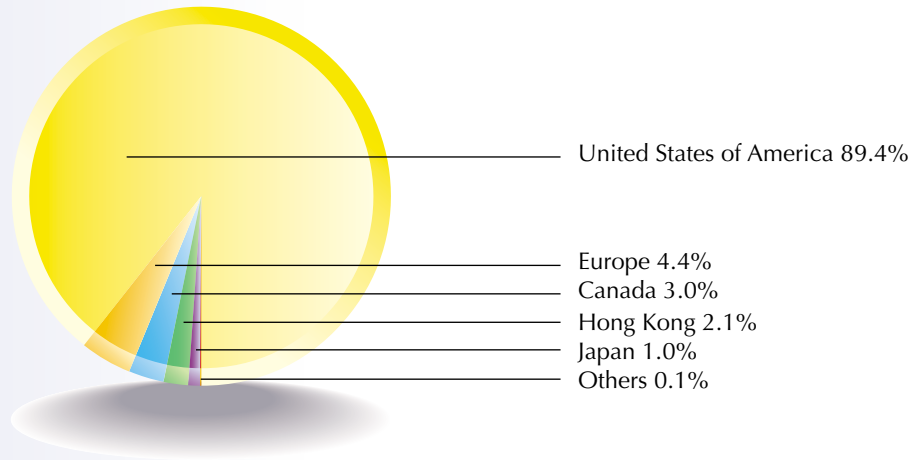
Share Registrars and Transfer Offices*Bermuda:*

Butterfield Corporate Services Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke
 Bermuda

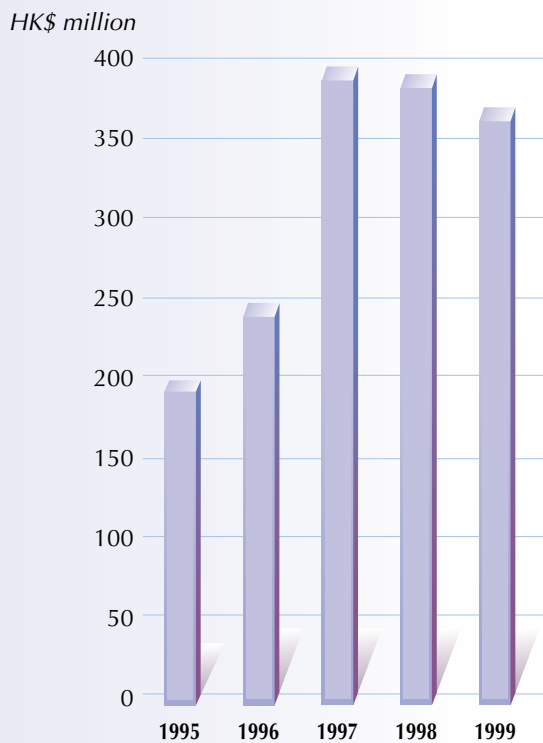
Hong Kong:

Abacus Share Registrars Limited
 10th Floor, Caroline Centre
 28 Yun Ping Road
 Causeway Bay
 Hong Kong

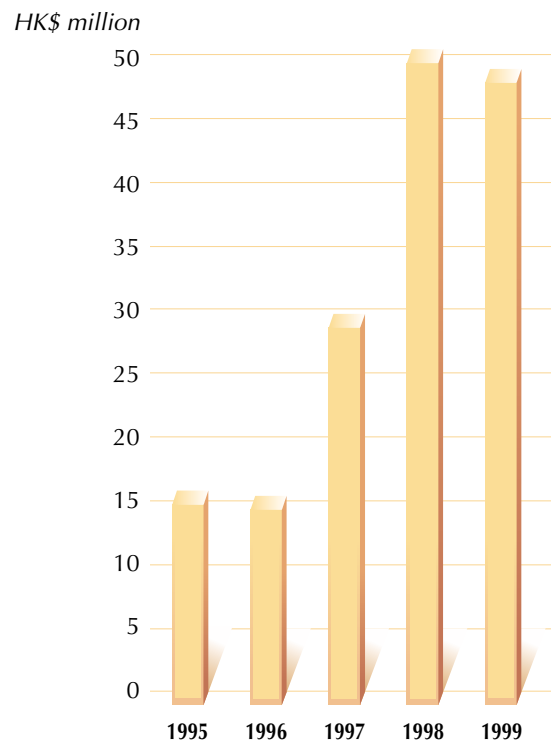
Turnover by Geographical Location in 1999



Turnover



Profit Attributable to the Shareholders



The Group's audited consolidated net profit after tax for the year ended 31st March, 1999 was HK\$48 million, a 4% decrease as compared with last year's net profit after tax but before exceptional item of HK\$50 million and represented basic earnings per share of 13.3 cents.



DIVIDENDS

After careful consideration of the future working capital and development needs of the Group, the Directors will recommend, at the Annual General Meeting to be held on 8th September, 1999, the payment of a final dividend of 5.0 cents per share in respect of the year ended 31st March, 1999, to shareholders whose names appear on the Register of Members of the Company on 2nd September, 1999. The proposed dividend will be paid on 15th September, 1999 following approval at the Annual General Meeting.

REVIEW OF OPERATIONS

For the year under review, the Group saw a slight decline in turnover despite increased order quantities. These contrasting results were primarily attributable to the intensified price competition from South East Asia manufacturers following the recent Asian financial crisis, particularly in the second half year. The Group proactively dealt with these unfavourable market conditions by reducing production costs through tightening up its purchasing and subcontracting policies but with production quality and efficiency in mind. Such cost advantage enabled the Group to obtain more sales order and command favourable pricing so that its overall profit margin was only marginally squeezed. The Board is satisfied with the overall performance, especially in the areas of product quality and delivery where management team assisted by in-house computer garment system and the Web technology had a major role to play.

Customers' labels business continued to be the Group's predominant profit contributor, with US market sector increasing its presence and itself alone representing nearly 90% of the Group's total turnover in the year. Sales to Hong Kong department stores and specialty stores reduced as local retailers were hard hit by depressed consumers' demand.

Efforts continued in the streamlining of the Group's business operations and the improvement on overheads productivity in anticipation of business expansion in the years ahead.

PROSPECTS

Management anticipates that buoyant markets in the US and Europe will continue and that the Group will be well positioned to capitalise on such opportunities.

As in the past, the Group will continue to sell to four categories of customers, namely designer houses, specialty stores, department stores and retail chains. In addition, the Group will focus on such customers as specialty stores requiring mid-range premium-value products, styles of which are simpler for marketing and more suitable for mass production. With these characteristics, the Group's products will benefit from economies of scale in raw materials sourcing and in-line production and enable the Group to offer its customers not only attractive prices but also good value. Further, the Group will make use of its financial resources to secure materials supplies and minimize costs by purchasing common raw materials such as down feather in bulk during low seasons and arranging for export quotas as soon as sales commitment is obtained from customers.



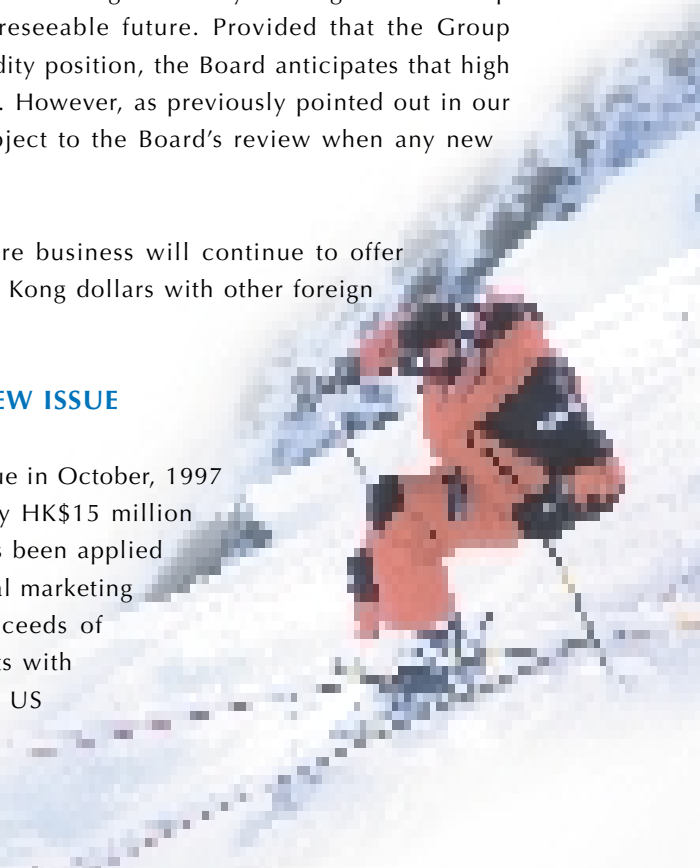
With the surplus production capacity of PRC subcontractors as a result of market competition from overseas, the Group will stand in good stead in facing the imminent surge in demand for its products. Originally, the Group forecasted next year's sales order to be 3.8 million pieces doubling this year's 1.9 million pieces. Now, the Board is pleased to report that up to mid-July, 1999 sales order received for shipments in the year ending 31st March, 2000 has already reached 3.4 million pieces. Given this proven marketing strategy, the Group is confident that its turnover will achieve considerable growth in the coming year.

As with many other garment manufacturer-exporters, the Group's business is seasonal by nature in both production and financial terms. Only short term revolving trade finance is required during production season. The Group therefore considers no additional long term funding necessary as long as the Group remains substantially engaged in its core business in the foreseeable future. Provided that the Group continues to achieve favourable results and sustains good liquidity position, the Board anticipates that high dividends/earnings ratio will be maintained in the coming year. However, as previously pointed out in our interim report 1998, this policy may from time to time be subject to the Board's review when any new relevant factors will be taken account of.

The Group's US dollar denominated earning base from its core business will continue to offer shelter from any risks resulting from changes in parity of Hong Kong dollars with other foreign currencies.

CHANGE IN THE APPLICATION OF PROCEEDS FROM NEW ISSUE

At the year end, total net proceeds from the Company's new issue in October, 1997 amounted to approximately HK\$75 million (after approximately HK\$15 million of listing expenses), of which approximately HK\$11 million has been applied to working capital and approximately HK\$4 million to additional marketing and advertising activities as planned. The remaining net proceeds of approximately HK\$60 million were in the form of time deposits with commercial banks, approximately HK\$20 million of which in US dollar and the remaining in Hong Kong dollar.



CHANGE IN THE APPLICATION OF PROCEEDS FROM NEW ISSUE *(continued)*

Contrary to the Board's earlier intention as stated in the Company's prospectus dated 30th September, 1997, it decided on 28th July, 1999 not to proceed with negotiations with two state-owned import and export corporations in Shanghai and Beijing over the setting up of joint-ventured production facilities there. This was a direct result of the recent Asian financial turmoil rendering property prices in the PRC vulnerable to fluctuation and the Group foreseeing PRC subcontractors faced with surplus production capacity in the future. Since the Company's new issue in October, 1997, the Board had been constantly reviewing the PRC property prices and subcontractors' production capacity and it came to this decision expecting only very minimal impact on the Group's manufacturing operation. The amounts which would have been invested in this project were estimated at HK\$52 million, approximately 69% of the total net proceeds from the Company's new issue in October, 1997.

Acquisitions and organic growth through increasing marketing activities are ways of expansion under consideration by the Group. To position Takson Holdings as a leading garment manufacturer in the next millennium, the Group has decided that, out of the remaining approximately HK\$60 million net proceeds raised from the new issue in 1997, approximately HK\$25 million will be applied towards working capital and another approximately HK\$30 million will be set aside for any investment opportunities related to its core business. Preliminary investment targets will be high value-added garment sourcing companies in terms of proven marketing strategy to US and European customers and minimal own production facilities to allow for greater flexibility in its business strategies. Currently, there are neither negotiations nor agreements over any acquisitions in this respect.

As a major garment exporter to the US, closely following US market trend is critical to the Group's business. With the maturing of e-commerce, the Group sees barriers between importers and exporters becoming increasingly lower on a global scale, enabling exporters more responsive to the needs and expectations of importers. With over 20 years of sourcing experience and close working relationships with worldwide customers, the Group has decided to put aside approximately HK\$5 million of the remaining net proceeds to build the global leading online community and commerce of importers and exporters linking them through a fast, functional and cost-effective website. Given this network, the Group is expected to capitalise on the revenue generating opportunities from rapid e-commerce growth in Greater China and beyond in the medium term. The funding will be used for installing equipment, employing technical staff and promotion. Subject to the completion of feasibility studies currently undertaken, this Web site is intended to be fully operational by the end of 2000.

APPRECIATION

My fellow directors and the staff should be thanked for their contribution and dedication, and our business partners and shareholders for their continued support. I am confident that, through their continued support, skill and hard work, the Group will make 1999/2000 another rewarding year.



Wong Tek Sun, Takson
Chairman

Hong Kong, 28th July, 1999

The directors submit their report together with the audited accounts for the year ended 31st March, 1999.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the sourcing, subcontracting, marketing and sale of outerwear garments.

An analysis of the Group's turnover and contribution to operating profit before taxation by principal activities and markets is as follows:

	Turnover <i>HK\$'000</i>	Contribution to operating profit before taxation <i>HK\$'000</i>
Principal activities		
Sourcing, subcontracting, marketing and sale of outerwear garments	<u>357,221</u>	55,607
Less: Net interest expense		<u>(3,873)</u>
		<u>51,734</u>
Principal markets		
United States of America	319,417	48,231
Europe	15,769	2,861
Canada	10,639	2,116
Hong Kong	7,593	1,763
Japan	3,412	549
Others	<u>391</u>	<u>87</u>
	<u>357,221</u>	55,607
Less: Net interest expense		<u>(3,873)</u>
		<u>51,734</u>

MAJOR SUPPLIERS AND CUSTOMERS

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

	1999	1998
	%	%
Purchases		
– the largest supplier	16	13
– five largest suppliers combined	51	40
Sales		
– the largest customer	33	20
– five largest customers combined	71	60

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) have any interest in the major suppliers or customers as summarised above.

ANALYSIS OF THE GROUP'S PERFORMANCE

An analysis of the Group's performance is shown in the Chairman's Statement on pages 3 to 5.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 16.

The directors have declared an interim dividend of 8.0 cents per ordinary share, totalling HK\$28,800,000, which was paid on 17th December, 1998.

The directors recommend the payment of a final dividend of 5.0 cents per ordinary share totalling HK\$18,000,000 in respect of the year ended 31st March, 1999.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$4,000 (1998: HK\$14,000).

FIXED ASSETS

Details of the movements in fixed assets are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 18 to the accounts.

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 41.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

INFORMATION ON SUBSIDIARIES

Details of the Company's subsidiaries as at 31st March, 1999 are set out in note 13 to the accounts.

ANALYSIS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The particulars of the Group's bank loans, overdrafts and other borrowings as at 31st March, 1999 are set out in notes 17 and 21 to the accounts.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with its own working capital, and import-related and other banking facilities provided by its principal bankers in Hong Kong. Total surplus funds generated from operating activities amounted to approximately HK\$57 million for the year ended 31st March, 1999.

The ratio of current assets to current liabilities was 1.9 at 31st March, 1999 compared to 1.7 at 31st March, 1998. As at 31st March, 1999, the Group's cash balance was increased to HK\$61,925,000 compared to HK\$60,800,000 at 31st March, 1998. The strong cash position together with the available banking facilities are considered sufficient to provide adequate liquidity and capital resources for the Group's ongoing operating requirements.

EMPLOYEES

As of 31st March, 1999, the Group had a total of 105 employees. This compares to 127 employees as of 31st March, 1998.

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 programme and a share option scheme for management and staff with awards determined annually based upon the performance of the Group and individual employees.

DIRECTORS

The directors during the year were:

Mr. Wong Tek Sun, Takson

Ms. Pang Shu Yuk, Adeline Rita

Mr. Cheung Man Ki

Mr. Lian Cheng Chi

Mr. Tsao Kwang Yung, Peter*

Mr. Lee Kwok Cheung*

Mr. Lang Jing** resigned on 23rd April, 1998

* *independent non-executive directors*

** *non-independent non-executive director*

In accordance with clause 87 of the Company's Bye-laws, Mr Tsao Kwang Yung, Peter, retires by rotation and, being eligible, offers himself for re-election.

The term of office for the independent non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

Executive Directors

Mr. Wong Tek Sun, Takson, age 48, is the Chairman and Chief Executive Officer of the Group. He received his tertiary education in the PRC before he co-founded the Group in 1972. Mr. Wong has over 25 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.

Ms. Pang Shu Yuk, Adeline Rita, age 40, is the Deputy Chairman and Chief Operations Officer of the Group and oversees merchandising, production planning and control and various operational and administrative matters of the Group. She holds a diploma in fashion and clothing from the Hong Kong Polytechnic University. Ms. Pang joined the Group in 1983 and is the wife of Mr. Wong Tek Sun, Takson.

Mr. Cheung Man Ki, age 33, is the Chief Financial Officer of the Group and is also the Company Secretary. He is responsible for the financial planning and management information system of the Group. Mr. Cheung holds a Bachelor of Science degree in Economics from the London School of Economics and Political Science, London University, the United Kingdom. He is an associate member of the Institute of Chartered Accountants in England and Wales, and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in 1995, he worked for two international accounting firms, in London and in Hong Kong, for approximately seven years.

Mr. Lian Cheng Chi, age 56, is responsible for the sales and marketing of the Group's products to China national product stores in Hong Kong. He holds a degree in Chinese language from Fujian Hua Chiao University, the PRC. He joined the Group in 1974 and has extensive experience in the garment industry. He is a brother-in-law of Mr. Wong Tek Sun, Takson.

DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Independent Non-Executive Directors

Mr. Tsao Kwang Yung, Peter, CBE, CPM, age 65, was the former Secretary for Home Affairs of the Hong Kong Government. He graduated from National College of Food Technology in London in 1960. In 1977, Mr. Tsao was appointed as the special envoy to Geneva and became the head of the Trade and Industry Departments in 1979 and 1981 respectively. In 1983, Mr. Tsao headed the Government Information Services and in 1988 he was appointed as the Secretary for Home Affairs from which post he retired in February, 1992. He is currently the Chairman of Prima Consultants Limited and a director of a number of companies in Hong Kong and the United Kingdom. He was appointed as an independent non-executive director of the Company in September, 1997.

Mr. Lee Kwok Cheung, age 50, is a director of Management Capital Limited, a company engaged in the business of direct investment and financial advisory. From 1994 to 1995, Mr. Lee was the chief executive of Polytec Holdings Limited, a textile and real estate group, and from 1991 to 1993, Giordano Holdings Limited. Mr. Lee has over eleven years' experience in banking. He was appointed as an independent non-executive director of the Company in September, 1997.

SERVICE CONTRACTS

On 23rd September, 1997, all executive directors entered into services contracts with the Company for a period of three years commencing 1st September, 1997. The contracts shall thereafter continue unless and until terminated by either party giving to the other party six months' notice in writing.

The independent non-executive directors do not have any service contracts with the Company or its subsidiaries.

Apart from the above, there are no other similar service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its holding companies, or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 23rd September, 1997, a share option scheme was approved by the shareholders of the Company under which its directors may, at their discretion, invite executive directors and employees of the Company and its subsidiaries to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. During the year, options granted for the Company's directors were as follows:

Director	Number of ordinary shares granted under the option	Date of grant	Subscription price per option share	Outstanding number of option shares as at 31st March, 1999
Wong Tek Sun, Takson	9,000,000	15th April, 1998	HK\$0.30	9,000,000
Pang Shu Yuk, Adeline Rita	9,000,000	15th April, 1998	HK\$0.30	9,000,000
Lian Cheng Chi	9,000,000	15th April, 1998	HK\$0.30	9,000,000
Cheung Man Ki	8,650,000	15th April, 1998	HK\$0.30	8,650,000

The share options are exercisable from 15th October, 1998 up to 14th October, 2000.

Apart from the aforesaid, at no time during the year was the Company, its holding companies, or its subsidiaries a party to any arrangement to enable the directors and chief executives of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st March, 1999, the interests of directors, chief executives and their associates of the Companies in the shares of the Company or any associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and other interests of directors in the Company were as follows:

Name of director	Number of ordinary shares beneficially held				Total interests	Number of shares over which options have been granted which remained outstanding
	Personal interests	Family interests	Corporate interests	Other interests		
Wong Tek Sun, Takson	-	-	237,600,000 (Note 1)	237,600,000 (Note 1)	237,600,000	9,000,000 (Note 2)
Pang Shu Yuk, Adeline Rita	-	237,600,000 (Note 1)	-	237,600,000 (Note 1)	237,600,000	9,000,000 (Note 2)
Lian Cheng Chi	-	-	-	-	-	9,000,000
Cheung Man Ki	-	-	-	-	-	8,650,000

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(continued)*

Notes:

1. The four references to 237,600,000 shares relate to the same block of shares in the Company. Such shares are held by Takson International Holdings Limited, the entire issued share capital of which are 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.

Mr Wong Tek Sun, Takson owns more than one-third of the issued share capital of WII and his children as, inter alia, discretionary beneficiaries of the Family Trust have interests in the share capital of the Company. Accordingly, he is taken to be interested in the 237,600,000 shares in the Company under the SDI Ordinance. Ms Pang Shu Yuk, Adeline Rita, by virtue of her husband's interest in the Company is taken to be interested in the 237,600,000 shares in the Company under the SDI Ordinance.

Ms Pang Shu Yuk, Adeline Rita, by virtue of her and her children's interests in the share capital of the Company as, inter alia, discretionary beneficiaries of the Family Trust is deemed to be interested in the 237,600,000 shares in the Company under the SDI Ordinance.

2. Each of Mr Wong Tek Sun, Takson and Ms Pang Shu Yuk, Adeline Rita is granted 9,000,000 option shares in the Company. They are, by virtue of family interest, interested in each other's 9,000,000 option shares in the Company.

Save as disclosed above, as at 31st March, 1999, none of the directors had any other interests in the shares of the Company or of any of its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

Other than the interests disclosed above in respect of directors, chief executives and their associates, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance at 31st March, 1999 shows that the Company had been notified by WII and Takson International Holdings Limited that each of them is taken to have an interest under the SDI Ordinance in the same 237,600,000 shares of the Company as described in Note 1 above.

Save as disclosed above, no person was recorded in the register as having an interest in 10% or more of the issued share capital of the Company as at 31st March, 1999.

AUDIT COMMITTEE

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") recently revised the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to require listed companies to establish an audit committee with written terms of reference which deal clearly with its authority and duties. Amongst the committee's principal duties will be to review and supervise the Company's financial reporting process and internal controls. The Company has set up an Audit Committee and has formulated its written terms of reference in accordance with the requirements of the Stock Exchange.

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 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.

YEAR 2000 COMPLIANCE

The Group defines Year 2000 compliance as the status whereby neither performance nor functionality of our financial and operational systems are affected by dates prior to, during and after the year 2000. If Year 2000 compliance is not achieved on time, the Group's computers may not be able to recognise the turn of the century, which may result in erroneous processing and recording of data and information, exposing the Group and its business to potential disruption.

The Group fully understands the risks and uncertainties in association with the Year 2000 issue. In July 1996, the Group formed a Year 2000 Compliance Steering Committee which is led by an executive director and the manager of the Management Information System department with the support from Managers across the various departments to draw up mitigation plans to cover all material aspects of the Group's business operations. Our Committee reports and monitors the progress on the compliance of computer systems as well as all equipment with embedded processors.

The Group has completed the assessment of risks associated with the Year 2000 problem. All corrective measures to attain Year 2000 compliance on computer systems have been completed, tested, and implemented successfully. Similarly, all equipment that has embedded processors has been tested for compliance. The non-compliant ones have been either replaced or upgraded and the remaining has been verified to be fully Year 2000 compliant. A survey of the Year 2000 readiness of our major suppliers and customers has been conducted since January, 1998. None of them have reported potential incapability of their business systems to transit into Year 2000. In addition, a contingency plan has been set up in place for mission-critical systems to ensure business continuity in case of system failure due to Year 2000 non-compliance. The Group achieved full Year 2000 compliance in June, 1999.

Costs which have been incurred or which the Group have committed to further incur on the compliance project are not considered to be significant to the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st March, 1999, except that the appointment of non-executive directors of the Company are not for specific terms.

AUDITORS

Our auditors, Coopers & Lybrand, have merged their practice with Price Waterhouse and now practise in the name of PricewaterhouseCoopers. They have signed the auditors' report in their new name. PricewaterhouseCoopers, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the Annual General Meeting.

On behalf of the Board



Wong Tek Sun, Takson
Chairman

Hong Kong, 28th July, 1999



羅兵咸永道會計師事務所

PricewaterhouseCoopers
23rd Floor, Sunning Plaza
10 Hysan Avenue
Hong Kong

TO THE SHAREHOLDERS OF TAKSON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 16 to 40 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 to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of 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 Company's and the Group's circumstances, consistently applied and adequately disclosed.

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, in all material respects, of the state of affairs of the Company and the Group as at 31st March, 1999 and of the profit 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, 28th July, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
Turnover	2	<u>357,221</u>	<u>378,767</u>
Operating profit before taxation	3		
Continuing operations excluding exceptional item		51,734	55,892
Exceptional item	4	-	2,019
Profit before taxation from ordinary activities		51,734	57,911
Taxation	5(a)	<u>(3,855)</u>	<u>(6,182)</u>
Profit attributable to the shareholders	6	47,879	51,729
Retained profits brought forward		<u>77,743</u>	<u>36,814</u>
Total available for appropriation		125,622	88,543
Dividends	7	<u>(46,800)</u>	<u>(10,800)</u>
Retained profits carried forward		<u>78,822</u>	<u>77,743</u>
Basic earnings per share	8	<u>13.3 cents</u>	<u>16.5 cents</u>
Diluted earnings per share	8	<u>13.0 cents</u>	<u>16.5 cents</u>

	Notes	1999 HK\$'000	1998 HK\$'000
Intangible assets	11	1,310	1,428
Fixed assets	12	73,087	75,952
Current assets	14	175,014	188,249
Current liabilities	17	91,318	108,388
Net current assets		83,696	79,861
		<u>158,093</u>	<u>157,241</u>
<i>Financed by:</i>			
Share capital	18	36,000	36,000
Reserves	19	120,984	119,905
Shareholders' funds		156,984	155,905
Non-current liabilities	21	1,109	1,336
		<u>158,093</u>	<u>157,241</u>

On behalf of the Board



Wong Tek Sun, Takson
Director

On behalf of the Board



Cheung Man Ki
Director

	Notes	1999 HK\$'000	1998 HK\$'000
Investment in subsidiaries	13	164,221	189,312
Current assets			
Accounts receivable and prepayments		295	115
Cash and bank balances		13	7
		308	122
Current liabilities			
Other payables and accrued charges		1,028	4,331
Taxation	5(b)	44	378
Proposed dividend	7	18,000	10,800
		19,072	15,509
Net current liabilities		(18,764)	(15,387)
		145,457	173,925
<i>Financed by:</i>			
Share capital	18	36,000	36,000
Reserves	19	109,457	137,925
Shareholders' funds		145,457	173,925

On behalf of the Board



Wong Tek Sun, Takson
Director

On behalf of the Board



Cheung Man Ki
Director

	Notes	1999 HK\$'000	1998 HK\$'000
Net cash inflow from operating activities	23	56,949	26,014
Returns on investments and servicing of finance			
Interest received		3,535	4,594
Interest paid		(7,347)	(9,889)
Interest element of finance leases and hire purchase contracts		(61)	(101)
Dividends received		169	–
Dividends paid		(39,600)	(19,000)
Net cash outflow from returns on investments and servicing of finance		(43,304)	(24,396)
Taxation			
Hong Kong profits tax paid		(8,545)	(3,390)
Overseas tax paid		(4)	(51)
Total tax paid		(8,549)	(3,441)
Investing activities			
Payments on renewal of trademarks		(41)	–
Purchases of fixed assets		(778)	(911)
Purchases of short-term investments		(742)	(1,622)
Proceeds from disposal of fixed assets		705	94
Net cash outflow from investing activities		(856)	(2,439)
Net cash inflow/(outflow) before financing		4,240	(4,262)
Financing	24		
Proceeds from new issue		–	90,000
Expenses paid in connection with new issue		–	(15,378)
Repayment of bank loans		(1,618)	(26,764)
Payment of capital element of finance leases and hire purchase contracts		(581)	(947)
Net cash (outflow)/inflow from financing		(2,199)	46,911
Increase in cash and cash equivalents		2,041	42,649
Cash and cash equivalents brought forward		33,090	(9,566)
Effect of foreign exchange rate changes		(4)	7
Cash and cash equivalents carried forward	25	35,127	33,090

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

(a) Basis of preparation

The Group accounts include the accounts of the Company and its subsidiaries as at 31st March, 1999 and of the results for the year then ended. The results for the year ended 31st March, 1998 were prepared on a combined basis as if the current Group structure had been in existence throughout the accounting period presented or since the dates of incorporation or acquisition of the respective subsidiaries, whichever is the shorter period.

(b) Basis of consolidation

- (i) The Group accounts include the accounts of the Company and its subsidiaries as at 31st March, 1999 and of the results for the year then ended. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.
- (ii) A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its Board of Directors.
- (iii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or up to the effective dates of disposal. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the profit and loss account. The Company's interest in subsidiaries are stated at cost less any provision made to the extent that directors consider significant permanent diminution in value has taken place. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.
- (iv) Reserve on consolidation arising from the exchange of shares on group reorganisation represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof.

(c) Revenue

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Income from sample charges is recognised when samples are approved by customers.

Dividend income is recognised when the right to receive payment is established.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme for all the employees (except for directors) of a subsidiary of the Company. Both the Group and employees are required to contribute each month an amount equal to 5% of the basic salary respectively. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions to this scheme are expensed as incurred and are reduced by contributions and related accrued interest forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(e) Intangible assets

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

(f) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost less accumulated depreciation and any provision required to reflect recoverable amount. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) Amortisation of leasehold land

Amortisation of leasehold land is calculated to write off its cost over the unexpired period of the lease on a straight line basis. The principal annual rate used for this purpose is 2%.

(iii) Depreciation of leasehold buildings

Depreciation of leasehold buildings is calculated to write off their cost over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter. The principal annual rate used for this purpose is 2%.

(iv) Leasehold improvements and other tangible fixed assets

Leasehold improvements and other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of leasehold improvements and other tangible fixed assets is calculated to write off their cost on the reducing balance basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Leasehold improvements	10–15%
Furniture and fixtures	10–15%
Machinery, equipment and tools	10–15%
Motor vehicles	10–15%
Office and computer equipment	10–33%

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Fixed assets *(continued)*

(v) *Impairment of fixed assets*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Expected future cash flows have not been discounted in determining the recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value of disposal. The amount of the reduction to recoverable amount is charged to the profit and loss account.

(vi) *Gain or loss on disposal of fixed assets*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(vii) *Cost of restoring and improving fixed assets*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(viii) *Leased assets*

Where leases are acquired through finance leases or hire purchase contracts under which substantially all risks and rewards of ownership, other than legal title, are transferred to the Group, the assets are treated as if they had been purchased. An amount equivalent to the cost is recorded as a fixed asset. The corresponding lease commitments are shown as obligations under finance leases and hire purchase contracts. Payments to the lessor are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account. Assets held under finance leases or hire purchase contracts are depreciated over their estimated useful lives.

All other leases are accounted for as operating leases and the rental payments are charged to the profit and loss account over the duration of the leases.

(g) Short-term investments

Listed investments held for short-term purposes are stated at the lower of cost and market value on an aggregate portfolio basis.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Inventories

Inventories, including goods held for resale, are stated at the lower of cost and net realisable value.

Cost includes direct materials, shipment costs and subcontracting expenses. In general, cost are assigned to individual items on the first-in-first-out basis.

Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the cost of realisation, and where appropriate the cost of conversion from their existing state to a finished condition.

(i) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(l) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2. TURNOVER AND REVENUE

	Group	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of garments	<u>357,221</u>	<u>378,767</u>
Total revenue		
Sales of garments	357,221	378,767
Interest income	3,535	4,594
Income from sample charges	508	1,059
Dividend income from short-term investments	<u>169</u>	<u>–</u>
	<u>361,433</u>	<u>384,420</u>

3. OPERATING PROFIT BEFORE TAXATION

The operating profit before taxation is stated after charging:

	Group	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	244,501	242,530
Amortisation of trademarks	163	162
Auditors' remuneration		
– current year	608	465
– underprovision in previous years	239	43
Depreciation of owned fixed assets	2,919	3,376
Depreciation of fixed assets under finance leases and hire purchase contracts	252	451
Operating lease rentals in respect of		
– land and buildings	999	2,114
– machinery and equipment	154	223
Interest expense on bank loans and overdrafts		
– wholly repayable within five years	7,284	9,850
Interest expense on other liabilities	63	39
Interest element of finance leases and hire purchase contracts	61	101
Net exchange loss	440	422
Provision for doubtful debts	58	569
Provision for slow-moving inventories	502	–
Net loss on disposal of fixed assets	123	204
Unrealised loss on short-term investments	761	110
and after crediting:		
Net gain on disposal of short-term investments	142	–

4. EXCEPTIONAL ITEM

The exceptional item in 1998 represented interest income on subscription money received upon issuance of new shares for the listing of the Company's shares on the Stock Exchange in October, 1997.

5. TAXATION

(a) The amount of taxation in the consolidated profit and loss account represents:

	Group	
	1999 HK\$'000	1998 HK\$'000
Hong Kong profits tax		
– Current tax (i)	5,183	6,646
– Overprovision in previous years	(632)	(439)
– 10% rebate	(601)	–
– Transfer to deferred taxation account (<i>note (c)</i>)	(201)	–
Overseas taxation		
– Current tax (ii)	108	29
– Transfer to deferred taxation account (<i>note (c)</i>)	(2)	(54)
	3,855	6,182

(i) Hong Kong taxation represents the amount provided at the rate of 16% (1998: 16.5%) on the estimated assessable profit for the year.

(ii) Overseas taxation represents the tax provided by a subsidiary, calculated at the tax rate prevailing in the country in which the subsidiary operates.

(b) The amount of taxation in the balance sheet represents:

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Hong Kong	956	5,551	44	378
Overseas	104	–	–	–
	1,060	5,551	44	378

Hong Kong and overseas taxation for the Group and the Company represents the amount provided for the current and previous years less the amount of provisional tax paid.

5. TAXATION (continued)

(c) The amount of deferred taxation represents:

	Group			
	1999		1998	
	Full potential liabilities/ (assets) HK\$'000	Amount recognised HK\$'000	Full potential liabilities/ (assets) HK\$'000	Amount recognised HK\$'000
Accelerated depreciation allowances	640	754	892	957
Tax losses	(214)	–	(113)	–
	<u>426</u>	<u>754</u>	<u>779</u>	<u>957</u>

A potential deferred tax asset, which represents mainly timing differences arising from tax losses carried forward, has not been recognised in the accounts as, in the opinion of the directors, it is uncertain that such asset will be realised in the foreseeable future. At 31st March, 1999, the potential deferred tax asset amounted to approximately HK\$214,000.

Movements on the provision for deferred taxation are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
At 1st April	957	1,011
Transferred from profit and loss account (note (a))	(203)	(54)
	<u>754</u>	<u>957</u>

6. PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

Included in the profit of HK\$47,879,000 (1998: HK\$51,729,000) attributable to the shareholders of Takson Holdings Limited is HK\$18,332,000 (1998: HK\$41,911,000), which includes dividends from a subsidiary of HK\$18,000,000 (1998: HK\$40,000,000), which is dealt with in the Company's own accounts.

7. DIVIDENDS

	Company	
	1999 HK\$'000	1998 HK\$'000
Interim dividend, paid, of 8.0 cents (1998: Nil) per share	28,800	–
Final dividend, proposed, of 5.0 cents (1998: 3.0 cents) per share	18,000	10,800
	<u>46,800</u>	<u>10,800</u>

8. EARNINGS PER SHARE – GROUP

The basic and diluted earnings per share is calculated based on the profit attributable to the shareholders of HK\$47,879,000 (1998: HK\$51,729,000).

The basic earnings per share is based on the weighted average of 360,000,000 shares (1998: 313,150,684 shares) in issue during the year. The diluted earnings per share is based on 360,000,000 shares (1998: 313,150,684 shares) which is the weighted average number of shares in issue during the year plus the weighted average of 7,741,276 shares (1998: Nil shares) deemed to be issued at no consideration if all outstanding options had been exercised.

9. EMOLUMENTS OF THE DIRECTORS AND SENIOR MANAGEMENT

(a) The aggregate amounts of emoluments of the directors of the Company are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
As directors	260	140
For management		
– basic salaries and allowances	9,013	4,596
Discretionary bonuses	–	4,391
Contributions to pension scheme	–	13
	<u>9,273</u>	<u>9,140</u>

Directors' fees of HK\$260,000 (1998: HK\$140,000) represent amount payable to independent non-executive directors.

Pursuant to the terms of the Company's share option scheme, the Company had granted options to four directors to acquire 35,650,000 shares in the Company at an exercise price of HK\$0.30 per option share. The share options are exercisable at any time during the period from 15th October, 1998 to 14th October, 2000.

9. EMOLUMENTS OF THE DIRECTORS AND SENIOR MANAGEMENT (continued)

(b) The number of directors whose emoluments fell within the following bands are as follows:

Directors' emoluments HK\$	Number of directors	
	1999	1998
Nil – 1,000,000	4	7
1,000,001 – 1,500,000	1	2
2,000,001 – 2,500,000	1	–
4,500,001 – 5,000,000	1	–
5,500,001 – 6,000,000	–	1
	<u>7</u>	<u>10</u>

Except for Mr. Lang Jing, the former non-independent non-executive director of the Company, no directors had waived any emoluments during the year.

(c) The five individuals whose emoluments were the highest in the Group for the year include four directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (1998: one) individual during the year are as follows:

	1999 HK\$'000	1998 HK\$'000
Basic salaries and allowances	554	592
Bonuses	91	107
Contributions to pension scheme	27	27
	<u>672</u>	<u>726</u>

(d) The number of the five highest paid individuals whose emoluments have not been disclosed under directors' emoluments noted above fell within the following bands:

Emoluments	Number of individuals	
	1999	1998
Nil – HK\$1,000,000	<u>1</u>	<u>1</u>

10. PENSION SCHEME ARRANGEMENTS

A subsidiary of the Company operates a defined contribution retirement scheme which provides retirement benefits to its employees.

The scheme's assets are held under a provident fund managed by an independent administrator. Under the scheme, both the employer and employees are required to contribute 5% of the basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 40% to 95% after completion of 2 to 9 years' service. The forfeited contributions and the related accrued interest are to be used to reduce the employer's contribution.

The aggregate employer's contribution, net of forfeited contributions and their accrued interest, which have been dealt with in the profit and loss account for the relevant years amounted to:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Gross employer's contributions	746	790
Less: Forfeited contribution and their accrued interest utilised to offset employer's contribution for the year	(542)	(511)
Net employer's contributions charged to profit and loss account	<u>204</u>	<u>279</u>

As at 31st March, 1999, the amount of forfeited contributions and their accrued interest available to offset future employer's contributions to the scheme amounted to approximately HK\$48,000(1998: HK\$58,000).

11. INTANGIBLE ASSETS

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Trademarks, at cost		
Brought forward	2,435	2,436
Additions	41	–
Exchange difference	5	(1)
	<hr/>	<hr/>
Carried forward	2,481	2,435
	<hr/>	<hr/>
Accumulated amortisation		
Brought forward	1,007	844
Charge for the year	163	162
Exchange difference	1	1
	<hr/>	<hr/>
Carried forward	1,171	1,007
	<hr/>	<hr/>
Net book value	1,310	1,428
	<hr/> <hr/>	<hr/> <hr/>

12. FIXED ASSETS

	Group						Total HK\$'000
	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Machinery, equipment and tools HK\$'000	Motor vehicles HK\$'000	Office and computer equipment HK\$'000	
Cost							
Brought forward	68,500	2,176	4,148	1,570	2,510	8,653	87,557
Additions	-	307	17	31	356	423	1,134
Disposals	-	(385)	(134)	(1,280)	(404)	(476)	(2,679)
Carried forward	68,500	2,098	4,031	321	2,462	8,600	86,012
Aggregate depreciation							
Brought forward	1,370	1,058	2,520	1,094	1,217	4,346	11,605
Charge for the year	1,370	169	248	29	210	1,145	3,171
Disposals	-	(147)	(126)	(976)	(184)	(418)	(1,851)
Carried forward	2,740	1,080	2,642	147	1,243	5,073	12,925
Net book value at							
31st March, 1999	65,760	1,018	1,389	174	1,219	3,527	73,087
Net book value at							
31st March, 1998	67,130	1,118	1,628	476	1,293	4,307	75,952

- (i) Leasehold land and buildings are situated in Hong Kong, and held under medium-term leases and for the Group's own use.
- (ii) As at 31st March, 1999, the leasehold land and buildings were charged to banks to secure banking facilities granted to the Group (note 27).
- (iii) Cost, accumulated depreciation and net book value of fixed assets held under finance leases and hire purchase contracts as at 31st March, 1999 are as follows:

	Group		Net book value HK\$'000
	Cost HK\$'000	Accumulated depreciation HK\$'000	
Motor vehicles	913	199	714
Office and computer equipment	689	371	318
	1,602	570	1,032

13. INVESTMENT IN SUBSIDIARIES

	Company	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	68,192	68,192
Amount due from a subsidiary	96,029	121,120
	<u>164,221</u>	<u>189,312</u>

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

At 31st March, 1999, the Company held shares in the following subsidiaries:

Company	Place and date of incorporation/ registration	Issued share capital/ registered capital	Attributable equity interest	Principal activities and place of operation
<i>Shares held directly:</i>				
Reunification Holdings Limited	British Virgin Islands 1st July, 1997	Ordinary US\$1	100%	Investment holding in Hong Kong
Takson (B.V.I.) Limited	British Virgin Islands 3rd January, 1996	Ordinary US\$1,000	100%	Investment holding
<i>Shares held indirectly:</i>				
Fan Shing Trading Company Limited	Hong Kong 14th December, 1971	Ordinary HK\$500,000	100%	Trading of outerwear garments supplied by a group company in Hong Kong
Pinghe Takson Down Garment Co., Limited, Fujian*	The People's Republic of China (the "PRC") 21st September, 1994	Registered Capital US\$880,000	100%	In the process of liquidation
Powderhorn Establishment*	Liechtenstein 28th September, 1993	Swiss Franc 30,000	100%	Holding of trademarks in Liechtenstein
Takson Down Manufacturing Company Limited	Hong Kong 15th March, 1988	Ordinary HK\$1,000,000	100%	Inactive

13. INVESTMENT IN SUBSIDIARIES (continued)

Company	Place and date of incorporation/ registration	Issued share capital/ registered capital	Attributable equity interest	Principal activities and place of operation
<i>Shares held indirectly: (continued)</i>				
Takson Down Manufacturing, Inc.*	The United States of America 12th February, 1988	Ordinary US\$200,000	100%	Trading of outerwear garments supplied by a group company in the United States of America
Takson Garment Manufacturing Company, Limited	Hong Kong 15th April, 1977	Ordinary HK\$200,000	100%	Sourcing and sales of outerwear garments in Hong Kong
Takson Garment Services Limited	British Virgin Islands 15th December, 1992	Ordinary US\$10	100%	Contracting agency in the PRC
Takson Properties Limited	British Virgin Islands 3rd January, 1996	Ordinary US\$1	100%	Property holding in Hong Kong

* Subsidiaries not audited by PricewaterhouseCoopers, Hong Kong. The aggregate net assets of such companies amounted to approximately 2% of the Group's total net assets.

14. CURRENT ASSETS

	Group	
	1999 HK\$'000	1998 HK\$'000
Inventories (note 15)	66,605	29,065
Accounts receivable and prepayments	44,849	96,872
Short-term investments (note 16)	1,635	1,512
Time deposits (note 27)	60,336	60,079
Cash and bank balances	1,589	721
	175,014	188,249

15. INVENTORIES

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Raw materials	51,336	7,584
Work in progress	13,789	20,052
Finished goods	1,480	1,429
	<u>66,605</u>	<u>29,065</u>

At 31st March, 1999, the carrying amount of inventories that are carried at net realisable value amounted to HK\$66,605,000 (1998: HK\$29,065,000).

16. SHORT-TERM INVESTMENTS

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Listed Hong Kong shares, at cost	2,506	1,622
Less: provision for diminution in value	871	110
	<u>1,635</u>	<u>1,512</u>
Market value as at 31st March	<u>1,635</u>	<u>1,512</u>

17. CURRENT LIABILITIES

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Accounts payable, bills payable and accrued charges	18,450	35,498
Trust receipt and export packing loans (<i>note 27</i>)	43,793	47,775
Obligations under finance leases and hire purchase contracts (<i>note 22</i>)	257	458
Proposed dividends (<i>note 7</i>)	18,000	10,800
Taxation (<i>note 5(b)</i>)	1,060	5,551
Bank overdrafts – secured (<i>note 27</i>)	9,758	8,306
	<u>91,318</u>	<u>108,388</u>

18. SHARE CAPITAL

	Company	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
360,000,000 ordinary shares of HK\$0.10 each	<u>36,000</u>	<u>36,000</u>

On 23rd September, 1997, a share option scheme was approved by the shareholders of the Company under which the directors may, at their discretion, invite employees and directors of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

During the year, the details of the share options granted pursuant to the share option scheme of the Company are as follows:

Date of grant	Subscription price per option share <i>HK\$</i>	Number of option share	
		Granted during the year	Balance at end of year
15th April, 1998	0.30	<u>36,000,000</u>	<u>36,000,000</u>

The share options are exercisable from 15th October, 1998 up to 14th October, 2000. During the year, no option has been exercised or cancelled under the scheme.

19. RESERVES

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Share premium				
Balance brought forward and carried forward	<u>38,822</u>	<u>38,822</u>	<u>38,822</u>	<u>38,822</u>
Contributed surplus (note (a))				
Balance brought forward and carried forward	<u>–</u>	<u>–</u>	<u>67,992</u>	<u>67,992</u>
Exchange fluctuation reserve				
Balance brought forward	<u>126</u>	<u>131</u>	<u>–</u>	<u>–</u>
Exchange difference arising from translation of accounts of overseas subsidiaries	<u>–</u>	<u>(5)</u>	<u>–</u>	<u>–</u>
Balance carried forward	<u>126</u>	<u>126</u>	<u>–</u>	<u>–</u>
Reserve on consolidation				
Balance brought forward	<u>3,214</u>	<u>3,406</u>	<u>–</u>	<u>–</u>
Movement for the year	<u>–</u>	<u>(192)</u>	<u>–</u>	<u>–</u>
Balance carried forward	<u>3,214</u>	<u>3,214</u>	<u>–</u>	<u>–</u>
Retained profits				
Balance brought forward	<u>77,743</u>	<u>36,814</u>	<u>31,111</u>	<u>–</u>
Profit for the year	<u>47,879</u>	<u>51,729</u>	<u>18,332</u>	<u>41,911</u>
Dividends (note 7)	<u>(46,800)</u>	<u>(10,800)</u>	<u>(46,800)</u>	<u>(10,800)</u>
Balance carried forward	<u>78,822</u>	<u>77,743</u>	<u>2,643</u>	<u>31,111</u>
	<u>120,984</u>	<u>119,905</u>	<u>109,457</u>	<u>137,925</u>

(a) Contributed surplus

The contributed surplus at 31st March, 1999 of HK\$67,992,000 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 exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if 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.

20. DISTRIBUTABLE RESERVES

At 31st March, 1999, the reserves of the Company available for distribution amounted to approximately HK\$70,635,000 (1998: HK\$99,103,000).

21. NON-CURRENT LIABILITIES

Details of non-current liabilities are as follows:

	Group	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Obligations under finance leases and hire purchase contracts (<i>note 22</i>)	355	379
Deferred taxation (<i>note 5(c)</i>)	754	957
	<u>1,109</u>	<u>1,336</u>

22. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The obligations under finance leases and hire purchase contracts are repayable as follows:

	Group	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	257	458
In the second year	178	195
In the third to fifth year	177	184
	<u>612</u>	<u>837</u>

23. RECONCILIATION OF OPERATING PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group	
	1999 HK\$'000	1998 HK\$'000
Operating profit before taxation	51,734	57,911
Amortisation of trademarks	163	162
Depreciation of owned fixed assets	2,919	3,376
Depreciation of fixed assets held under finance leases and hire purchase contracts	252	451
Net loss on disposal of fixed assets	123	204
Net gain on disposal of short-term investments	(142)	–
Unrealised loss on short-term investments	761	110
(Increase)/decrease in inventories	(37,540)	16,156
Decrease/(increase) in accounts receivable and prepayments	52,023	(71,416)
Decrease in amount due from intermediate holding company	–	14,381
Decrease in accounts payable, bills payable and accrued charges	(17,048)	(717)
Dividend received	(169)	–
Interest received	(3,535)	(4,594)
Interest on bank loans, overdrafts and other liabilities	7,347	9,889
Interest element of finance leases and hire purchase contracts	61	101
	<u>56,949</u>	<u>26,014</u>
Net cash inflow from operating activities	<u>56,949</u>	<u>26,014</u>

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including share premium) HK\$'000	Group	
		Bank loans HK\$'000	Finance leases and hire purchase obligations HK\$'000
Balance at 1st April, 1998	74,822	28,371	837
Repayment of bank loans	–	(1,618)	–
Payment of capital element of finance leases and hire purchase contracts	–	–	(581)
Inception of finance leases	–	–	356
	<u>74,822</u>	<u>26,753</u>	<u>612</u>
Balance at 31st March, 1999	<u>74,822</u>	<u>26,753</u>	<u>612</u>

25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Time deposits	60,336	60,079
Cash and bank balances	1,589	721
Trust receipt and export packing loans	(43,793)	(47,775)
Bank overdrafts	(9,758)	(8,306)
Less: Trust receipt and export packing loans repayable more than three months from the date of advance	26,753	28,371
	<u>35,127</u>	<u>33,090</u>

26. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$356,000 (1998: HK\$592,000).

27. BANKING FACILITIES

As at 31st March, 1999, the Group's banking facilities amounting to HK\$273,625,000 (1998: HK\$183,420,000) were secured by the following:

- (i) charge on bank deposits of the Group amounting to HK\$22,562,500 (1998: HK\$12,644,000);
- (ii) first, second and third legal charges over properties held by a subsidiary with an aggregate carrying value of HK\$65,760,000 (1998: HK\$67,130,000) (note 12); and
- (iii) corporate guarantees from the Company and certain subsidiaries of the Group.

28. COMMITMENTS

- (a) As at 31st March, 1999, the Group had capital commitments not provided for in the accounts as follows:

	Group	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Contracted but not provided for in respect of motor vehicle	<u>1,258</u>	<u>–</u>

28. COMMITMENTS (continued)

- (b) As at 31st March, 1999, the Group had commitments under operating leases to make payments in the next financial year as follows:

	Group			
	1999		1998	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Leases which expire:				
Within one year	54	14	149	95
In the second to fifth year inclusive	–	–	737	–
	<u>54</u>	<u>14</u>	<u>886</u>	<u>95</u>

29. CONTINGENT LIABILITIES

- (i) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. Such facilities utilised as at 31st March, 1999 amounted to HK\$53,515,000 (1998: HK\$55,869,000).
- (ii) As at the year end, 13 (1998: 15) employees have completed the required number of years of service under the Employment Ordinance to be eligible for long service payment on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance.

If termination of employment of all these employees meet the circumstances specified in the Ordinance, the Group's liability at the balance sheet date would be approximately HK\$419,000 (1998: HK\$937,000). No provision has been made for this amount in the accounts as it is expected that the amount will not crystallise in the foreseeable future.

30. ULTIMATE HOLDING COMPANY

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

31. POST BALANCE SHEET DATE EVENT

Subsequent to 31st March, 1999, the Group reduced its banking facilities to HK\$254,925,000 and the legal charges over properties held by a subsidiary (note 27) were released and replaced by an additional charge on bank deposits amounting to HK\$3,800,000.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28th July, 1999.

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

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000
Turnover	357,221	378,767	385,903	248,247	185,888
Operating profit before taxation					
Continuing operations excluding exceptional item	51,734	55,892	32,133	18,374	17,160
Exceptional item	–	2,019	–	(643)	–
Profit before taxation from ordinary activities	51,734	57,911	32,133	17,731	17,160
Taxation	(3,855)	(6,182)	(2,682)	(2,273)	(1,128)
Profit attributable to the shareholders	47,879	51,729	29,451	15,458	16,032
Retained profits brought forward	77,743	36,814	26,363	35,905	19,873
Total available for appropriation	125,622	88,543	55,814	51,363	35,905
Dividends	(46,800)	(10,800)	(19,000)	(25,000)	–
Retained profits carried forward	78,822	77,743	36,814	26,363	35,905
Total assets	249,411	265,629	174,061	244,777	196,758
Current liabilities	(91,318)	(108,388)	(132,233)	(153,725)	(130,582)
	158,093	157,241	41,828	91,052	66,176
Share capital	36,000	36,000	8	3,410	3,410
Reserves	42,162	42,162	3,537	102	42
Retained profits	78,822	77,743	36,814	26,363	35,905
Shareholders' funds	156,984	155,905	40,359	29,875	39,357
Non-current liabilities	1,109	1,336	1,469	61,177	26,819
	158,093	157,241	41,828	91,052	66,176

The results, assets and liabilities for each of the four years ended 31st March, 1998 were prepared on a combined basis as if the current Group structure had been in existence throughout the accounting period presented or since the dates of incorporation or acquisition of the respective subsidiaries, whichever is the shorter period.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Takson Holdings Limited (the “Company”) will be held at Aberdeen Room (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 8th September, 1999 at 4:00 p.m. for the following purposes:

1. To receive and consider the audited accounts and the reports of the directors and the auditors for the year ended 31st March, 1999.
2. To declare a final dividend for the year ended 31st March, 1999.
3. To re-elect the retiring director and to authorise the directors to fix his remuneration.
4. To re-appoint the auditors and to authorise the directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without amendments the following Resolutions as Ordinary Resolutions:

A. **“THAT:**

- (a) subject to paragraph (c) below and in substitution for all previous authorities, 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 share capital of the Company or securities convertible into shares of the Company or options, warrants or similar rights to subscribe for any shares of the Company, and to make or grant offers, agreements, options and other rights, or issue warrants and other securities including bonds, debentures and notes convertible into shares of the Company, which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements, options and other rights, or issue warrants and other securities, which would or might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or to be 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) above, otherwise than pursuant to or in consequence of:
 - (i) a Rights Issue (as hereinafter defined); or
 - (ii) the exercise of any option under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares of the Company or rights to acquire shares of the Company; or
 - (iii) any script 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 Bye-laws of the Company; or
 - (iv) any adjustment, after the date of grant or issue of any options, rights to subscribe or other securities referred to above, in the price at which shares in the Company shall be subscribed, and/or in the number of shares in the Company which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities; or
 - (v) a specified authority granted by the shareholders of the Company in general meeting;

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes 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 expiry of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any other applicable laws of Bermuda to be held; or
- (iii) the revocation, variation or renewal of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares in the Company, or an offer of warrants, options or other securities giving rights to subscribe for shares, open for a period fixed by the directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject in all cases 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 recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. **“THAT:**

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares 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 recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company repurchased by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the authority pursuant to paragraph (a) above shall be limited accordingly; and

(c) for the purposes 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 expiry of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any other applicable laws of Bermuda to be held; or
- (iii) the revocation, variation or renewal of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- C. “**THAT** conditional upon the passing of Resolution numbered 5B, the general mandate granted to the directors of the Company (pursuant to Resolution numbered 5A or otherwise) and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares in the share capital of the Company or securities convertible into shares of the Company or options, warrants or similar rights to subscribe for any shares of the Company, and to make or grant offers, agreements, options and other rights, or issue warrants and other securities including bonds, debentures and note convertible into shares of the Company, which would or might require the exercise of such powers pursuant to Resolution numbered 5A above, be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted by the Resolution numbered 5B above, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution.”

By Order of the Board
Cheung Man Ki
 Company Secretary

Hong Kong, 28th July, 1999

Head Office and Principal Place of Business in Hong Kong:

5/F., South Wing, Harbour Centre
 Tower One, 1 Hok Cheung Street
 Hunghom
 Kowloon
 Hong Kong

Notes:

1. Every member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority must be deposited at the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited, at 10/F., Caroline Centre, 28 Yun Ping Road, Causeway Bay, Hong Kong, not less than 48 hours before the time appointed for holding the above meeting (or at any adjournment thereof).
3. The register of members of the Company will be closed from Thursday, 2nd September, 1999 to Wednesday, 8th September, 1999, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited at the above address not later than 4:00 p.m. on Wednesday, 1st September, 1999.
4. An explanatory statement containing further details regarding the Resolution numbered 5 will be sent to shareholders together with the annual report of the Company for the year ended 31st March, 1999.