



# **Takson Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

## **Interim Report**

For the six months ended 30 September 2000

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## **MANAGEMENT COMMENTARY**

The Board of Directors of Takson Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries and a jointly controlled entity (together the “Group”) for the six months ended 30 September 2000.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review**

The Group’s unaudited consolidated turnover and profit attributable to shareholders for the six months ended 30 September 2000 amounted to HK\$419 million and HK\$21 million, representing an 18% increase and a 65% decrease, respectively.

During the period under review, the Group reported a drop in profitability despite an impressive growth in turnover. This is a result of the Group’s strategy of expanding its share of the US market in preparing itself for the gradual reduction of garment quota restrictions in China upon China’s accession to the World Trade Organisation. Although this business move subjected the Group to substantial downward price pressure, thereby reducing the profit margin, the Board believes that in the longer term, the growth in turnover, coupled with the reduction in costs, resulting from the eventual abolition of the quota premium, will help the Group in achieving a better profit margin and an improvement in its profitability.

The Group’s representative office in Shanghai has already started operation functioning as the hub of the Group’s production network.

The US market contributed more than 90% of the Group’s total turnover in the period, playing a consistent and dominant role in the Group’s overall sales performance.

As in the past, the Group continued to sustain good liquidity position without any long term debt funding.

### **Prospects**

#### *Outerwear garment business*

The full year order book is expected to generate revenue surpassing previous period. The Board believes that the Group now stands in good stead in taking advantage of the increasing role of China as a major international garment exporter.

### *Technology-related joint venture*

The Group, together with its joint venture partner, is re-assessing the business prospects of the technology-related joint venture in Beijing given the less than favourable prevailing industry and market conditions. Not helped by the sheer amount of investment required and its uncertain returns, both parties are evaluating all available options including terminating the agreement. In the event that such decision becomes the preferred option, the Group's earlier capital contribution which now remains in the form of a Hong Kong dollar bank deposit is expected to be returned to the Group. In the event of termination of the project, the Group may incur some expenses and costs which are not expected to be material.

### *E-commerce*

The Group is optimistic about the launch of its own business-to-business sourcing portal to the garment-specific import-export market worldwide. Formal launch of this portal website is expected to take place by the first quarter of year 2001.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the six months ended 30 September 2000. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

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

On 23 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 period, no share options have been granted to or exercised by the Company's directors. Details of outstanding share options as at 30 September 2000 were as follows:

<b>Director</b>	<b>Date of grant</b>	<b>Subscription price per share option</b>	<b>Outstanding number of share options as at 30 September 2000</b>
Wong Tek Sun, Takson	15 April 1998	HK\$0.30	9,000,000
Pang Shu Yuk, Adeline Rita	15 April 1998	HK\$0.30	9,000,000
Lian Cheng Chi	15 April 1998	HK\$0.30	1,000,000
Cheung Man Ki	15 April 1998	HK\$0.30	2,400,000

The share options were exercisable from 15 October 1998 up to 14 October 2000.

Apart from the aforesaid, at no time during the period was the Company, its holding company, its fellow subsidiaries or its subsidiaries a party to any arrangement to enable the directors and chief executives or their spouse or children under 18 years of age of the Company to acquire benefits by means of acquisition of equity in, or debt securities of, the Company or any other body corporate.

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

As at 30 September 2000, the interests of directors, chief executives and their associates of the Company in the shares of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)) as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to 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	1,018,000	–	237,600,000 <i>(Note 1)</i>	237,600,000 <i>(Note 1)</i>	238,618,000	9,000,000 <i>(Note 2)</i>	
Pang Shu Yuk, Adeline Rita	–	237,600,000 <i>(Note 1)</i>	–	237,600,000 <i>(Note 1)</i>	238,618,000	9,000,000 <i>(Note 2)</i>	
		1,018,000					
Lian Cheng Chi	8,000,000	–	–	–	8,000,000	1,000,000	
Cheung Man Ki	6,250,000	–	–	–	6,250,000	2,400,000	

### *Notes:*

- The 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 share capital of the Company and 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.

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

Save as disclosed above, as at 30 September 2000, 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**

As at 30 September 2000, as far as the Directors are aware, the interests of the substantial shareholders in the shares of the Company were as follows:

<b>Name of substantial shareholder</b>	<b>Number of ordinary shares</b>
Wangkin Investments Inc. <i>(Note 1)</i>	237,600,000
Takson International Holdings Limited <i>(Note 1)</i>	237,600,000
China Sci-Tech Holdings Limited <i>(Note 2)</i>	71,848,000
Vigor Online Offshore Limited <i>(Note 2)</i>	71,848,000
China Online (Bermuda) Limited <i>(Note 2)</i>	71,848,000
Besford International Limited <i>(Note 2)</i>	71,848,000
Taskwell Limited <i>(Note 2)</i>	71,848,000

Apart from the aforesaid, no person was recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company as at 30 September 2000.

### *Notes:*

- Takson International Holdings Limited is a wholly owned subsidiary of Wangkin Investments Inc. Therefore, all of these shares are entirely duplicated.
- Taskwell Limited is a wholly owned subsidiary of Besford International Limited, which is a company wholly owned by China Online (Bermuda) Limited. China Sci-Tech Holdings Limited through two of its wholly owned subsidiaries, one of which being Vigor Online Offshore Limited, held more than one-third of shares in China Online (Bermuda) Limited. Therefore, all of these shares are entirely duplicated.

## **CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information which would indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2000 except that non-executive directors of the Company are not appointed for a specific term and save as previously disclosed in the press announcements regarding “public float” of the Company’s shares.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2000. At the request of the Directors, the Group’s external auditors have carried out a review of the unaudited interim financials in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2000</b>	<b>1999</b>
		<i>Notes</i>	
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>419,011</b>	356,150
<b>Cost of sales</b>		<b>(355,663)</b>	(256,493)
<b>Gross profit</b>		<b>63,348</b>	99,657
<b>Other revenues</b>		<b>1,884</b>	1,032
<b>Distribution costs</b>		<b>(9,665)</b>	(7,840)
<b>Administrative expenses</b>		<b>(23,491)</b>	(20,599)
<b>Operating profit before finance costs</b>		<b>32,076</b>	72,250
<b>Finance costs</b>		<b>(7,352)</b>	(4,374)
<b>Operating profit</b>	2, 3	<b>24,724</b>	67,876
<b>Share of loss of a jointly controlled entity</b>		<b>(1,165)</b>	–
<b>Profit before taxation</b>		<b>23,559</b>	67,876
<b>Taxation</b>	4	<b>(2,792)</b>	(8,351)
<b>Profit attributable to shareholders</b>		<b>20,767</b>	59,525
<b>Retained profits at 1 April</b>		<b>84,438</b>	78,822
<b>Total available for appropriation</b>		<b>105,205</b>	138,347
<b>Interim dividend</b>	5	–	(3,600)
<b>Retained profits at 30 September</b>		<b>105,205</b>	134,747
<b>Basic earnings per share</b>	6	<b>5.54 cents</b>	16.53 cents
<b>Diluted earnings per share</b>	6	<b>5.31 cents</b>	15.57 cents



# CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>30 September</b>	31 March
		<b>2000</b>	2000
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Intangible assets</b>		<b>1,075</b>	1,158
<b>Fixed assets</b>		<b>71,146</b>	72,217
<b>Investment in a jointly controlled entity</b>		<b>14,128</b>	15,076
<b>Current assets</b>			
Inventories		<b>24,650</b>	74,146
Trade receivables and prepayments	7	<b>160,377</b>	62,714
Time deposits		<b>116,618</b>	54,660
Pledged time deposits		<b>30,758</b>	27,737
Cash and bank balances		<b>12,481</b>	5,279
		<b>344,884</b>	224,536
<b>Current liabilities</b>			
Trade payables and accrued charges	8	<b>33,215</b>	15,944
Trust receipt and export packing loans		<b>166,126</b>	40,703
Bank loans – secured		<b>35,000</b>	35,000
Obligations under finance leases and hire purchase contracts		<b>439</b>	417
Proposed dividend		–	41,206
Taxation payable		<b>6,306</b>	6,788
Bank overdrafts – secured		<b>1,373</b>	4,762
		<b>242,459</b>	144,820
<b>Net current assets</b>		<b>102,425</b>	79,716
		<b>188,774</b>	168,167
<b>Financed by:</b>			
<b>Share capital</b>		<b>37,460</b>	37,460
<b>Reserves</b>	9	<b>150,219</b>	129,440
<b>Shareholders' funds</b>		<b>187,679</b>	166,900
<b>Long-term liabilities</b>		<b>1,095</b>	1,267
		<b>188,774</b>	168,167

# CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 September	
	2000	1999
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(142)</b>	<b>39,780</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	1,695	971
Interest paid	(7,302)	(4,296)
Interest element of finance leases and hire purchase contracts	(50)	(78)
Dividends received	–	12
Dividends paid	(41,206)	(18,000)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(46,863)</b>	<b>(21,391)</b>
<b>Taxation</b>		
Hong Kong profits tax paid	(3,274)	(1,452)
Overseas taxation paid	–	(86)
<b>Total taxation paid</b>	<b>(3,274)</b>	<b>(1,538)</b>
<b>Investing activities</b>		
Additions for trademarks	–	(13)
Purchases of fixed assets	(328)	(1,039)
Decrease in investment in a jointly controlled entity	1,153	–
Increase in amount due from a jointly controlled entity	(205)	–
Proceeds from sales of other investments	–	1,694
Proceeds from disposal of fixed assets	24	175
<b>Net cash inflow from investing activities</b>	<b>644</b>	<b>817</b>
<b>Net cash (outflow)/inflow before financing</b>	<b>(49,635)</b>	<b>17,668</b>
<b>Financing</b>		
New bank loan	28,576	64,806
Payment of capital element of finance leases and hire purchase contracts	(218)	(606)
<b>Net cash inflow from financing</b>	<b>28,358</b>	<b>64,200</b>
<b>(Decrease)/ increase in cash and cash equivalents</b>	<b>(21,277)</b>	<b>81,868</b>
<b>Cash and cash equivalents at 1 April</b>	<b>64,584</b>	<b>35,127</b>
<b>Cash and cash equivalents at 30 September</b>	<b>43,307</b>	<b>116,995</b>

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# CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Exchange gains arising on translation of accounts of overseas subsidiaries and a jointly controlled entity</b>	<b>12</b>	–
<b>Net gains not recognised in the profit and loss account</b>	<b>12</b>	–
<b>Profit attributable to shareholders</b>	<b>20,767</b>	59,525
<b>Total recognised gains</b>	<b>20,779</b>	59,525

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

These unaudited consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2000.

### 2. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the Group’s turnover and contribution to operating profit by principal activity and market is as follows:

	<b>Turnover</b>		<b>Operating profit</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Principal activities</b>				
Sourcing, subcontracting, marketing and sale of outerwear garments	<b>419,011</b>	356,150	<b>24,756</b>	67,886
E-business	–	–	<b>(32)</b>	(10)
	<b>419,011</b>	356,150	<b>24,724</b>	67,876
<b>Principal markets</b>				
United States of America	<b>388,882</b>	294,931	<b>23,413</b>	57,074
Europe	<b>23,260</b>	34,704	<b>976</b>	6,424
Canada	<b>6,212</b>	17,888	<b>282</b>	2,713
Others	<b>657</b>	8,627	<b>53</b>	1,665
	<b>419,011</b>	356,150	<b>24,724</b>	67,876

### 3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:-

	Six months ended 30 September	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Crediting</b>		
Dividend income from listed investments	–	12
Interest income	<b>1,695</b>	971
Gain on disposal of listed investments	–	1,514
Unrealised gain on valuation of listed investments	–	498
	<u>          </u>	<u>          </u>
<b>Charging</b>		
Amortisation of trademarks	<b>83</b>	83
Depreciation	<b>1,448</b>	1,509
	<u>          </u>	<u>          </u>

### 4. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 September	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax		
Current period	<b>2,521</b>	8,369
Overprovision in previous year	<b>(4)</b>	–
	<u>          </u>	<u>          </u>
	<b>2,517</b>	8,369
Overseas taxation		
Current period	<b>275</b>	–
Overprovision in previous year	–	(18)
	<u>          </u>	<u>          </u>
	<b>275</b>	(18)
	<u>          </u>	<u>          </u>
	<b>2,792</b>	8,351
	<u>          </u>	<u>          </u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the period.

Overseas taxation represents the tax provided by a subsidiary, calculated at the tax rates prevailing in the country in which the subsidiary operates.

## 5. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2000.

	<b>Six months ended 30 September</b>	
	<b>2000</b>	1999
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interim, proposed, of HK\$ Nil (1999:HK\$0.01) per ordinary share	–	3,600
	<u>          </u>	<u>          </u>

## 6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the profit attributable to shareholders of HK\$20,767,000 (1999: HK\$59,525,000).

The basic earnings per share is based on the weighted average number of 374,600,000 (1999: 360,000,000) ordinary shares in issue during the period. The diluted earnings per share is based on 374,600,000 (1999: 360,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 16,575,472 (1999: 22,271,679) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7. TRADE RECEIVABLES AND PREPAYMENTS

Included in trade receivables and prepayments are trade debtors and their ageing analysis as at 30 September 2000 is as follows:

	<b>30 September 2000 HK\$'000</b>	31 March 2000 HK\$'000
Current	<b>90,082</b>	1,395
1 to 3 months	<b>22,836</b>	15,247
4 to 6 months	<b>1,317</b>	3,389
7 to 9 months	<b>1,555</b>	1
10 to 12 months	<b>1,992</b>	18
Over 1 year	<b>950</b>	1,188
	<hr/> <b>118,732</b>	<hr/> 21,238
Less: Provision for doubtful debts	<b>(66)</b>	(66)
	<hr/> <b>118,666</b> <hr/>	<hr/> 21,172 <hr/>

The majority of the Group's sales are on letter of credit. The remaining amounts are with credit terms of 30 days and which are mostly covered by accounts receivable purchase agreement with a factoring institution.

## 8. TRADE PAYABLES AND ACCRUED CHARGES

Included in trade payables and accrued charges are trade creditors and their ageing analysis as at 30 September 2000 is as follows:

	<b>30 September 2000 HK\$'000</b>	31 March 2000 HK\$'000
Current	<b>3,939</b>	3,672
1 to 3 months	<b>5,025</b>	1,186
4 to 6 months	<b>58</b>	725
7 to 9 months	<b>179</b>	172
10 to 12 months	<b>9</b>	–
Over 1 year	<b>748</b>	819
	<hr/> <b>9,958</b> <hr/>	<hr/> 6,574 <hr/>

## 9. RESERVES

	<b>30 September 2000 HK\$'000</b>	31 March 2000 HK\$'000
Share premium	41,742	41,742
Exchange fluctuation reserve	58	46
Reserve on consolidation	3,214	3,214
Retained profits	<b>105,205</b>	84,438
	<b><u>150,219</u></b>	<b><u>129,440</u></b>

## 10. CASH AND CASH EQUIVALENTS

	<b>30 September 2000 HK\$'000</b>	1999 HK\$'000
Time deposits	116,618	111,435
Pledged time deposits	30,758	28,262
Cash and bank balances	12,481	2,492
Trust receipt and export packing loans	<b>(166,126)</b>	(116,753)
Bank loans – secured	<b>(35,000)</b>	–
Bank overdrafts – secured	<b>(1,373)</b>	–
Less: Trust receipt, export packing and other bank loans repayable more than three months from the date of advance	<b>85,949</b>	91,559
	<b><u>43,307</u></b>	<b><u>116,995</u></b>

## 11. BANKING FACILITIES

As at 30 September 2000, the Group's banking facilities amounting to HK\$407,900,000 (31 March 2000: HK\$315,875,000) were secured by the following:

- (i) charges on bank deposits of the Group amounting to HK\$27,770,000 (31 March 2000: HK\$ 27,737,500);
- (ii) first legal charge over properties held by a subsidiary with an aggregate carrying value of HK\$63,705,000 (31 March 2000: HK\$64,390,000); and
- (iii) corporate guarantees from the Company and certain subsidiaries of the Group.



## 12. CONTINGENT LIABILITIES

- (i) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. Such facilities utilised as at 30 September 2000 amounted to approximately HK\$201,780,000 (31 March 2000: HK\$79,964,000).
- (ii) As at 30 September 2000, bills of exchange discounted with various banks with recourse amounted to approximately HK\$132,120,000 (31 March 2000: HK\$4,095,000) for the Group.

## 13. ULTIMATE HOLDING COMPANY

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

By Order of the Board  
**Wong Tek Sun, Takson**  
*Chairman*

Hong Kong, 23 November 2000