Takson Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report
And
Condensed Interim Accounts

For the six months ended 30th September, 2005

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MANAGEMENT COMMENTARY

The Board of Directors of Takson Holdings Limited (the "Company") presents the interim report and the unaudited condensed interim accounts of the Company and its subsidiaries (together the "Group") for the six months ended 30th September, 2005 ("Review Period").

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

During the Review Period, the Group has recorded a turnover of approximately HK$66.6 million, represented a decrease of 21% as compared to approximately HK$84.3 million in the corresponding period last year. Gross profit margin achieved 34%, compared to 30% in the corresponding period last year. Net loss/profit attributable to shareholders was recorded as approximately a loss of HK$2.7 million as compared to a profit of HK$1.2 million (restated) in the corresponding period last year.

Business Overview

Export Outerwear Business

In line to the export business strategy stated in the Annual Report 2004/05, the Group has been focusing on high margin customers that offered higher prices for quality products and services. The export gross margin for the review period has increased to 29% as compared to 25% for the full fiscal year 2004/05.

Licensee Business

The Group has continued to invest in marketing for brand building and channel distribution of its Licensee Business for HEAD® and Diadora. The Group has been the exclusive licensee in manufacturing, marketing and distribution of HEAD® apparel in PRC, Hong Kong and Macau since 2002. In addition, our exclusive distributorship for HEAD® rackets, accessories and winter sports equipment in PRC, Hong Kong and Macau became effective on 1st July, 2005. Also, the Group has become the exclusive licensee of Diadora for production and sales of apparel, footwear and accessories in PRC, Hong Kong and Macau since 1st January, 2005.

During the Review Period, the turnover of the Licensee Business recorded approximately HK$14.1 million as compared to HK$3.9 million in the corresponding period last year. The channel sales for the licensee business for both HEAD® and Diadora in effect started in August 2005 in which the delivery of the apparel for the fall winter season began, and the first shipment of HEAD® rackets and accessories arrived. In terms of gross margin percentage, the Licensee Business was approximately 54% as compared to 59% in last year. The drop in gross margin percentage of the Licensee Business was mainly due to increase of wholesale amount in the sales mix.

Prospects

For the export business, the Group would continue the strategy of focusing on high-end customers for higher profit margin, and to expand such customer base, and to broaden the product lines beyond outerwear.

For the brand licensee business, management of the Group is optimistic about the sales growth in the second half of 2005/06 and in the next few years with the 2006 Soccer World Cup and the 2008 Beijing Olympics. The spring summer sales meetings for Diadora and HEAD® had taken place in September and October respectively and the sales orders value placed by customers for both HEAD® and Diadora were substantially increased from the prior fall winter season. From the customer requested delivery dates in the spring summer sales orders, the majority of the goods would be delivered in this fiscal year from December 2005 to March 2006. Also, the increase sourcing of HEAD® rackets from PRC instead of from Europe in 2006 would result in lower costs and more efficient logistics, which would lead to increase of profitability for HEAD® .

Our strategy for the brand business is to work with channel partners to open franchised shops (mainly brand own shops) in order to achieve fast expansion, but without having the Group to invest in the shop fixed assets and operating costs. The Group would focus its resources in product sourcing, design, marketing and promotion, brand building and channel management.

Besides HEAD® and Diadora, the Group is in the final stage of signing up another US sports brand license in PRC to compliment its business portfolio and to leverage its established infrastructure.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with its own working capital, trade facilities and revolving bank loans provided by its principal bankers in Hong Kong. Total net cash flow used in operations amounted to approximately HK$28 million for the Review Period

The Group's net borrowings representing bank loans, overdrafts and obligations under finance leases and an interest-free director's loan amounted to approximately HK$60.4 million. Of the total amount of bank loans, overdrafts and obligations under finance lease outstanding as at the end of the Review Period 81.7% are repayable within the next year, 4.9% are repayable within the second year and the remaining balance is repayable in the third to fifth year, inclusive. The Group's bank loans and overdrafts are subject to floating interest rates while obligations under finance leases are at fixed interest rates.

The ratio of current assets to current liabilities of the Group was 0.97 as at 30th September, 2005. The Group's gearing ratio as at 30th September, 2005 was 1.4 which is calculated on the Group's total liabilities of approximately HK$94.2 million and the shareholders' fund of approximately HK$67.3 million.

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

As compared with the balance as at 31st March, 2005, the increase in current liabilities, especially in utilizated trade facilities, as at 30th September, 2005 reflected the seasonal nature of the Group's export business and this balance will drop to a lower level in the second half of the fiscal year.

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

EMPLOYEES

As at 30th September, 2005, the Group had a total of 264 employees, as compared to 240 employees as of 31st March, 2005. Staff costs including directors' remuneration totaled HK$13.4 million and HK$10.7 million for the six months ended 30th September, 2005 and 2004, respectively. The Group's employment and remuneration policies have remained unchanged with those described in the 2004/2005 annual report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th September, 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

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

At no time during the six months ended 30th September, 2005 was the Company, its holding companies, 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 the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th September, 2005, the interests and long positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Long Position

	Number of ordinary shares in the Company beneficially held				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Total interests**	**Percentage of holding**
Wong Tek Sun, Takson	4,621,600	10,800,000	285,120,000 *(Note 1)*	300,541,600	64.3%
Pang Shu Yuk, Adeline Rita	10,800,000	4,621,600	285,120,000 *(Note 1)*	300,541,600	64.3%

Note:

(1) The references to 285,120,000 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 is held by Wangkin Investments Inc. ("WII") as trustee of the Wangkin Investments Unit Trust (the "Unit Trust"). All issued and outstanding units in the Unit Trust are beneficially held by Guardian Trustee Limited as trustee of the Wang & Kin Family Trust (the "Family Trust"). The discretionary beneficiaries of the Family Trust are, inter alia, Ms Pang Shu Yuk, Adeline Rita, Mr Wong Chi Wang, Calvin, and Mr Wong Chi Kin, Christopher, both the children of Mr Wong Tek Sun, Takson and Ms Pang Shu Yuk, Adeline Rita.

Mr Wong Tek Sun, Takson, owns 50% of the issued share capital of WII and his children as, 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 285,120,000 shares in the Company under the SFO.

Ms Pang Shu Yuk, Adeline Rita, owns 50% of the issued share capital of WII and she and her children as, inter alia, discretionary beneficiaries of the Family Trust have interests in the share capital of the Company. Accordingly, she is taken to be interested in the 285,120,000 shares in the Company under the SFO.

Save as disclosed above, as at 30th September, 2005, none of the directors and chief executives (including their spouse and children under 18 years of age) had any other interests or short positions in the shares, or underlying shares in, or debentures of, the Company or of any of its associated corporations (within the meaning Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO showed that as at 30th September, 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of substantial shareholders	Number of ordinary shares held	Percentage of holding
Wangkin Investments Inc. *(Note)*	285,120,000	64.30%
Takson International Holdings Limited *(Note)*	285,120,000	64.30%

Note: Takson International Holdings Limited is a wholly-owned subsidiary of Wangkin Investments Inc. Therefore, all of these shares are entirely duplicated.

Save as disclosed herein, as at 30th September, 2005, no other person is recorded in the register of substantial shareholders maintained under Section 336 of the SFO as having an interest or short position in 5% or more of the issued share capital of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintain good corporate governance practices. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2005 in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"), except for the following deviations:

Code provision A.2.1

Under code provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Group has deviated from this code by having the chairman and chief executive officer to be the same person. Mr Takson Wong currently assumes the roles of both the chairman and chief executive officer of the Group. The Board believes that the vesting the roles of both positions in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Code provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

The Company's non-executive directors are not appointed for a specific term but are subjected to retirement by rotation and re-election at annual general meetings pursuant to Bye-law 87 of the Bye-laws of the Group.

The Board does not believe that arbitrary terms limits on Directors' service are appropriate give that Directors ought to be committed to representing the long-term interests of the shareholders.

Code provision A.5.4

Under code provision A.5.4, Directors must comply with their obligations under the Model Code set out in Appendix 10 of the Listing Rules and, in addition, the Board should establish written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The Company has deviated from this code provision as there are currently no written guidelines issued by the Board for relevant employees in respect of their dealings in the securities of the Company. The Board will review the current measures of the Company and will consider adopting such written guidelines in accordance with the code provision by this fiscal year end.

Code provision B.1.1

Under code provision B.1.1, the Company should establish a remuneration committee with specific written terms of reference.

During the period under review, the Company did not establish a remuneration committee. The Board will consider setting up a remuneration committee with specific terms of reference by the beginning of next fiscal year.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30th September, 2005.

Audit Committee

The Audit Committee comprises the two independent non-executive directors Mr Lee Kwok Cheung and Mr Chau Tsun Ming, and the non-executive director Mr Wong Tak Yuen. The Audit Committee reviews and supervises the Group's financial reporting and internal control systems.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Audit Committee *(continued)*

The Audit Committee reviews with the management and the external auditor the accounting principles and practices adopted by the Group and discusses auditing, internal control and financial matters including the review of the unaudited interim financial statements.

DISCLOSURE PURSUANT TO RULES 13.20 OF THE LISTING RULES

Pursuant to rule 13.20 of the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the details of the Group's trade receivables, which exceeded 8% of the Company's market capitalisation (the percentage ratio as defined under the Listing Rules) as at 30th September, 2005 and/or 8% of the Group's Total Assets as at 31st March, 2005 are set out below:

1. Total trade receivables due from Dillard's Store Services Inc. amounted to HK$13,108,000, which is 27.12% of the Market Capitalization as at 30th September, 2005[1] and 11.67% of Total Assets as at 31st March, 2005[2]; and

2. Total trade receivables due from Footlocker Retail Inc. amounted to HK$6,173,000, which is 12.77% of the Market Capitalization as at 30th September, 2005[1].

All the above-mentioned trade receivables were interest-free, unsecured and collateral within the credit period of 30- 45 days from the date of shipment by the Group to the Customer. All these trade receivable balances arose in accordance with the ordinary and usual course of the Group's business.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim report and the unaudited condensed interim accounts for the six months ended 30th September, 2005 with the directors.

1 Based on the average closing price of the Company's shares stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited for the period from 23rd September, 2005 to 29th September, 2005 (being the five business days immediately preceding the date of 30th September, 2005), the total market capitalization is approximately HK$48,329,000.

2 "Total Assets" is the consolidated total assets of the Group according to its latest published annual report for the year ended 31st March, 2005, amounting HK$112,356,000.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30th September,	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(restated)
Turnover	*5*	**66,591**	84,268
Cost of sales		**(43,632)**	(59,281)
Gross profit		**22,959**	24,987
Other revenues		**6,901**	1,375
Distribution costs		**(13,535)**	(8,032)
Administrative expenses		**(19,468)**	(16,544)
Operating (loss) profit	*6*	**(3,143)**	1,786
Finance costs		**(1,163)**	(818)
(Loss) profit before taxation		**(4,306)**	968
Taxation credit (charge)	*8*	**664**	(28)
(Loss) profit for the period		**(3,642)**	940
Attributable to:			
Equity holders of the Company		**(2,674)**	1,244
Minority interests		**(968)**	(304)
		(3,642)	940
Basic (loss) earnings per share for profit attributable to the equity holders of the Company during the period	*10*	**(0.57 cents)**	0.32 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at Unaudited 30th September, 2005 HK$'000	As at Audited 31st March, 2005 HK$'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	**30,239**	27,078
Investment properties	*12*	**20,459**	26,969
Leasehold land and land use rights	*12*	**28,840**	30,639
Deposit paid for purchase of office premises		**—**	2,385
Intangible assets	*11*	**—**	628
Available-for-sale asset	*13*	**600**	600
Deferred tax assets	*19*	**681**	448
		80,819	88,747
Current assets			
Inventories		**20,121**	5,598
Trade receivables	*14*	**26,112**	2,351
Other receivables and prepayments		**19,033**	4,911
Cash and cash equivalents		**15,373**	10,328
		80,639	23,188
Total assets		**161,458**	111,935
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*16*	**46,740**	38,950
Other reserves	*17*	**54,188**	59,418
Retained earnings		**(37,020)**	(34,346)
		63,908	64,022
Minority interest		**3,346**	1,975
Total equity		**67,254**	65,997

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

	Notes	As at **Unaudited 30th September, 2005** ***HK$'000***	 Audited 31st March, 2005 *HK$'000* (restated)
LIABILITIES			
Non-current liabilities			
Long-term portion of bank loans, secured	*18*	**8,536**	9,170
Finance lease obligations, long-term	*18*	**145**	325
Deferred tax liabilities	*19*	**160**	563
Retirement benefit obligations		**263**	263
Director's loan	23	**2,351**	—
		11,455	10,321
Current liabilities			
Trade payables	*15*	**12,556**	3,226
Taxation payable		**217**	238
Current portion of long-term bank loans, secured	*18*	**2,468**	22,305
Trust receipt and other bank loans		**45,945**	2,937
Bank overdraft, secured		**992**	—
Director's loan		**—**	2,500
Provisions for other liabilities and charges		**20,571**	4,411
		82,749	35,617
Total liabilities		**94,204**	45,938
Total equity and liabilities		**161,458**	111,935
Net current liabilities		**(2,110)**	(12,429)
Total assets less current liabilities		**78,709**	76,318

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
		(restated)
Total equity at 1st April, as previously reported	**64,443**	50,575
Opening adjustment for the adoption HKAS 17	**(421)**	(40)
At 1st April, as restated	**64,022**	50,535
Exchange difference arising on translation of the accounts of overseas subsidiaries	**108**	(5)
Share issued pursuant to the Rights Issue, net	**7,151**	—
Reversal of revaluation reserve for disposal of investment property	**(4,699)**	—
(Loss) profit for the period	**(2,674)**	1,244
Total equity at 30th September	**63,908**	51,774

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Net cash used in operating activities	**(28,016)**	(18,755)
Net cash generated from (used in) investing activities	**11,023**	(11,620)
Net cash generated from financing activities	**21,046**	58,418
Increase in cash and cash equivalents	**4,053**	28,043
Cash and cash equivalents at 1st April	**10,328**	24,383
Cash and cash equivalents at 30th September	**14,381**	52,426
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**15,373**	53,165
Bank overdrafts	**(992)**	(739)
	14,381	52,426

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st March, 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January, 2005.

During the Review Period , net loss attributable to shareholders of the Group was recorded approximately a loss of HK$2.7 million. The Group had net cash used in operating activities of HK$28,016,000 (31st March, 2005: HK$18,637,000) for the period ended 30th September, 2005, and as at 30th September, 2005 its current liabilities exceeded its current assets by HK$2,110,000 (31st March, 2005: HK$12,429,000). Notwithstanding these, the accounts have been prepared on a going concern basis as the directors, having considered the current operation and business plan of the Group as well as the current available banking facilities, are of the opinion that the Group will have sufficient working capital to enable it to operate as a going concern.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

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

HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 18, 21, 23, 24, 27, 33, 40 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKASs 2, 7, 8, 10, 16,18, 23, 27, 33, 40 and HKAS-Ints 12 and 15 had no material effect on the Group's policies.

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

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

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

— The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

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

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

— Amortized on a straight line basis over its estimated useful life but not exceeding 20 years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 *(Note 2.6)*:

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

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

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

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

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

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

— HKAS 40 — the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st April, 2005, including the reclassification of any amount held in revaluation surplus for investment property.

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

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

(i) The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1st April, 2005

	As at	
	30th September, 2005	31st March, 2005
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**29,302**	31,060
Increase in leasehold land and land use rights	**28,840**	30,639
Decrease in retained profits	**462**	421

	For the year ended	For the six months ended	
	31st March, 2005	**30th September, 2005**	30th September, 2004
	HK$'000	***HK$'000***	*HK$'000*
Increase in administrative expenses	382	**11**	160
Decrease in basic earning per share (cents)	0.10	**0.002**	0.04

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19	(Amendment) — Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th September, 2005 are the same as those set out in note (1) to the 2005 annual financial statements except for the following:

I. Property, plant and equipment

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

II. Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

III. Impairment of assets

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

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) New Accounting Policies *(continued)*

IV. Investments

The Group classified its other investment as non-trading securities and trading securities.

- *Non-trading securities*

  Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

  The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

  Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

- *Trading securities*

  Trading securities were carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of trading securities were recognized in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognized in the income statement as they arised.

3. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The Group regularly seeks out the most favorable interest rates available for its bank deposits and bank borrowings.

(b) Foreign exchange risk

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

(c) Credit risk

Of the HK$26 million trade receivables balance included in the condensed consolidated balance sheet, approximately HK$23 million is for export sales of which HK$16 million was covered by letters of credit. For open account sales, the Group has policies and system in place for customer credit evaluation and control.

(d) Liquidity risk

Most of the bank financing of the Group is in the form of trade facilities and revolving bank loans. Management always ensures the availability of sufficient cash and bank facilities for operating cash flow needs and to meet its liquidity requirements.

(e) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from bank balances and bank borrowings. The Group regularly seeks out the most favorable interest rates available for its bank deposits and bank borrowings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Property, plant and equipment, leasehold land and depreciation

The Group assesses annually whether property, plant and equipment, leasehold land and investment properties have any indication of impairment. The recoverable amounts of property, plant and equipment, leasehold land and investment properties have been determined based on value-in-use calculations.

These calculations require the use of judgements and estimates.

(b) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgements, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group financial statements for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgements is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Write-downs of inventories

Inventories are written down to net realizable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

5. TURNOVER AND SEGMENT INFORMATION

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

By business segment:

	Six months ended 30th September, 2005 *HK$'000*		
	Export Business	**Licensee business**	**Total**
Turnover	**52,498**	**14,093**	**66,591**
Segment operating profit (loss)	**8,374**	**(6,912)**	**1,462**
Interest income			**32**
Rental income			**541**
Unallocated costs			**(5,178)**
Operating loss			**(3,143)**
Finance costs			**(1,163)**
Loss before taxation			**(4,306)**
Taxation credit			**664**
Loss for the period			**(3,642)**

5. TURNOVER AND SEGMENT INFORMATION *(continued)*

By business segment: *(continued)*

	Six months ended 30th September, 2004 (restated) *HK$'000*		
	Export business	Licensee business	Total
Turnover	80,342	3,926	84,268
Segment operating profit (loss)	11,247	(5,612)	5,635
Interest income			445
Rental income			832
Unallocated costs			(5,126)
Operating profit			1,786
Finance costs			(818)
Profit before taxation			968
Taxation charge			(28)
Profit for the period			940

There are no sales or other transactions between the business segments.

By geographical segment:

	Turnover Six months ended 30th September,		**Segment operating profit (loss) Six months ended 30th September,**	
	2005 ***HK$'000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000* (restated)
United States of America	**36,314**	57,819	**7,078**	8,105
Europe	**11,940**	20,574	**1,557**	362
Canada	**3,458**	1,407	**(648)**	16
Hong Kong	**5,848**	1,759	**(1,119)**	(55)
PRC	**8,719**	2,279	**(5,651)**	(2,803)
Others	**312**	430	**245**	10
	66,591	84,268	**1,462**	5,635
Interest income			**32**	445
Rental income			**541**	832
Unallocated costs			**(5,178)**	(5,126)
Operating (loss) profit			**(3,143)**	1,786

6. OPERATING (LOSS) PROFIT

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

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Crediting		
Interest income	**32**	445
Rental income	**541**	832
Net exchange gain	**27**	—
Charging		
Amortization of trademarks	**—**	84
Impairment loss on goodwill	**628**	—
Depreciation/amortization charge		
Owned fixed assets	**1,537**	1,151
Leased fixed assets	**84**	99
Staff costs, including directors' emoluments *(Note 7)*	**13,416**	10,716
Provision for bad and doubtful debts	**—**	469
Net exchange losses	**—**	309

7. STAFF COSTS

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**9,192**	5,356
Retirement benefit costs	**520**	312
Total staff costs, excluding directors' emoluments	**9,712**	5,668

8. TAXATION CREDIT (CHARGE)

The amount of taxation credited (charged) to the condensed consolidated profit and loss account represents:

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**—**	—
Overseas taxation	**—**	(1)
	—	(1)
Deferred taxation relating to the origination and reversal of temporary differences	**664**	(27)
Taxation credit (charge)	**664**	(28)

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. No provision for taxation has been made as there were no assessable profits for the period.

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

9. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2005 (2004: Nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's loss attributable to shareholders of HK$2,674,000 (2004 restated: earning HK$1,244,000) for the period and on the total number of 467,400,000 (2004: 389,500,000) ordinary shares in issue during the period.

No diluted earnings per share is presented for the six months ended 30th September, 2005 and 2004 as there is no dilutive potential ordinary share for these periods.

11. INTANGIBLE ASSETS

	Goodwill *HK$'000*
Net book value at 1st April, 2005	628
Impairment loss	(628)
Net book value at 30th September, 2005	—

12. CAPITAL EXPENDITURE

	Goodwill *HK$'000*	Trademarks *HK$'000*	Total intangible assets *HK$'000*	Investment properties *HK$'000*	Property, plant & equipment *HK$'000*	Leasehold land and land use rights *HK$'000*
Opening net book amount as at 1st April, 2005	628	—	628	26,969	27,078	30,639
Additions	—	—	—	—	5,172	—
Reclassified as investment property	—	—	—	2,153	(685)	(1,468)
Disposal	—	—	—	(8,663)	(36)	—
Depreciation/amortization charge	—	—	—	—	(1,290)	(331)
Impairment charge	(628)	—	(628)	—	—	—
Closing net book amount as at 30th September, 2005	—	—	—	20,459	30,239	28,840
Opening net book amount as at 1st April, 2004	—	498	498	14,275	12,024	11,093
Additions	—	—	—	—	9,308	7,459
Disposals	—	—	—	—	(135)	—
Depreciation/amortization charge	—	(84)	(84)	—	(987)	(263)
Impairment charge	—	—	—	—	—	—
Closing net book amount as at 30th September, 2004	—	414	414	14,275	20,210	18,289
Additions	661	—	661	—	1,363	—
Revaluation surplus	—	—	—	12,694	—	—
Reversal of impairment loss previously made	—	—	—	—	6,671	12,694
Disposals	—	—	—	—	(35)	—
Depreciation/amortization charge	(33)	(84)	(117)	—	(1,131)	(344)
Impairment charge	—	(330)	(330)	—	—	—
Closing net book amount as at 31st March, 2005	628	—	628	26,969	27,078	30,639

13. AVAILABLE-FOR-SALE FINANCIAL ASSET

	HK$'000
As at 31st March, 2005 and 30th September, 2005	600

The available-for-sale financial asset represents a Corporate Nomination Right acquired from the Chinese International School Foundation Limited and will be used for the benefits of the senior management of the Group.

14. TRADE RECEIVABLES

(a) At 30th September, 2005, the ageing analysis of trade receivables was as follows:

	30th September, 2005	31st March, 2005
	HK$'000	*HK$'000*
Current	**23,324**	1,714
1 to 3 months	**2,288**	542
4 to 6 months	**26**	6
Over 6 months	**794**	409
	26,432	2,671
Less: Provision for bad and doubtful debts	**(320)**	(320)
	26,112	2,351

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

(b) As at 30th September, 2005, no trade receivables factored to a bank. (31st March, 2005: HK$1,278,000).

15. TRADE PAYABLES

At 30th September, 2005, the ageing analysis of trade payables was as follows:

	30th September, 2005 *HK$'000*	31st March, 2005 *HK$'000*
Current	**6,406**	480
1 to 3 months	**4,381**	522
4 to 6 months	**306**	328
7 to 9 months	**47**	251
10 to 12 months	**660**	1,566
Over 1 year	**756**	79
	12,556	3,226

16. SHARE CAPITAL

	Number of shares	**Ordinary shares** *HK$'000*
Authorized		
At 31st March, 2004, 30th September, 2004, 31st March, 2005 and 30th September, 2005		
Ordinary shares of HK$0.1 each	1,000,000,000	100,000
Issued and fully paid:		
At 31st March, 2004, 30th September, 2004 and 31st March, 2005	389,500,000	38,950
Share issued pursuant to the Rights Issue	77,900,000	7,790
At 30th September, 2005	467,400,000	46,740

17. OTHER RESERVE

	Share premium *HK$'000*	Investment property revaluation reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange fluctuation reserve *HK$'000*	Total *HK$'000*
Balance at 1st April, 2004	42,032	2,471	2,214	3	46,720
Currency translation differences:					
— Group	—	—	—	(5)	(5)
Balance at 30th September, 2004	42,032	2,471	2,214	(2)	46,715
Balance at 1st April, 2005	42,032	15,165	2,214	7	59,418
Transfer the revaluation reserve for disposal of investment property	—	(4,699)	—	—	(4,699)
Share issued pursuant to the Rights Issue	(639)	—	—	—	(639)
Currency translation differences:					
— Group	—	—	—	108	108
Balance at 30th September, 2005	41,393	10,466	2,214	115	54,188

18. LONG-TERM BANK LOANS AND FINANCE LEASE OBLIGATIONS

At 30th September, 2005 and 31st March, 2005, the Group's bank loans and obligations under finance leases are repayable as follows:

	Secured bank loans		**Obligations under finance lease**	
	30th September, 2005 ***HK$'000***	31st March, 2005 *HK$'000*	**30th September, 2005** ***HK$'000***	31st March, 2005 *HK$'000*
Within one year	**2,110**	21,951	**358**	354
In the second year	**469**	1,873	**145**	325
In the third to fifth year inclusive	**8,067**	7,297	**—**	—
	10,646	31,121	**503**	679

19. DEFERRED TAXATION ASSETS (LIABILITIES)

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%) for the subsidiaries operating in Hong Kong. Deferred taxation for subsidiaries operates in overseas is calculated at the rates of taxation prevailing in the countries in which the subsidiaries operate.

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

	30th September, 2005 *HK$'000*	31st March, 2005 *HK$'000*
Deferred tax (liabilities)		
At the beginning of the period/year	**(563)**	(672)
Deferred taxation credited to profit and loss account	**403**	109
At the end of the period/year	**(160)**	(563)

	30th September, 2005 *HK$'000*	31st March, 2005 *HK$'000*
Deferred tax assets		
At the beginning of the period/year	**448**	621
Deferred taxation credited (charged) to profit and loss account	**233**	(173)
At the end of the period/year	**681**	448

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$53,288,000 (31st March, 2005: HK$53,288,000) to carry forward against future taxable income. The tax losses have no expiry date.

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

20. BANKING FACILITIES

As at 30th September, 2005, the Group's banking facilities amounting to approximately HK$174,823,000 (31st March, 2005: HK$186,051,000) were secured by the following:

(a) first legal charge over investment properties and leasehold land and buildings in Hong Kong held by the Group with an aggregate carrying value of approximately HK$31,612,000 (31st March, 2005: approximately HK$75,618,000); and

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

21. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30th September, 2005 and 31st March, 2005.

The Company has executed guarantees with respect to bank facilities made available to its subsidiaries. Such facilities utilised as at 30th September, 2005, amounted to HK$89,624,000 (31st March, 2005: HK$35,451,000).

22. COMMITMENTS

(a) Capital commitments

The Group had no material capital commitments as at 30th September, 2005 and 31st March, 2005.

(b) Commitments under operating leases

(i) At 30th September, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th September, 2005 *HK$'000*	31st March, 2005 *HK$'000*
Not later than one year	**1,765**	2,827
Later than one year and not later than five years	**2,363**	4,105
	4,128	6,932

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

22. COMMITMENTS *(continued)*

(b) Commitments under operating leases *(continued)*

(ii) At 30th September, 2005, the Group had future aggregate minimum lease receivables under non-cancelable operating leases in respect of land and buildings as follows:

	30th September, 2005	31st March, 2005
	HK$'000	*HK$'000*
Not later than one year	**46**	1,244
Later than one year and not later than five years	**—**	110
	46	1,354

23. RELATED-PARTY TRANSACTIONS

(a) Key management compensation

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**3,704**	5,048

(b) Director's loan

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

24. SUBSEQUENT EVENTS

On 29th September, 2005, the Group entered into the Provisional Sale and Purchase Agreement with a third party independent of the Group, pursuant to which an investment property is sold for HK$22,650,000. The gain of approximately HK$10 million will be recognized in the year ended 31st March, 2006.

Save as disclosed above, there are no other significant subsequent events.

25. COMPARATIVE AMOUNTS

As further explained in note 1 to the unaudited condensed consolidated financial statements, due to the adoption of the new HKFRSs during the period, the accounting treatment and presentation of certain items and balances in the unaudited condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current period's presentation.

26. 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, 22nd December, 2005