CHAIRMAN'S STATEMENT

Group Results

During the year ended 31st March, 2004 (the "Financial Year"), the Group has recorded a turnover of approximately HK$208.2 million, representing a decrease of 19.5% as compared to approximately HK$258.7 million recorded in last year. Gross profit margin recorded 9.8%, comparing to 16.6% in last year. Loss attributable to shareholders amounted to approximately HK$17.5 million comparing to profit of approximately HK$1.7 million last year.

Business Overview

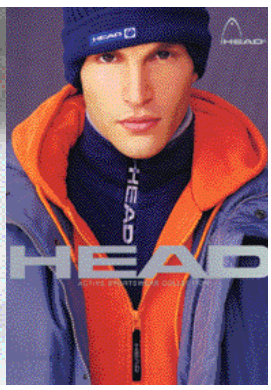
Export Business

In the Financial Year, the Group was principally engaged in the sourcing, subcontracting, marketing and sales of outerwear garments. United States of America ("US") remained the major market of the Group which accounted for 75.8% (2003: 84.8%) of the Group's total turnover. Facing the quota system which will end in 2005, the US market of outerwear, as well as other apparel sectors, has become even more competitive. Consequently, the turnover of the Group was adversely affected in the Financial Year. Moreover, as a short-term strategy in order to maintain the market share, the Group has generally reduced its selling price of exported products during the year, which caused the gross profit margin having reduced from 16.6% in last year to 9.8% in this year. The management believes that the Group's strength is to provide premium services to the customers in terms of delivering high quality products timely and strong production backup through long-term relationship with factories in Mainland China. In the long run, the management will shift the customer base to the class who can offer more reasonable profit margins in exchange for premium services.

Licensee Business

In 2002, the Group entered into a ten-year licensee agreement with HEAD Sport AG for dealing sportswears under the brand name HEAD® in Greater China, including Hong Kong, Taiwan and Macau. Although the schedule of development of the licensee business was deferred in the first half of the year under review due to the outbreak of Severe Acute Respiratory Syndrome, the Group has resumed its marketing development thereafter. The initial marketing response to the HEAD® products is positive and the management believes that the business will bring tangible rewards to the Group in the coming year.

In the 4th quarter of the Financial Year, the Group opened more brand-box outlets in Shanghai, Ningbo and Wuhan. Through excellent relationship with the shopping malls in the prime locations in major cities in Mainland China, the sino partner of the Group's sino-foreign equity joint venture in Wuhan can help the management to negotiate favourable terms and prime locations in the shopping malls. The management believes that this factor will speed up the pace of opening new sales outlets and has plan to extend the sales network covering the cities including Dalian, Shenyang, Nangjing and Hanzhou by the end of 2004.



After the conclusion of terms of Closer Economic Partnership Arrangement between Mainland China and Hong Kong, the performance of retail industry in Hong Kong has improved in recent months. In order to capture this retail golden period, the first two sales outlets in Hong Kong were opened in March 2004 in Causeway Bay and Tsimshatsui, respectively.

At the end of the Financial Year, the Group has been operating 10 and 2 sales outlets (2003: 6 and 0) in Mainland China and Hong Kong, respectively.

Establishment in Mainland China

Since the management has foresight that the role of operation in Mainland China will become more important in line with the direction of the Group's business development, Takson Garment Manufacturing Company, Limited, a wholly owned subsidiary of the Company, acquired certain office units with a total area of 1,023.63 square meters in a newly established commercial building in Chang Ning District, Shanghai in the Financial Year. The management believes that the new office will not only provide sufficient space for the Group's future business expansion, but also help to achieve overhead saving by relocating certain business processes from Hong Kong to Shanghai. The relocation of business processes will be made progressively in the coming financial year.

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Financial Review

During the year under review, the Group recorded a turnover of approximately HK$208.2 million as compared to HK$258.7 million last year, representing a decrease of approximately 19.5%. The turnover for export division was approximately HK$205.4 million (2003: HK$257.7 million) while the turnover for licensee division was approximately HK$2.8 million (2003: HK$1.0 million). The decrease in turnover of export division was mainly due to the competitive market condition. The significant increase in turnover of licensee division mainly was the result of the enlarged sales network.

In terms of gross profit margin, export division recorded a gross margin of approximately 9.5% (2003: 16.6%) while the gross margin of licensee division was 35.7% (2003: 14.3%). The decrease of gross margin for export division was due to the short-term strategy adopted to reduce the selling price in order to maintain the market share as mentioned previously. The gross margin for export division is expected to rebound significantly after the shift of customer base in the coming financial year. Licensee division maintained gross margin at 35.7%, significantly increased from 14.3% in last year since more products were sourced locally in Mainland China than imported from overseas.

As a result of the effort put on tightening budgetary control, the administrative expenses decreased by 7.3% to approximately HK$34.3 million from last year of approximately HK$37.0 million. The management expects that the overhead costs will further be reduced in the coming year after some of the Group's business processes are relocated from Hong Kong to Shanghai. However, certain additional overhead costs will be incurred after the expansion of the business of licensee division.

Prospects

After years of sluggish economy worldwide, the management sees that there are some improvements in the economic conditions and has identified many business opportunities in Asian countries, especially in Mainland China. While the change of

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the quota system in US will divert many production orders from other developing countries to Mainland China, the domestic economy in Mainland China will certainly grow in a very fast pace in the coming few years. All these factors facilitate favorable conditions to the Group's current business development plan. The management is optimistic to the rebound of the Group's financial results in the coming years by adopting the following strategies:

Export Business

The management forecasts that US will still be the Group's major market for its export outerwear business. The abolishment of quota in US will encourage buyers to source their products in Mainland China and will also enable the Group to source greater varieties of textile products without the quota concern. This will help to increase the Group's turnover in the export business in future. Meanwhile, in order to maintain the gross profit margin at a better level, the management is actively liaising with more new quality-oriented customers by offering premium services to them in terms of guaranteed quality, on time delivery and shorter production cycle.

In the coming year, the management expects that the gross profit margin of export division of the Group will rebound to a more reasonable level in comparing to current year and believes that it will well compensate the projected decrease of turnover. Up to 30th June, 2004, the order book for the shipment from April 2004 to September 2004 for export division is approximately HK$93.2 million (2003: HK$145.8 million).

Licensee Business

On 29th May, 2004, the 14th China International Sporting Goods Show (2004 Shanghai) (the "Show") was held in Shanghai Pudong area. The Group operated a booth there for promoting the HEAD® brand in Mainland China market. During the Show, the Group has received over 150 enquiries showing their interests in dealing the HEAD® brand apparel products in different cities all over Mainland China. Meanwhile, the management has plans to open up to 35 sales outlets in Greater

China, including Hong Kong by the end of 2004. Through the wholesales and retail marketing channel, the management believes that HEAD® brand products will significantly contribute to the Group's total turnover in the coming year.

Apart from HEAD®, the Group is actively negotiating with the owners of various international brands in different sectors on the terms of the license for manufacture and distribution of their products. The management believes that, upon the success of obtaining the license of dealing more brands, it will help the Group to achieve its multi-brand strategy in terms of shared fixed costs, given marketing experience and information, etc.

Costs Cutting Measures

Align with the Group's business development, the plan to relocate certain business processes to the new Shanghai office will certainly save part of the overhead costs in Hong Kong. Moreover, tightened budgetary control together with certain profit linked rewarding schemes will be introduced aiming to maximise the Group's investment return in the coming financial year.

By adopting the above strategies, the management is confident that there will be tangible rewards in the years ahead.

Liquidity and Financial Resources

The Group generally finances its operations with its own working capital and other banking facilities provided by its principal bankers in Hong Kong. Total net cash flow used in operation amounted to approximately HK$8.7 million for the year ended 31st March, 2004.

As at 31st March, 2004, the Group's net borrowings representing bank loans, overdrafts and obligations under finance leases amounted to approximately HK$19,166,000 (2003: HK$16,336,000). Of the total amounts of bank loans, overdrafts and obligations under finance leases outstanding as at the year end, 82.8% (2003: 70.2%) are repayable within the next year, 10.5% (2003: 25.6%) are repayable within the second year and the remaining balances are 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 1.5 at 31st March, 2004 compared to 3.0 at 31st March, 2003. The Group’s gearing ratio at 31st March, 2004 was 0.5 (2003: 0.4) which is calculated based on the Group’s total liabilities of approximately HK$26,162,000 (2003: HK$23,649,000) and the shareholders’ funds of approximately HK$50,575,000 (2003: HK$65,573,000). As at 31st March, 2004, the Group’s cash and bank balances amounted to approximately HK$24,977,000 compared to approximately HK$35,175,000 at 31st March, 2003. The cash and bank balances together with available banking facilities are considered sufficient to provide adequate liquidity and capital resources for the Group’s ongoing operating requirements.

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. A majority of bank savings was placed with several banks as foreign currency linked deposits during the year which were subject to foreign exchange rate fluctuations. There were no such deposits outstanding as at 31st March, 2004.

Charge of Assets

As at 31st March, 2004, the first legal charge over properties (including investment properties and leasehold land and buildings) in Hong Kong held by the Group with an aggregate carrying value of approximately HK$28,781,000 (2003: properties of HK$26,343,000 and certain bank deposits of the Group of HK$2,035,000) were pledged for the Group’s banking facilities.

Contingent liabilities

As at 31st March, 2004, trade receivables factored to a bank and remaining outstanding amounted to approximately HK$95,000 (2003: HK$922,000).

Employees

As of 31st March, 2004, the Group had a total of 165 employees comparing to 130 employees as of 31st March, 2003. The increase in the number of employees was due to the expansion of HEAD®'s licensee business. Staff costs including directors' remuneration totalled approximately HK$20.5 million and HK$21.0 million for the year ended 31st March, 2004 and 2003, respectively.

The Group remunerates its employees primarily based on industry practices, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme for management and staff with awards determined annually based upon the performance of the Group and individual employees. Moreover, the Group is considering to adopt a new share option scheme of the Company for the purpose of providing incentives or rewards to the eligible participants for their contribution to the Group.

Appreciation

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

Wong Tek Sun, Takson
Chairman

Hong Kong, 23rd July, 2004