

CREATIONS

ANNUAL REPORT 2005



FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

豐盛創意國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors of countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ng Pak To, Petto (*Chairman*)
Ong Chor Wei
Chan Man Yin (appointed on 1 June 2005)
Ho Kai Chung, David (resigned on 3 May 2005)

Non-Executive Director

Wong Wai Shan (resigned on 3 May 2005)

Independent Non-Executive Directors

Guo Jian
Lee Kun Hung (appointed on 20 June 2005)
Wong Hou Yan, Norman (appointed on 20 June 2005)
Kau Man Wai, Leslie (resigned on 20 June 2005)
Christopher C. Leu (resigned on 20 June 2005)

COMPLIANCE OFFICER

Ng Pak To, Petto

QUALIFIED ACCOUNTANT

Ong Chor Wei, ACA, HKICPA

COMPANY SECRETARY

Ong Chor Wei, ACA, HKICPA

AUDIT COMMITTEE

Guo Jian
Lee Kun Hung (appointed on 20 June 2005)
Wong Hou Yan, Norman (appointed on 20 June 2005)
Kau Man Wai, Leslie (resigned on 20 June 2005)
Christopher C. Leu (resigned on 20 June 2005)

AUTHORISED REPRESENTATIVES

Ng Pak To, Petto
Ong Chor Wei

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Workshop A6, 12th Floor, Block A
Hong Kong Industrial Centre
489-491 Castle Peak Road
Kowloon
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

LEGAL ADVISOR

Vincent T.K. Cheung, Yap & Co.

PRINCIPAL BANKERS

Shanghai Commercial Bank Limited
Asia Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited

STOCK CODE

8136

Chairman's Statement

On behalf of the Board of Directors (the "Board"), we hereby present the annual report of FX Creations International Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 March 2005 to our shareholders.

MARKET OVERVIEW

The retail environments in Hong Kong enjoyed a robust year last year due to the influx of visitors from the People's Republic of China (the "PRC") as a result of the new policy on the granting of visas to individuals visiting Hong Kong. The Group achieved an increase in retail sales of approximately 29.2% in the year under review. The Group will continue to introduce new and innovative designs and products at competitive prices, coupled with the various attractive promotion strategies, to boost its retail sales.

However, the Group recorded a decrease in wholesale sales by approximately 19.8% in the year under review compared to the previous corresponding year mainly due to lower orders from existing customers and decrease in average selling price.

As a result of the above, overall sales increased by approximately 6.1%.

FINANCIAL OVERVIEW

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$69,893,000 (2004: approximately HK\$65,847,000), representing an increase of approximately 6.1% compared to the previous corresponding year. The turnover for the year ended 31 March 2005 comprised retail sales and wholesale sales which accounted for approximately 64% and 36% (2004: approximately 53% and 47% respectively) of the total turnover respectively. As at 31 March 2005, the Group had 18 (2004: 10) retail outlets in Hong Kong which consisted of 7 (2004: 5) retail shops and 11 (2004: 5) department store counters, and 11 (2004: 9) department store counters in Taiwan.

Net loss attributable to shareholders for the year ended 31 March 2005 amounted to approximately HK\$10,045,000 as compared to net profit attributable to shareholders of approximately HK\$751,000 for the year ended 31 March 2004. The losses were mainly attributed to increase in the rental expenses, increase in the cost of the sales staff, provision for impairment of investments, losses from disposals of fixed assets and write-off of bad debts.

Chairman's Statement

PROSPECTS AND APPRECIATION

Tourism has been an important hub for driving the growth of Hong Kong economy in the past year and will continue to be so in the coming year. With the continued influx of visitors, especially from the PRC, which brings with it huge spending power, the Board believes the strategy forward for the retail market is to capture the spending from these PRC visitors. The Group will continue to broaden its product base in introducing more new innovative designs and products and to keep up with the corporate image and to maintain consumer's interests in the products of the Group. The Group will also continue to implement various attractive marketing and promotion activities, such as event sponsorship, and strategies to promote the Group's brandname and to boost sales. In the meantime, the Group will also implement various costs control measures. On the wholesale side, the Group will continue to identify agents and distributors to target overseas markets.

To improve its financial results of the Group, the Group will rationalise its operation by reducing its administrative expenses by appointing distributors to handle its retail outlets. At the same time, the Group will also look for opportunities to diversify its business in order to increase its source of revenue. The Group will also assess the economic efficiency of its assets and may reallocate the assets where appropriate.

The Group will also continue to work towards its objective of promoting **FX CREATIONS** to be a brandname for stylish bags and lifestyle consumer products in the world market. With this in mind, the Group is confident of meeting the challenges ahead.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board, staff and those who have supported us for their dedication and contribution to the Group. We will continue to put our best efforts to produce good economic results and better return to our shareholders.

Ng Pak To, Petto

Chairman

31 May 2005

Management Discussion and Analysis

GENERAL

The Group is principally engaged in retail and wholesale of bags and accessories under its **FX CREATIONS** brandname. The bags sold by the Group consist principally of business bags, sports bags, backpacks, handbags and wallets. The accessories sold by the Group include belts, watches, spectacles and umbrellas.

The Group also sells its products to agents and distributors for distribution and resale in the PRC, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Australia, New Zealand, Korea, Japan and Europe markets.

BUSINESS OVERVIEW

During the year ended 31 March 2005, the Group opened 9 retail outlets and closed 1 retail outlet in Hong Kong. 3 retail outlets were opened and 1 retail outlet was closed in Taiwan. The retail outlets were closed because of the expiry of the leases and the Group considered it is not economically feasible to renew the leases.

The Group continued to identify potential new agents in new areas but no new agency agreement was signed during the year ended 31 March 2005. The Group is finalising its partnership agreements with agents in Thailand and Korea.

Despite the increase in the overall sales, a net loss of approximately HK\$10,045,000 was recorded in the year under review. The losses were mainly attributed to increase in the rental expenses, increase in the cost of the sales staff, provision for impairment of investments, losses from disposals of fixed assets and write-off of bad debts.

The Group continued to conduct various marketing and promotion activities including advertising campaigns such as billboards, brochures and road shows to promote the Group's profile and the **FX CREATIONS** members club. The Group also participated in promotion activities with credit card issuers, retail chain store and television programme to promote and strengthen its brand loyalty.

Management Discussion and Analysis

FINANCIAL REVIEW

Results

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$69,893,000 (2004: approximately HK\$65,847,000), representing an increase of approximately 6.1% as compared to the previous corresponding year. The increase in turnover was attributed to the increase in sales in the retail outlets both in Hong Kong and Taiwan by approximately 33.0% and 20.3% respectively. The increase in sales in the retail outlets was, however, reduced by the decrease in wholesale sales by approximately 19.8% due to decrease in orders from existing customers and decrease in average selling price, making the overall increase in turnover to approximately 6.1%.

Net loss attributable to shareholders for the year ended 31 March 2005 amounted to approximately HK\$10,045,000 as compared to net profit attributable to shareholders of approximately HK\$751,000 for the year ended 31 March 2004. The losses were mainly attributed to increase in the rental expenses, increase in the cost of the sales staff, provision for impairment of investments, losses from disposals of fixed assets and write-off of bad debts.

Liquidity, financial resources and capital structure

During the year, the Group financed its operations with its own working capital and bank borrowings, which was approximately HK\$9,738,000 as at 31 March 2005 (2004: approximately HK\$9,483,000).

As at 31 March 2005, the Group had net current assets of approximately HK\$3,209,000 (2004: approximately HK\$10,173,000) including bank and cash balances of approximately HK\$1,527,000 (2004: approximately HK\$6,765,000) and pledged bank deposits of approximately HK\$2,742,000 (2004: approximately HK\$3,567,000).

As at 31 March 2005, the Group had total available banking facilities of approximately HK\$14,887,000 (2004: approximately HK\$16,343,000) which were supported by the following:

- (i) the pledge of bank deposits of approximately HK\$2,742,000 (2004: approximately HK\$3,567,000);
- (ii) corporate guarantee executed by the Company totaling HK\$12,253,000 (2004: HK\$14,873,000); and
- (iii) the pledge of certain assets of a subsidiary of the Company amounting to HK\$1,764,000 (2004: HK\$934,000).

As at 31 March 2005, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.37 (2004: 0.25). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in Hong Kong ("HK") dollars.

Management Discussion and Analysis

As at 31 March 2005, the Group had outstanding bank borrowings of approximately HK\$9,738,000 (2004: approximately HK\$9,483,000). The bank borrowings comprised secured bank overdrafts of approximately HK\$3,810,000 (2004: approximately HK\$3,644,000), secured bills payable of approximately HK\$4,381,000 (2004: approximately HK\$3,556,000) and secured bank loans of approximately HK\$1,547,000 (2004: approximately HK\$2,283,000). As at 31 March 2005, approximately HK\$9,738,000 (2004: approximately HK\$8,880,000) was repayable within one year and no balance (2004: approximately HK\$603,000) was repayable in the second year.

The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 21 May 2002. There has been no change in the capital structure of the Company since that day.

Significant investments

Other than the investment in a company listed in Hong Kong detailed in note 15 to the financial statements in this annual report, as at 31 March 2005, there was no other significant investment held by the Group. A provision of HK\$3,500,000 has been made for the impairment in value during the year.

Material acquisitions or disposals of subsidiaries and affiliated companies

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the year.

Contingent liabilities

As at 31 March 2005, the Group had the following contingent liabilities:

	2005 HK\$'000	2004 HK\$'000
Bills discount with recourse	76	100

As at 31 March 2005, the Company had provided guarantees for banking facilities granted to and utilised by subsidiaries of approximately HK\$9,738,000 (2004: approximately HK\$9,483,000).

Lease and contracted commitments

The Group leases certain of its office premises, warehouses, retail shops and department store counters under non-cancellable operating lease arrangements with lease terms ranging from one to three years.

As at 31 March 2005, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	8,498	4,068
In the second to fifth years, inclusive	3,582	2,793
	12,080	6,861

Management Discussion and Analysis

At the balance sheet date, the Group had no contracted commitment in respect of licence fee (2004: approximately HK\$137,000).

Foreign exchange exposure

The Group's income and expenditure during the year ended 31 March 2005 were denominated in United States ("US") dollars, HK dollars and New Taiwanese ("NT") dollars, and most of the assets and liabilities as at 31 March 2005 were denominated in HK dollars and NT dollars. Accordingly, the Board is of the view that, to a certain extent, the Group is exposed to foreign currency exchange risk. For the US dollars foreign exchange exposure, the Board believes the exposure is small as the exchange rate of US dollars to HK dollars is comparatively stable. However, the Group is exposed to NT dollars foreign exchange exposure and fluctuation of exchange rates of NT dollars against HK dollars could affect the Group's results of operations. During the year, no hedging transaction or arrangement was made.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Segment information

Business segments

	2005 HK\$'000	2004 HK\$'000
Retail sales	45,028	34,840
Wholesale sales	24,865	31,007
	69,893	65,847
<i>Geographical segments</i>		
PRC:		
Hong Kong, SAR	51,660	48,059
Elsewhere	3,087	4,257
Taiwan	12,442	10,340
Singapore	1,876	1,755
Others	828	1,436
	69,893	65,847

Management Discussion and Analysis

Business segments

Retail sales

Retail sales increased by approximately 29.2%, as compared to the previous corresponding year, to approximately HK\$45,028,000 (2004: approximately HK\$34,840,000). The increase was attributed to the increase in sales in the retail outlets both in Hong Kong and Taiwan by approximately 33.0% and 20.3% respectively.

Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Sales to agents decreased by approximately 19.0%, as compared to the previous corresponding year, to approximately HK\$5,337,000 (2004: approximately HK\$6,591,000). The decrease was mainly attributed to the decrease in sales to the agents in the PRC.

Sales to distributors decreased by approximately 20.0%, as compared to the previous corresponding year, to approximately HK\$19,528,000 (2004: approximately HK\$24,416,000). The decrease was mainly attributed to the decrease in orders from existing customers and decrease in average selling price.

Geographical segments

For the year ended 31 March 2005, sales in Hong Kong increased by approximately 7.5% as compared to the previous corresponding year. The increase was mainly attributed to the increase in sales in the retail outlets in Hong Kong.

For the year ended 31 March 2005, sales to elsewhere in the PRC decreased by approximately 27.5% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in sales to the Group's agents in the PRC.

For the year ended 31 March 2005, sales to Taiwan increased by approximately 20.3% as compared to the previous corresponding year. The increase was mainly attributed to the increase in sales in the retail outlets in Taiwan.

For the year ended 31 March 2005, sales to Singapore increased by approximately 6.9% as compared to the previous corresponding year. The increase was attributed to the increase in sales to the Group's agent in Singapore.

For the year ended 31 March 2005, sales to other countries decreased by approximately 42.3% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in orders from countries other than above.

Please refer to note 3 to the financial statements in this annual report for details on business and geographical segments.

Management Discussion and Analysis

Future plans for material investments and expected source of funding

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the prospectus issued by the Company dated 8 May 2002 ("Prospectus") under the sections headed "Statement of Business Objectives" and "Reasons for the Share Offer and the Use of Proceeds" respectively. Other than those disclosed therein and under sections headed "Comparison of Business Objectives with Actual Business Progress" and "Use of Proceeds" in this annual report, the Group did not have any other plans for material investments or capital assets. However, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders' value.

Employees and remuneration policies

As at 31 March 2005, the Group had 137 (2004: 108) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$12,746,000 for the year ended 31 March 2005 (2004: approximately HK\$10,312,000). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong. To date, no share options have been granted to employees.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1 October 2004 to 31 March 2005 (the "Review Period").

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

Sales and marketing:

Open new retail outlets in Hong Kong and Taiwan

As at 31 March 2005, there were 18 retail outlets in Hong Kong which consisted of 7 retail shops and 11 department store counters, and 11 retail outlets in Taiwan.

During the Review Period, 2 retail outlets were opened and 1 retail outlet was closed in Hong Kong. 3 retail outlets were opened in Taiwan.

The Group continued to identify new retail outlet premises in Hong Kong and Taiwan.

Enter into partnerships with new agents in new areas

The Group continued on the lookout of potential new agents in new areas and is finalising its partnership agreements with agents in Thailand and Korea.

Conduct advertising campaigns:

Billboards, advertisement on transportations, road shows, participation in promotions, sponsorships

The Group continued to conduct advertising campaigns such as billboards, magazines and road shows. The Group also sponsored gifts for a television programme and participated in promotion activities with credit card issuers, a retail chain store and cinemas during the Review Period.

Increase the profile of **FX CREATIONS** members club via advertisement and promotions

The Group continued to conduct advertisements and promotion via posters and leaflets to increase the profile of **FX CREATIONS** members club.

Design and product development:

Develop new series and models for existing products

The Group continued to develop and introduce new series and models for products under its existing brandnames, including **FX CREATIONS**, **USU**, **Annvu** and **ASTROBOY**, during the Review Period.

Develop professional office bags

The Group continued to develop and introduce new series and models of professional office bags under the **FX CREATIONS** brandname during the Review Period.

Comparison of Business Objectives with Actual Business Progress

According to the business objectives as stated in the Prospectus

Develop apparel products with business partners under the **FX CREATIONS** brandname

Develop footwear with business partners under the **FX CREATIONS** brandname

Geographical expansion:

Negotiate and sign up new agents in USA

Negotiate and sign up new agents in Europe

Negotiate and sign up new agents in Macau

Negotiate and sign up new agents in Thailand

Negotiate and sign up new agents in the Philippines

Negotiate and sign up new agents in Indonesia

Actual business progress in the Review Period

The Group is in the process of identifying business partners for the development of apparel products under the **FX CREATIONS** brandname. No suitable business partners have been identified.

The Group is in the process of identifying business partners for the development of footwear under the **FX CREATIONS** brandname. No suitable business partners have been identified.

The Group is in the process of identifying potential agents in the USA. No agreement has been signed during the Review Period.

The Group signed an agency agreement with an agent in the United Kingdom and continued to identify other potential new agents in Europe.

The Group is in the process of identifying potential agents in Macau. No agreement has been signed during the Review Period.

The Group is finalising its agreement with the agent in Thailand.

The Group is in the process of identifying potential agents in the Philippines. No agreement has been signed during the Review Period.

The Group has engaged the Singapore agent to cover the Indonesian market, as such, no agent will be engaged in Indonesia.

Comparison of Business Objectives with Actual Business Progress

According to the business objectives as stated in the Prospectus

Human resources development:

Expand the marketing and retail sales team

Expand the product development and design team

Expand the production and quality control team

Implementation of training programmes to improve the marketing skills of staff

To recruit more experienced management staff

Actual business progress in the Review Period

As at 31 March 2005, there are 80 staff in the marketing and retail sales team (2004: 48).

As at 31 March 2005, there are 6 staff in the product development and design team (2004: 6).

As at 31 March 2005, there are 35 staff in the production and quality control team (2004: 41).

The Group continued to implement various staff training programs to improve the marketing skills of front-line staff.

The Group continued to look for appropriate experienced management staff to join in the expansion of operations. During the Review Period, there was no change in management team.

Use of Proceeds

The shares of the Company were listed on GEM by way of placing and public offer on 21 May 2002. The net proceeds from such placement and public offer after deduction of the related expenses amounted to approximately HK\$12,800,000 have all been applied as at 31 March 2004.

Directors and Senior Management

EXECUTIVE DIRECTORS

Ng Pak To, Petto, aged 44, is the chairman, managing director and one of the founders of the Group. Mr. Ng is responsible for the overall strategic planning, marketing and management functions of the Group. He holds a Higher Certificate in Business Study from the Hong Kong Polytechnic University and Graduate Diploma in Management Studies awarded by the Institute of Commercial Management United Kingdom. Mr. Ng has over ten years of experience in the sales and production functions for bags and has in-depth knowledge and experience of the bags industry. Prior to founding the Group, Mr. Ng worked as an executive sales director for a garment company. Mr. Ng is the husband of Madam Ho Pui Lai and the brother-in-law of Mr. Ho Kai Chung, David. Both of them are the senior management of the Group. Mr. Ng was appointed as a director of the Company in January 2002.

Ong Chor Wei, aged 35, is an executive director of the Company. Mr. Ong is responsible for the financial management and finance functions of the Group. He graduated from London School of Economics and Political Science, University of London with a Bachelor of Laws Degree. He also holds a Master Degree in Business Administration jointly awarded by the University of Wales and University of Manchester. He is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in January 2002, he worked as a finance director for a manufacturer of bags and luggages. Mr. Ong is currently a non-executive director of Eagle Nice (International) Holdings Limited, a company listed on the Main Board of the Stock Exchange and Jets Technics International Holdings Limited, a company listed on the Singapore Exchange Securities Trading Limited. Mr. Ong was appointed as a director of the Company in January 2002. He is also a director of various members of the Group.

Chan Man Yin, aged 48, was appointed as an executive director of the Company with effect from 1 June 2005. He has over 20 years' experience in accounting, auditing, taxation and consulting. Mr. Chan holds a Master Degree of Business Administration from Columbia Southern University. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member (Practising) of Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of Taxation Institute of Hong Kong.

Ho Kai Chung, David, resigned as an executive director of the Company with effect from 3 May 2005.

NON-EXECUTIVE DIRECTORS

Wong Wai Shan, resigned as the deputy chairman and non-executive director of the Company with effect from 3 May 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Guo Jian, aged 39, was appointed as an independent non-executive director of the Company in August 2003. Mr. Guo has been working as a manager for an import and export company in the PRC since June 2001. Prior to that, he worked as a general manager in a luggage manufacturing company in the PRC for about two years. He completed a diploma course in Electrical and Engineering at 湖南工業職工大學 (Hunan Industrial Professional University) in the PRC in July 1994 and a diploma course in Economic Management from 中央黨校函授學院 (Communist China Public School) in December 1999.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Lee Kun Hung, aged 39, was appointed as an independent non-executive director of the Company with effect from 20 June 2005. He holds a Bachelor's Degree in Arts from the Boston College, Massachusetts in the United States. He has over 15 years of manufacturing experience in the watch industry. Mr. Lee is currently an independent non-executive director of KanHan Technologies Group Limited which is a company listed on GEM.

Wong Hou Yan, Norman, aged 52, was appointed as an independent non-executive director of the Company with effect from 20 June 2005. He has over 28 years of experience in the fields of information technology, project management, sales and support and quality assurance. Mr. Wong is now a managing director of a computing services company where he takes charge of overall management in business expansion, customer relations and daily operation and compliance. Mr. Wong obtained a Bachelor's Degree of Arts in Business Data Processing from the University of Wisconsin in the United States.

Kau Man Wai, Leslie, resigned as an independent non-executive director of the Company with effect from 20 June 2005.

Christopher C. Leu, resigned as an independent non-executive director of the Company with effect from 20 June 2005.

SENIOR MANAGEMENT

Ho Kai Chung, David, aged 41, is an ex-director of the Company and co-founder of the Group. He resigned as an executive director of the Company effective from 3 May 2005 for personal reasons on his own accord. He is the brother-in-law of Mr. Ng Pak To, Petto and the brother of Madam Ho Pui Lai. He holds a Higher Certificate in Three-Dimensional Design from the Hong Kong Polytechnic University. He is responsible for the design, development and promotional activities of the Group. Mr. Ho has over fifteen years of experience in design and advertising. He has also received an award from the Hong Kong Designers Association for excellence in his creative endeavour. Prior to joining the Group in August 1993, he was self-employed in a retail business in gift items, under the name Take 1.

Ho Pui Lai, aged 43, is the vice president for administration and one of the founders of the Group. Madam Ho is responsible for the administration and management functions of the Group. Madam Ho has over ten years of experience in business administration. She has obtained several professional diploma in Human Resources Management granted by Hong Kong Productivity Council. Prior to founding the Group in April 1993, she worked as an interior designer for an architectural and interior design company. She is the wife of Mr. Ng Pak To, Petto and the sister of Mr. Ho Kai Chung, David.

Cheung King Hei, Davis, aged 43, is the chief accountant and management information system of the Group. He is responsible for the accounting and management information system functions of the Group. He holds a Bachelor of General Studies Degree from the Open University of Hong Kong. Prior to joining the Group in March 1999, he worked as an accounting manager for a shipping company.

Kwan Wai Fan, Betty, aged 35, is the sales and operation manager of the Group. She is responsible for the retail operation for the Hong Kong market. She has over fifteen years of experience in the retail industry. Prior to joining the Group in May 1999, she worked in various managerial and sales positions for a bags retailer.

Lam Shuk Fung, aged 29, is the marketing executive of the Group. She is responsible for the sales and marketing of the Group for the Asia Pacific region. She holds a Professional Diploma in Marketing Management granted by the Hong Kong Management Association. Prior to joining the Group in March 2001, she worked for a garment trading company.

Report of the Directors

The directors present their annual report and the audited financial statements of FX Creations International Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 14 to the financial statements. There have been no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical areas of operations for the year is set out in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The Group's consolidated loss for the year ended 31 March 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 52.

The directors do not recommend any dividends during the year.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the five years ended 31 March 2005 prepared on the basis as set out in notes 1 and 2 below:

Consolidated results

	2005 HK\$'000	Year ended 31 March			
		2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	69,893	65,847	59,564	49,587	38,502
(Loss)/profit before taxation	(9,728)	644	2,253	2,342	2,279
Taxation	(223)	(281)	(542)	(422)	(410)
(Loss)/profit before minority interests	(9,951)	363	1,711	1,920	1,869
Minority interests	(94)	388	(15)	–	–
Net (loss)/profit attributable to shareholders	(10,045)	751	1,696	1,920	1,869

Report of the Directors

SUMMARY FINANCIAL INFORMATION (continued)

Consolidated assets and liabilities

	2005 HK\$'000	As at 31 March			
		2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	26,568	37,327	34,713	12,315	8,903
Total liabilities	(14,640)	(15,448)	(13,197)	(10,557)	(7,065)
Minority interests	(121)	(27)	(415)	–	–
Net assets	11,807	21,852	21,101	1,758	1,838

Notes:

- (1) The consolidated results of the Group for the five years ended 31 March 2005 were prepared as if the current Group structure had been in existence since 1 April 2000.
- (2) The summaries of the consolidated assets and liabilities at the respective balance sheet dates were prepared on the same basis as detailed in note 1 above.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's share capital, together with the reasons therefore and details of the Company's share option scheme, are set out in notes 21 and 22 to the financial statements respectively.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 28 and in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made to the five largest customers of the Group accounted for approximately 19% of the Group's total turnover for the year. Turnover made to the Group's largest customer accounted for approximately 6% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 76% of the Group's total purchases for the year. Purchases from the Group's largest supplier accounted for approximately 29% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor the shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

DIRECTORS

The directors of the Company for the year and up to the date of this report were:

Executive Directors:

Ng Pak To, Petto (Chairman)
Ong Chor Wei
Ho Kai Chung, David (resigned on 3 May 2005)

Non-Executive Director:

Wong Wai Shan (resigned on 3 May 2005)

Independent Non-Executive Directors:

Guo Jian
Kau Man Wai, Leslie
Christopher C. Leu

In accordance with Article 87 of the Company's Articles of Association, Mr. Ong Chor Wei will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The Company confirmed that it has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") and it still considered them to be independent as at the date of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 16 of the annual report.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during or at the end of the year.

DIRECTORS' SERVICE CONTRACTS

Mr. Ng Pak To, Petto and Mr. Ho Kai Chung, David (resigned on 3 May 2005) entered into service contracts with FX Creations International Limited, a subsidiary of the Company, for an initial term of three years commencing from 21 May 2002, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Apart from the forgoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 March 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

	Type of interest	Number of issued ordinary shares held
Mr. Ng Pak To, Petto (Note)	Corporate	280,000,000

Note: These shares represent a 70% equity interest in the Company and are held by Wise New Management Limited ("WNML"). The issued share capital of WNML is beneficially owned by Cashtram Associates Limited as to 45%, FX Creations (Holding) Inc. as to 30% and Forge Smart Investments Limited as to 25%. The issued share capital of Cashtram Associates Limited is owned as to 40%, 30%, 20% and 10% by Mr. Ng Pak To, Petto, Mr. Ho Kai Chung, David, Madam Ho Pui Lai and Mr. Tan Yu, Wally, respectively. Madam Ho Pui Lai is the wife of Mr. Ng Pak To, Petto. The issued share capital of FX Creations (Holding) Inc. is wholly owned by Mr. Wong Wai Shan. The issued share capital of Forge Smart Investments Limited is wholly owned by Mr. Ng Pak To, Petto.

At 27 April 2005, WNML disposed 76,000,000 shares of the Company, representing 19% of the existing issued share capital of the Company to Top Accurate Limited whose ultimate beneficial owner is Mr. Ma She Shing, Albert.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES (continued)

Save as disclosed above, as at 31 March 2005, none of the directors had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executives' interests in shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, other than the interests of certain directors as disclosed under the section headed "Directors' and chief executives' interests in shares" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follow:

	Number of issued ordinary shares held	Percentage of holding
WNML (Note)	280,000,000	70%
Cashtram Associates Limited (Note)	280,000,000	70%

Note: The details are disclosed under the section headed "Directors' and chief executives' interests in shares" above.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, as at 31 March 2005, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

SPONSOR'S INTERESTS

As at the date of this report, Kingston Corporate Finance Limited (the "Sponsor"), its directors, employees or associates did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to the sponsor agreement entered into between the Company and the Sponsor, the Sponsor received fees for acting as the Company's retained sponsor for the period from 21 May 2002 to 31 March 2005. Following the expiry of the sponsor agreement between the Company and the Sponsor, Kingston Corporate Finance Limited ceased to act as the Company's retained sponsor with effect from 1 April 2005.

CORPORATE GOVERNANCE

The Company has complied with the board's practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year.

The board's practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices (the "CCGP") as set out in Appendix 15 to the GEM Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the CCGP.

Report of the Directors

CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 25 to the financial statements.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 2 May 2002, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors of the Company, namely Mr. Christopher C. Leu, Miss Kau Man Wai, Leslie and Mr. Guo Jian. The consolidated financial statements of the Group for the year ended 31 March 2005 have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. Four meetings were held during the year.

AUDITORS

RSM Nelson Wheeler resigned as auditors of the Company on 23 April 2004. At the extraordinary general meeting of the Company held on 13 May 2004, Baker Tilly Hong Kong Limited were appointed as auditors of the Company to fill the casual vacancy.

Baker Tilly Hong Kong Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ng Pak To, Petto

Chairman

Hong Kong
31 May 2005

Report of the Auditors

AUDITORS' REPORT TO THE MEMBERS OF
FX CREATIONS INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 52 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 financial statements which give a true and fair view. In preparing financial statements 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 statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong
31 May 2005

Chan Cheuk Chi
Practising Certificate number P01137

Consolidated Profit and Loss Account

For the year ended 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
TURNOVER	4	69,893	65,847
Cost of sales		(36,628)	(34,318)
Gross profit		33,265	31,529
Other revenue	4	681	557
Selling and distribution costs		(23,596)	(17,797)
Administrative expenses		(19,494)	(13,146)
(LOSS)/PROFIT FROM OPERATIONS	5	(9,144)	1,143
Finance costs	6	(584)	(499)
(LOSS)/PROFIT BEFORE TAXATION		(9,728)	644
Taxation	9	(223)	(281)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(9,951)	363
Minority interests		(94)	388
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	10	(10,045)	751
DIVIDENDS	11	–	–
(LOSS)/EARNINGS PER SHARE	12		
– Basic		(HK2.51 cents)	HK0.19 cent
– Diluted		N/A	N/A

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	6,166	6,198
Long-term investments	15	830	4,000
Rental and sundry deposits		1,723	2,111
		8,719	12,309
CURRENT ASSETS			
Short-term investments	15	1,434	934
Inventories	16	3,023	2,668
Accounts receivable	17	6,591	7,744
Prepayments, deposits and other receivables		2,144	2,855
Due from a minority shareholder	18	360	360
Taxes refundable		28	125
Pledged bank deposits	20	2,742	3,567
Cash and bank balances		1,527	6,765
		17,849	25,018
CURRENT LIABILITIES			
Accounts payable	19	3,418	3,907
Accrued expenses and other payables		1,317	1,318
Taxes payable		167	740
Bills payable – secured	20	4,381	3,556
Bank overdrafts – secured	20	3,810	3,644
Short-term bank loans – secured	20	600	600
Current portion of long-term bank loans – secured	20	947	1,080
		14,640	14,845
NET CURRENT ASSETS		3,209	10,173
TOTAL ASSETS LESS CURRENT LIABILITIES		11,928	22,482
NON-CURRENT LIABILITIES			
Long-term bank loans – secured	20	–	603
		11,928	21,879
MINORITY INTERESTS		(121)	(27)
		11,807	21,852
CAPITAL AND RESERVES			
Share capital	21	4,000	4,000
Reserves	23	7,807	17,852
		11,807	21,852

Director

Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	14	17,820	18,095
CURRENT ASSETS			
Cash and bank balances		2	3
Taxes refundable		26	–
		28	3
CURRENT LIABILITIES			
Accrued expenses and other payables		100	270
Taxes payable		–	21
		100	291
NET CURRENT LIABILITIES			
		(72)	(288)
NET ASSETS			
		17,748	17,807
CAPITAL AND RESERVES			
Share capital	21	4,000	4,000
Reserves	23	13,748	13,807
		17,748	17,807

Director

Director

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity of the Group and the Company

For the year ended 31 March 2005

Group

	Share capital HK\$'000	Share premium HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 April 2003	4,000	13,703	3,398	21,101
Net profit for the year	–	–	751	751
Balance at 1 April 2004	4,000	13,703	4,149	21,852
Net loss for the year	–	–	(10,045)	(10,045)
Balance at 31 March 2005	4,000	13,703	(5,896)	11,807

Company

	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2003	4,000	13,703	7	17,710
Net profit for the year	–	–	97	97
Balance at 1 April 2004	4,000	13,703	104	17,807
Net loss for the year	–	–	(59)	(59)
Balance at 31 March 2005	4,000	13,703	45	17,748

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
(Loss)/profit before taxation	(9,728)	644
Adjustments for:		
Depreciation	1,742	1,498
Provision for impairment loss of other investments	3,500	–
Interest income	(58)	(17)
Interest expenses	584	499
Loss on disposals of fixed assets	1,041	–
Operating cash flows before movements in working capital	(2,919)	2,624
Increase in inventories	(355)	(529)
Decrease in accounts receivable	1,153	194
Decrease/(Increase) in prepayments, deposits and other receivables	1,099	(3,013)
Decrease in accounts payable	(489)	(588)
Increase in bills payable	825	1,166
Decrease in accrued expenses and other payables	(1)	(36)
Cash used in operations	(687)	(182)
Interest income received	58	17
Interest paid	(584)	(499)
Tax paid	(699)	(63)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,912)	(727)
INVESTING ACTIVITIES		
New pledged bank deposits	–	(164)
Withdrawals of pledged bank deposits	825	–
Purchases of other investments	(830)	–
Sales proceeds of disposals of fixed assets	1,038	–
Purchases of fixed assets	(3,789)	(609)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(2,756)	(773)
FINANCING ACTIVITIES		
Repayments of bank loans	(1,236)	(1,579)
New bank loans raised	500	2,000
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(736)	421
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,404)	(1,079)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,121	4,200
CASH AND CASH EQUIVALENTS AT END OF YEAR	(2,283)	3,121
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,527	6,765
Bank overdrafts	(3,810)	(3,644)
	(2,283)	3,121

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2005

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 10 January 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands.

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the retail and wholesale of bags and accessories. The bags sold by the Group consist principally of business bags, sports bags, backpacks, handbags and wallets. The accessories sold by the Group include belts, watches, spectacles and umbrellas. There were no significant changes in the nature of the Group's principal activities during the year.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

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 unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Notes to the Financial Statements

For the year ended 31 March 2005

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(b) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets are put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure results in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used are as follows:

Plant and machinery	10%
Furniture, fixtures and equipment	20% – 30%
Leasehold improvements	20% or over the lease terms

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

(d) Long-term and short-term investments

Investment securities and unit trusts intended to be held for identified long-term purpose or strategic reason are included in the balance sheet under non-current assets. Investment securities and unit trusts held exclusively with a view to its subsequent disposal in the near future are included in the balance sheet under current assets. These investments are carried at cost less provision. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account and is written back to profit and loss account when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Financial Statements

For the year ended 31 March 2005

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Long-term and short-term investments (continued)

Held-to-maturity securities are investment in debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for impairment in their value which is other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as an expense in the profit and loss account as they arise. The amortisation of premiums and discounts arising on acquisition of dated debt securities is included as part of interest income in the profit and loss account. Gain and loss on realisation of held-to-maturity securities is accounted for in the profit and loss account as they arise.

(e) Inventories

Inventories, which represent finished goods held for resale, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

(f) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer be required. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(g) Cash and cash equivalents

Cash and cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance.

Notes to the Financial Statements

For the year ended 31 March 2005

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

The Group's branch in Taiwan maintains its records in New Taiwanese dollars. In order to present the consolidated financial position of the Group in Hong Kong dollars, monetary assets and liabilities of the branch are translated at the applicable rate of exchange ruling at the balance sheet date. Income and expenses are translated at the exchange rates ruling at the transaction dates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the balance sheet of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an weighted average exchange rate. The resulting transaction differences are included in the exchange fluctuation reserves.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past event that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Financial Statements

For the year ended 31 March 2005

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Revenue recognition

Revenue is recognised when it is probable that the economic benefits, will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(m) Taxation

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowable. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date is used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets is provided on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Borrowing costs

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

Notes to the Financial Statements

For the year ended 31 March 2005

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

In addition, retirement benefits are paid by the Group's branch in Taiwan to its employees who contribute to the retirement benefit plans managed by the relevant authorities in Taiwan. The retirement benefits paid by the Taiwan's branch are based on certain percentage of the Taiwan employees' basic salaries in accordance with the relevant regulations in Taiwan and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement benefits to the employees in Taiwan.

(ii) Equity compensation benefits

No compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments are presented as the secondary reporting format.

Segment assets consist primarily of fixed assets, other investments, inventories, trade and other receivables, tax refundable and operating bank balances and cash exclude corporate cash funds. Segment liabilities consist primarily of trade payables, tax payable and accrued charges and other payables. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the region where the customer is located. Total assets and capital expenditure are based on where the assets are located.

Notes to the Financial Statements

For the year ended 31 March 2005

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Details of the business segments are summarised as follows:

- (a) the retail segment represents the selling of bags and accessories via retail shops and department store counters;
- (b) the wholesale segment represents the selling of bags and accessories via overseas agents and distributors; and
- (c) the corporate segment represents investment holding.

Notes to the Financial Statements

For the year ended 31 March 2005

3. SEGMENT INFORMATION (continued)

(i) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments:

	Retail		Wholesale		Corporate		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:								
Sales to external customers	45,028	34,840	24,865	31,007	-	-	69,893	65,847
Segment results	7,637	6,558	(3,457)	2,637	(13,324)	(8,052)	(9,144)	1,143
Finance costs							(584)	(499)
(Loss)/profit before tax							(9,728)	644
Taxation							(223)	(281)
(Loss)/profit before minority interests							(9,951)	363
Minority interests							(94)	388
Net (loss)/profit attributable to shareholders							(10,045)	751
BALANCE SHEET								
ASSETS								
Segment assets	8,547	5,728	10,504	15,414	7,517	16,185	26,568	37,327
Unallocated assets	-	-	-	-	-	-	-	-
Total assets							26,568	37,327
LIABILITIES								
Segment liabilities	66	20	27	189	14,547	15,239	14,640	15,448
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities							14,640	15,448
Other segment information:								
Depreciation	635	376	911	501	196	621	1,742	1,498
Capital expenditure	941	414	527	-	242	195	1,710	609

Notes to the Financial Statements

For the year ended 31 March 2005

3. SEGMENT INFORMATION (continued)

(ii) Geographical segments

The following table presents revenue, certain assets and expenditure information for the Group's geographical segments.

	Hong Kong, SAR		PRC (not including Hong Kong, SAR)		Taiwan		Singapore		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	51,660	48,059	3,087	4,257	12,442	10,340	1,876	1,755	828	1,436	69,893	65,847
Other segment information:												
Segment assets	16,015	27,296	7,019	7,426	3,442	2,605	92	-	-	-	26,568	37,327
Capital expenditure	935	547	527	-	248	62	-	-	-	-	1,710	609

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts. All significant transactions amongst the companies comprising the Group have been eliminated on consolidation.

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales	69,893	65,847
Other revenue		
Interest income	58	17
Exchange gains	216	-
Sundry income	407	540
	681	557
Total revenue	70,574	66,404

Notes to the Financial Statements

For the year ended 31 March 2005

5. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after crediting and charging the following:

	2005	2004
	HK\$'000	HK\$'000
Crediting:		
Interest income	58	17
Recovery of bad debts	249	–
Exchange gains	216	56
Charging:		
Auditors' remuneration	230	270
Bad debts written off	2,190	–
Cost of inventories sold	36,628	34,318
Depreciation	1,742	1,498
Directors' remuneration	1,044	1,092
Provision for impairment loss of other investments	3,500	–
Loss on disposals of fixed assets	1,041	–
Minimum lease payments under operating lease rentals for land and buildings	10,822	9,188
Staff costs (excluding directors' remuneration, note (7))		
Salaries	11,362	8,953
Pension scheme contributions	340	267

6. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	584	499

Notes to the Financial Statements

For the year ended 31 March 2005

7. DIRECTORS' REMUNERATIONS

Details of directors' remunerations disclosed pursuant to the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	-	-
	-	-
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,032	1,080
Pension scheme contributions	12	12
	1,044	1,092

Two executive directors of the Group received individual emoluments of approximately HK\$594,000 (2004: HK\$660,000) and HK\$450,000 (2004: HK\$432,000) during the year ended 31 March 2005.

All independent non-executive directors and the non-executive director did not receive any emoluments during the year (2004: Nil).

The emoluments of the directors of the Company fell within the following bands:

	Number of directors	
	2005	2004
Emolument bands		
Nil to HK\$ 1,000,000	7	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

Notes to the Financial Statements

For the year ended 31 March 2005

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) executive directors, details of whose emoluments are set out in note 7 above. Details of the emoluments of the remaining three (2004: three) employees are set out as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	874	758
Pension scheme contributions	36	35
	910	793

The emoluments of each of the above remaining employees fall within the HK\$Nil – HK\$1,000,000 band.

During the year, no emoluments were paid by the Group to any of the directors or the highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2004: Nil).

9. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong		
Current year	150	281
Under provision in prior years	73	–
Other jurisdictions	–	–
Tax charge for the year	223	281

Notes to the Financial Statements

For the year ended 31 March 2005

9. TAXATION (continued)

The provision for the year can be reconciled from taxation based on the (loss)/profit per income statement as follows:–

	Group	
	2005	2004
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(9,728)	644
Tax at the domestic tax rate of 17.5% (2004: 17.5%)	(1,702)	113
Tax effect on non-deductible expenses	965	434
Tax effect on non-taxable revenue	(170)	(158)
Tax effect on accelerated depreciation allowance	78	(82)
Tax effect on prior year's tax losses utilised this year	(41)	–
Tax effect on unused tax losses not recognised	1,020	–
Under provision in prior years	73	–
Others	–	(26)
Tax charge for the year	223	281

(b) Details of deferred taxation of the Group are set out in note 24.

10. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$59,000 (2004: Net profit of HK\$97,000).

11. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2004: Nil).

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated based on the loss attributable to shareholders of HK\$10,045,000 (2004: earnings of HK\$751,000) and on the weighted average number of 400,000,000 shares in issue during the year (2004: 400,000,000 shares).

Diluted (loss)/earnings per share is not presented as there are no diluting events during the year.

Notes to the Financial Statements

For the year ended 31 March 2005

13. FIXED ASSETS

Group

	Plant and machinery	Furniture, fixtures and equipment	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 1 April 2004	5,010	3,067	2,643	10,720
Additions	2,130	242	1,417	3,789
Disposals	(2,079)	–	(91)	(2,170)
At 31 March 2005	5,061	3,309	3,969	12,339
Accumulated depreciation				
At 1 April 2004	752	2,260	1,510	4,522
Charge for the year	503	361	878	1,742
Eliminated on disposals	–	–	(91)	(91)
At 31 March 2005	1,255	2,621	2,297	6,173
Net book value				
At 31 March 2005	3,806	688	1,672	6,166
At 31 March 2004	4,258	807	1,133	6,198

As at 31 March 2005, there was no plant and machinery leased to the third party (2004: net book value of HK\$2,555,000).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	64	64
Due from subsidiaries	17,756	19,489
Due to subsidiaries	–	(1,458)
	17,820	18,095

Notes to the Financial Statements

For the year ended 31 March 2005

14. INVESTMENTS IN SUBSIDIARIES (continued)

Amounts due are unsecured, interest free and have no fixed repayment terms. Details of subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Resource Base Enterprises Limited	British Virgin Islands	Ordinary US\$100	100	–	Investment holding
Multi Merchant Investments Limited	British Virgin Islands	Ordinary US\$1,000	100	–	Investment holding
FX Creations International Limited	Hong Kong	Ordinary HK\$500,000	–	100	Retail and distribution of bags
FX International Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of bags and accessories
Solid Wealth Limited	British Virgin Islands	Ordinary US\$1,000	–	100	Letting of plant and equipment
Million Hero Investments Limited	British Virgin Islands	Ordinary US\$1,000	–	100	Investment holding
Easy Jet Limited	British Virgin Islands	Ordinary US\$50,000	–	100	Investment holding
Join Forever Limited	British Virgin Islands	Ordinary US\$1,000	–	100	Dormant
Fresh Design Group Limited	British Virgin Islands	Ordinary US\$1,000	–	100	Dormant
FX Wealthmark International Limited	Hong Kong	Ordinary HK\$1,000,000	–	60	Business not yet commenced
Hugo Point International Limited	Hong Kong	Ordinary HK\$100	–	100	Dormant

Notes to the Financial Statements

For the year ended 31 March 2005

15. LONG-TERM AND SHORT-TERM INVESTMENTS

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000
Long-term investments			
Investment securities listed in Hong Kong	(a)	–	4,000
Equity-linked notes	(b)	780	–
Held-to-maturity securities		50	–
		830	4,000
Short-term investments			
Investment securities listed in Hong Kong	(a)	500	–
Unit trusts, unlisted		934	934
		1,434	934

Notes:

(a) Investment securities listed in Hong Kong

	Group	
	2005 HK\$'000	2004 HK\$'000
Listed equity securities, at cost	4,000	4,000
Provision for impairment loss	(3,500)	–
	500	4,000
Fair/Market value	500	6,000

Details of this investment held by the Group as at 31 March 2005 are as follows:

Company	Place of incorporation	Class of shares	Percentage holding	Nature of business
IA International Holdings Limited	Bermuda	Ordinary	3.33%	E-commerce

As this investment will be disposed of in the near future, the balance is reclassified as a short-term investment as at 31 March 2005. Provision for impairment loss during the year amounting to HK\$3,500,000 is determined based on the estimates made by the Board in view of the latest market information with reference to the range of the ratios of net assets to the sales consideration of the similar transactions.

Notes to the Financial Statements

For the year ended 31 March 2005

15. LONG-TERM AND SHORT-TERM INVESTMENTS (continued)

Notes: (continued)

- (b) Equity-linked notes (the "ELNs") were issued by an independent third party private company (the "Note Issuer"). These ELNs bear interest at the rates ranging between 9% and 10% per annum and are redeemable by the Note Issuer on maturity dates, which are three to four years after the issuance dates.

The ELNs or any part thereof are convertible into shares of the companies listed on the Stock Exchange at a specified conversion price at the option of the Group. The Group has the right to demand the Note Issuer to redeem the principal amounts if the conversion price is lower than the closing market price upon maturity. If the closing market price is lower than the conversion price upon maturity, the invested amount will be converted to the shares of the companies as specified in the ELNs at the conversion price.

Other than investment securities listed in Hong Kong as described in (a) above, all investments have been pledged to the bank to secure the banking facilities (see note 20(c)).

16. INVENTORIES

All inventories held at year end are finished goods. As at 31 March 2005, no inventories were stated at net realisable value (2004: Nil).

17. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, which generally have credit terms of up to 90 days (2004: 90 days). Each customer has a maximum credit limit. The Group seeks to maintain strict controls over its outstanding receivables to minimise credit risk. Overdue balances are reviewed by senior management on a regular basis.

Ageing analysis of the Group's accounts receivable as at the balance sheet date based on the goods delivery date is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 90 days	5,570	7,288
91-180 days	1,013	151
181-365 days	4	270
Over 1 year	4	35
	6,591	7,744

18. DUE FROM A MINORITY SHAREHOLDER

Amounts due are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

For the year ended 31 March 2005

19. ACCOUNTS PAYABLE

Ageing analysis of the Group's accounts payable as at the balance sheet date based on the goods receipt date is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 90 days	2,748	3,178
91 – 180 days	190	–
181 – 365 days	–	25
Over 1 year	480	704
	3,418	3,907

	Group	
	2005 HK\$'000	2004 HK\$'000
Represented by:		
Payable to a related company	480	1,433
Payable to third parties	2,938	2,474
	3,418	3,907

The related company is a subsidiary of the minority shareholder of a subsidiary within the Group.

Notes to the Financial Statements

For the year ended 31 March 2005

20. BANK BORROWINGS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bills payable, secured	4,381	3,556
Bank overdrafts, secured	3,810	3,644
Short-term bank loans, secured	600	600
Long term bank loans, secured		
Wholly repayable within five years	947	1,683
Less: Current portion included in current liabilities	(947)	(1,080)
Long-term portion	-	603

The above bank borrowings as at 31 March 2005 are secured by the following:

- (a) the pledge of bank deposits of approximately HK\$2,742,000 (2004: HK\$3,567,000);
- (b) corporate guarantees executed by the Company totaling HK\$12,253,000 (2004: HK\$14,873,000);
and
- (c) the pledge of certain assets of a subsidiary of the Company amounting to HK\$1,764,000 (2004: HK\$934,000) (note 15).

21. SHARE CAPITAL

	2005	2004
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK\$0.01 each	4,000	4,000

There have been no movements in share capital during the years ended 31 March 2004 and 31 March 2005.

Notes to the Financial Statements

For the year ended 31 March 2005

22. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the main purpose of recognising significant contributions of the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long terms success and prosperity.

Eligible participants of the Scheme include any employees, consultants, advisers, suppliers or customers of the Company and its subsidiaries, including any directors of the Company and its subsidiaries. The Scheme became effective on 21 May 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period up to the date of grant, is limited to 1% of the shares of the Company in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted shall be determined by the board of directors and notified to the relevant grantee, but must not be more than ten years from the date of grant of the share options.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's share as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option, which must be a business day, (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the option, or (iii) the nominal value of the Company's shares on the date of offer.

Since the Scheme became effective and up to the date of this report, no share options have been granted pursuant to the Scheme.

23. RESERVES

Movements of reserves of the Group and Company are set out under the statement of changes in equity.

Under the Companies Law of the Cayman Islands, the share premium is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividends, the Company is also able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association of the Company, with the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium.

Notes to the Financial Statements

For the year ended 31 March 2005

24. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group had unrecognised deferred taxation assets as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Taxation effect of temporary differences arising as a result of:		
Tax losses available to set off against future assessable profits	1,149	–
Excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	397	309
	1,546	309

No provision for deferred taxation has been recognised in respect of the tax losses as this has not yet been all agreed with the Inland Revenue Department and it is not certain that they can be utilised in the foreseeable future.

No provision for deferred taxation has been recognised as the amount is insignificant. The amount of unrecognised deferred taxation credit for the year is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Taxation effect of temporary differences arising as a result of:		
Tax losses available to set off against future assessable profits	1,149	–
Excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	88	54
	1,237	54

The Group had no significant unrecognised deferred taxation at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2005

25. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the financial statements, the following significant related party transactions were carried out in the normal course of the Group's business:

	2005 HK\$'000	2004 HK\$'000
(a) Purchases from a related company	-	1,774
(b) During the year ended 31 March 2005, there was no (2004: HK\$3,120,000) corporate guarantee given by a related company for the banking facilities granted to a subsidiary of the Group.		

Note: The related companies in the transactions (a) and (b) are a subsidiary and an immediate holding company of the minority shareholder of a subsidiary of the Group respectively.

26. CONTINGENT LIABILITIES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Guarantees given on the banking facilities granted and utilised by subsidiaries	-	-	9,738	9,483
Bills discount with recourse	76	100	-	-
	76	100	9,738	9,483

27. COMMITMENTS

(a) Operating lease arrangements

The Group leases certain of its office premises, warehouses, retail shops and department store counters under non-cancellable operating lease arrangements with lease terms ranging from one to three years.

Notes to the Financial Statements

For the year ended 31 March 2005

27. COMMITMENTS (continued)

(a) Operating lease arrangements (continued)

At 31 March 2005, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	8,498	4,068
In the second to fifth years, inclusive	3,582	2,793
	12,080	6,861

(b) Capital commitments

	Group	
	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for	-	137

Save for the operating lease commitments and capital commitments above, at the balance sheet date, neither the Group, nor the Company had significant commitments.

28. ULTIMATE HOLDING COMPANY

The directors regard Wise New Management Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation of the financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 May 2005.