



# **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)*

**(Stock code: 8136)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2004**

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

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*This announcement, for which the directors of FX Creations International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to FX Creations International Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* for identification purposes only

## RESULTS

The board of directors (the “Directors”) of FX Creations International Holdings Limited (the “Company”) herein present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2004 together with the comparative figures for the previous year as follows:

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover	2	<b>65,847</b>	59,564
Cost of goods sold		<b>(34,318)</b>	(28,989)
Gross profit		<b>31,529</b>	30,575
Other revenue	2	<b>557</b>	497
Selling and distribution costs		<b>(17,797)</b>	(17,595)
Administrative expenses		<b>(13,146)</b>	(10,564)
Profit from operations	3	<b>1,143</b>	2,913
Finance costs	4	<b>(499)</b>	(660)
Profit before taxation		<b>644</b>	2,253
Taxation	5	<b>(281)</b>	(542)
Profit before minority interests		<b>363</b>	1,711
Minority interests		<b>388</b>	(15)
Net profit attributable to shareholders		<b>751</b>	1,696
Dividend	6	<b>–</b>	–
Earnings per share	7		
Basic (cent)		<b>HK0.19</b>	HK0.44
Diluted (cent)		<b>N/A</b>	N/A

Notes:

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

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.

Pursuant to a group reorganisation scheme (the “Group Reorganisation”) to rationalise the Group structure in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of its subsidiaries on 2 May 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 8 May 2002 (“Prospectus”).

The shares of the Company were listed on the GEM on 21 May 2002.

The financial statements have been prepared under the historical convention and in accordance with accounting standards issued by Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding companies of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 March 2003 and 2004 include the results of the Company and its subsidiaries with effect from the 1 April 2002 or since their respective dates of incorporation, where this is a shorter period.

In the opinion of the Directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2. 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.

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover		
Sales	<u>65,847</u>	<u>59,564</u>
Other revenue		
Interest income	17	67
Sundry income	<u>540</u>	<u>430</u>
	<u>557</u>	<u>497</u>
Total revenue	<u><b>66,404</b></u>	<u>60,061</u>

### 3. PROFIT FROM OPERATIONS

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Crediting:		
Interest income	17	67
Exchange gains	<u>56</u>	<u>2</u>
Charging:		
Auditors' remuneration	270	336
Cost of inventories sold	34,318	28,989
Depreciation	1,498	1,481
Directors' remuneration	1,092	1,117
Minimum lease payments under operating leases rental for land and buildings	9,188	10,357
Staff costs (excluding directors' remuneration)		
Salaries	8,953	8,933
Pension scheme contributions	<u>267</u>	<u>321</u>

### 4. FINANCE COSTS

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	<u>499</u>	<u>660</u>

### 5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) 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.

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong		
Current year	281	489
Overprovision in prior year	–	(76)
Other jurisdictions	<u>–</u>	<u>129</u>
Tax charge for the year	<u>281</u>	<u>542</u>

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before tax	<b>644</b>	2,253
Tax at the domestic tax rate of 17.5% (2003: 16%)	<b>113</b>	360
Tax effect on non-deductible expenses	<b>434</b>	257
Tax effect on non-taxable revenue	<b>(158)</b>	(76)
Tax effect on accelerated depreciation allowance	<b>(82)</b>	(61)
Over provision in prior years	–	(76)
Other jurisdictions	–	63
Others	<b>(26)</b>	75
	<hr/>	<hr/>
Tax charge for the year	<b>281</b>	542
	<hr/>	<hr/>

## 6. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2003: Nil).

## 7. EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to shareholders of HK\$751,000 (2003: HK\$1,696,000) and on weighted average number of 400,000,000 shares in issue during the year (2003: 386,701,000).

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

## 8. 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.

(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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	<u>34,840</u>	<u>32,437</u>	<u>31,007</u>	<u>27,127</u>	<u>-</u>	<u>-</u>	<u>65,847</u>	<u>59,564</u>
Segment results	<u>6,558</u>	<u>4,213</u>	<u>2,637</u>	<u>5,616</u>	<u>(8,052)</u>	<u>(6,916)</u>	<u>1,143</u>	<u>2,913</u>
Finance costs							<u>(499)</u>	<u>(660)</u>
Profit before tax							<u>644</u>	<u>2,253</u>
Taxation							<u>(281)</u>	<u>(542)</u>
Profit before minority interests							<u>363</u>	<u>1,711</u>
Minority interests							<u>388</u>	<u>(15)</u>
Net profit attributable to shareholders							<u>751</u>	<u>1,696</u>
<b>BALANCE SHEET</b>								
<b>ASSETS</b>								
Segment assets	<u>5,728</u>	<u>5,633</u>	<u>15,414</u>	<u>12,259</u>	<u>16,185</u>	<u>16,821</u>	<u>37,327</u>	<u>34,713</u>
Unallocated assets	<u>-</u>							
Total assets							<u>37,327</u>	<u>34,713</u>
<b>LIABILITIES</b>								
Segment liabilities	<u>20</u>	<u>2,281</u>	<u>189</u>	<u>4,453</u>	<u>15,239</u>	<u>6,463</u>	<u>15,448</u>	<u>13,197</u>
Unallocated liabilities	<u>-</u>							
Total liabilities							<u>15,448</u>	<u>13,197</u>
Other segment information:								
Depreciation	<u>376</u>	<u>746</u>	<u>501</u>	<u>251</u>	<u>621</u>	<u>484</u>	<u>1,498</u>	<u>1,481</u>
Capital expenditure	<u>414</u>	<u>693</u>	<u>-</u>	<u>5,011</u>	<u>195</u>	<u>1,918</u>	<u>609</u>	<u>7,622</u>

(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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	<u>48,059</u>	<u>39,233</u>	<u>4,257</u>	<u>6,169</u>	<u>10,340</u>	<u>11,345</u>	<u>1,755</u>	<u>1,693</u>	<u>1,436</u>	<u>1,124</u>	<u>65,847</u>	<u>59,564</u>
Other segment information:												
Segment assets	27,296	23,337	7,426	9,267	2,605	1,964	-	18	-	127	37,327	34,713
Capital expenditure	<u>547</u>	<u>396</u>	<u>-</u>	<u>6,812</u>	<u>62</u>	<u>414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609</u>	<u>7,622</u>

**9. RESERVES MOVEMENT**

	Share premium HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1 April 2002	-	1,702	1,702
Issue of shares to the Pre-IPO Investors	4,867	-	4,867
Capitalisation issue	(3,126)	-	(3,126)
New issue on public listing	20,250	-	20,250
Shares issue expenses	(8,288)	-	(8,288)
Net profit for the year	<u>-</u>	<u>1,696</u>	<u>1,696</u>
Balance at 31 March 2003	13,703	3,398	17,101
Net profit for the year	<u>-</u>	<u>751</u>	<u>751</u>
Balance at 31 March 2004	<u>13,703</u>	<u>4,149</u>	<u>17,852</u>

## **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, Australia, New Zealand, Korea, Japan and Europe markets.

### **Market Overview**

The retail environments in Hong Kong and Asia were generally weak during the first half of the Group's financial year due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). The retail environments in Hong Kong and Asia started to improve during the second half of the Group's financial year as the SARS outbreak became under control and retail spending improved. Despite this, the Group managed to achieve a growth in its sales as sales to wholesalers increased. The Group believes that introducing more new designs and products at competitive prices and controlling operating costs will be the strategy forward.

### **Business Overview**

During the year ended 31 March 2004, the Group closed 2 retail outlets in Hong Kong and closed 4 retail outlets 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.

During the year ended 31 March 2004, the Group signed a sole agency agreement with a company in Japan for the use of "Astro Boy" brandname whereby the Group designs, develops and distributes bags under the "Astro Boy" brandname in Hong Kong, the PRC and Taiwan. The Group is of the view that such diversification would increase the choices for the customers and hence strengthen the Group's sales.

To strengthen its PRC market position, the Group terminated its sole agency agreement with the agent in the PRC during the year ended 31 March 2004. Following the termination, the Group appointed a new distributor in Guangzhou, the PRC, who is responsible for the whole PRC market. By doing so, the Group hopes the sales to the PRC market would expand further.

## **FINANCIAL REVIEW**

### **Results**

For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$65,847,000 (2003: approximately HK\$59,564,000), representing an increase of approximately 11% as compared to the previous corresponding year. The increase in turnover was attributed to the increase in various promotion activities undertaken with its customers in Hong Kong, and the increase in sales to wholesalers due to the increase in the number of distributors, and sales to the existing and new distributors.

Net profit attributable to shareholders for the year ended 31 March 2004 amounted to approximately HK\$751,000 (2003: approximately HK\$1,696,000), representing a decrease of approximately 56% as compared to the previous corresponding year. The decrease was mainly attributable to the decrease in gross profit margin as a result of higher portion of sales to wholesalers which had lower gross profit margins as compared to the sales to retailers.

### **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\$9,483,000 as at 31 March 2004 (2003: approximately HK\$6,889,000).

As at 31 March 2004, the Group had net current assets of approximately HK\$10,173,000 (2003: approximately HK\$8,984,000) including bank and cash balances of approximately HK\$6,765,000 (2003: approximately HK\$6,837,000) and pledged bank deposits of approximately HK\$3,567,000 (2003: approximately HK\$3,403,000).

At 31 March 2004, the Group had total available banking facilities of approximately HK\$16,343,000 (2003: approximately HK\$23,804,000 ) which were supported by the following:

- (i) the pledge of a bank deposit of approximately HK\$3,567,000 (2003: approximately HK\$3,403,000);
- (ii) corporate guarantee executed by the Company totaling HK\$14,873,000 (2003: HK\$20,517,000); and
- (iii) the pledge of certain current asset of a subsidiary of the Company amounting to HK\$934,000 (2003: HK\$156,000 ).

As at 31 March 2004, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.25 (2003: 0.20). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in Hong Kong (“HK”) dollars.

As at 31 March 2004, the Group has outstanding bank borrowings of approximately HK\$9,483,000 (2003: approximately HK\$6,889,000 ). The bank borrowings comprised secured bank overdrafts of approximately HK\$3,644,000 (2003: approximately HK\$2,637,000), secured bills payable of approximately HK\$3,556,000 (2003: approximately HK\$2,390,000) and secured bank loans of approximately HK\$2,283,000 (2003: approximately HK\$1,862,000). As at 31 March 2004, approximately HK\$8,880,000 was repayable within one year and approximately HK\$603,000 was repayable in the second year. As at 31 March 2003, all bank borrowings were repayable within one year.

The shares of the Company were listed on 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 detailed in note 17 to the financial statements in the annual report of the Company, as at 31 March 2004, there was no other significant investment held by the Group.

### **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 2004, the Group had the following contingent liabilities:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bills discount with recourse	<b>100</b>	201

As at 31 March 2004, the Company had provided guarantees for banking facilities granted to and utilised by subsidiaries of approximately HK\$9,483,000 (2003: approximately HK\$7,079,000).

## 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 2004, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	<b>4,068</b>	5,854
In the second to fifth years, inclusive	<b>2,793</b>	1,640
	<b>6,861</b>	7,494

At the balance sheet date, the Group had contracted commitments in respect of licence fee of approximately HK\$137,000 (2003: Nil).

## Foreign exchange exposure

The Group's income and expenditure during the year ended 31 March 2004 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 2004 were denominated in HK dollars and NT dollars. Accordingly, the Directors are of the view that, to certain extent, the Group is exposed to foreign currency exchange risk. For the US dollars foreign exchange exposure, the Directors believe 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 Directors 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*

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Retail sales	<b>34,840</b>	32,437
Wholesale sales	<b>31,007</b>	27,127
	<hr/> <b>65,847</b> <hr/>	<hr/> 59,564 <hr/>

### *Geographical segments*

PRC:		
Hong Kong, SAR	<b>48,059</b>	39,233
Elsewhere	<b>4,257</b>	6,169
Taiwan	<b>10,340</b>	11,345
Singapore	<b>1,755</b>	1,693
Others	<b>1,436</b>	1,124
	<hr/> <b>65,847</b> <hr/>	<hr/> 59,564 <hr/>

### *Business segments*

#### Retail sales

Retail sales increased by approximately 7.4%, as compared to the previous corresponding year, to approximately HK\$34,840,000 (2003: approximately HK\$32,437,000). The increase was attributed to the increase in sales in the retail outlets in Taiwan.

#### Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Sales to agents decreased by approximately 3.6%, as compared to the previous corresponding year, to approximately HK\$6,591,000 (2003: approximately HK\$6,836,000). The decrease was mainly attributed to the decrease in sales to the agents in the PRC.

Sales to distributors increased by approximately 20.3%, as compared to the previous corresponding year, to approximately HK\$24,416,000 (2003: approximately HK\$20,291,000). The increase was mainly attributed to the increase in various promotion activities undertaken with its customers in Hong Kong and the increase in sales to new and existing distributors.

### *Geographical segment*

For the year ended 31 March 2004, sales in Hong Kong, SAR increased by approximately 22.5% as compared to the previous corresponding year. The increase was mainly attributed to the increase in sales from various promotion activities undertaken with its customers in Hong Kong.

For the year ended 31 March 2004, sales to elsewhere in the PRC decreased by approximately 31% 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 2004, sales to Taiwan decreased by approximately 8.9% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in sales to distributors in Taiwan.

For the year ended 31 March 2004, sales to Singapore increased by approximately 3.7% 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 2004, sales to other countries increased by approximately 27.8% as compared to the previous corresponding year. The increase was mainly attributed to the increase in orders from countries other than above.

Please refer to note 8 to the financial statements for details on business and geographical segments.

### **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 under the sections headed "Statement of Business Objectives" and "Reasons for the Share Offer and the Use of Proceeds" respectively. Other than those disclosed thereon and under sections headed "Comparison of Business Objectives with Actual Business Progress" and "Use of Proceeds" in this results announcement, the Group did not have any other plans for material investments or capital assets.

### **Employees and remuneration policies**

As at 31 March 2004, the Group had 108 (2003: 87) employees, including Directors. Total staff costs (including Directors' emoluments) were approximately HK\$10,312,000 for the year ended 31 March 2004 (2003: approximately HK\$10,371,000). Remuneration is determined with reference to the 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.

### **PROSPECTS**

With the influx of visitors from the People's Republic of China ("PRC") which brings with it a huge spending power, the Directors believe the strategy for the retail market is to capture the spending from these PRC consumers. As well as keeping on introducing new innovative designs and products frequently to keep up with the corporate image and maintain consumers' interests in the products of the Group, the Group will also continue to implement various promotion strategies to boost sales. On the wholesale side, the Group will continue to identify agents and distributors to target overseas and local markets.

## 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 2003 to 31 March 2004 (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 2004, there were 10 retail outlets in Hong Kong, which consisted of 5 retail shops and 5 department store counters and 9 retail outlets in Taiwan. No retail outlet was closed in Hong Kong during the Review Period. 3 retail outlets were closed in Taiwan during the Review Period due to the expiry of leases. The Group is continuing 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 the partnership agreement with the agent in Thailand.

#### Conduct advertising campaigns:

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

The Group continued to conduct advertising campaigns such as bill boards and road shows and participated in promotion activities with credit card and discount card issuers 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** and **Annvu**, 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 brandname **FX CREATIONS** during the Review Period.

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

The Group is in the process of identifying business partners for the development of apparel products under the **FX CREATIONS** brandname.

**According to the business objectives as stated in the Prospectus**

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

**Geographical expansion:**

Negotiate and sign up new sole agents in Japan

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 Philippines

Negotiate and sign up new agents in Indonesia

**Human resources development:**

Expand the marketing and retail sales team

Expand the product development and design team

Expand the production and quality control team

**Actual business progress in the Review Period**

The Group is in the process of identifying business partners for the development of footwear under the **FX CREATIONS** brandname.

The Group has not signed its sole agency agreement with its authorized distributors in Japan as the terms of the agreement have not been reached. The Group intends to postpone the signing of the sole agency arrangement to before 30 September 2004 in order to provide more time for the market of the Group's products to grow.

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

The Group signed an agency agreement with an agent in the United Kingdom in the first half of the financial year. The Group is continuing to identify other potential new agents in Europe.

The Group is in the process of identifying potential agents in Macau. No agreement was 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 Philippines. No agreement was 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.

As at 31 March 2004, there are 48 staff in the marketing and retail sales team (2003: 56).

As at 31 March 2004, there are 6 staff in the product development and design team (2003: 6).

As at 31 March 2004, there are 41 staff in the production and quality control team (2003: 13).

## According to the business objectives as stated in the Prospectus

Implementation of training programmes to improve the marketing skills of staff

To recruit more experienced management staff

### **Production:**

Set up own production facilities in China

## Actual business progress in the Review Period

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

The Group established its own manufacturing capacity through a processing agent in the PRC in the previous year. During the Review Period, the Group continued to look for suitable machinery and production facilities for acquisition in order to increase its manufacturing capacity.

## 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 were approximately HK\$12,800,000.

During the period from 3 May 2002 (Latest Practicable Date as defined in the Prospectus) to 31 March 2004, the Group has applied the net proceeds from the placing of shares as follows:

	<b>Proposed</b> <i>HK\$'000</i>	<b>Actual</b> <i>HK\$'000</i>
Opening of new retail outlets	1,500	1,500
Marketing and promotion	800	800
Production facilities	10,100	10,100
Geographical expansion	400	400
	<hr/>	<hr/>
Total	12,800	12,800
	<hr/>	<hr/>

The net proceeds from the placement and public offer of approximately HK\$12,800,000 have all been applied as at 31 March 2004.

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

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

## **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 (who was appointed on 25 August 2003). The consolidated financial statements of the Group for the year ended 31 March 2004 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. 4 meetings were held during the current financial year.

## **PURCHASE, REDEMPTION OR SALES 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.

As at the date of this announcement, the Company’s executive directors are Ng Pak To, Petto, Ho Kai Chung, David and Ong Chor Wei, the Company’s non-executive director is Wong Wai Shan, and the Company’s independent non-executive directors are Christopher C. Leu, Kau Man Wai, Leslie and Guo Jian.

By Order of the Board  
**Ng Pak To, Petto**  
*Chairman*

Hong Kong, 18 June 2004

*The announcement will remain on GEM website on the “Latest Company Announcements” page for 7 days from the day of its posting.*