



# 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 2006

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*This announcement, for which the directors (the “Directors”) of FX Creations International Holdings Limited (the “Company”) 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 the Company. 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

## FINANCIAL RESULTS

The board of directors (the "Board") of 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 2006 together with the comparative figures for the previous year as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>TURNOVER</b>	3	<b>70,913</b>	69,893
Cost of sales		<b>(38,576)</b>	(36,628)
Gross profit		<b>32,337</b>	33,265
Other revenue	3	<b>2,179</b>	681
Selling and distribution costs		<b>(23,031)</b>	(23,596)
Administrative expenses		<b>(16,277)</b>	(19,494)
<b>LOSS FROM OPERATIONS</b>	4	<b>(4,792)</b>	(9,144)
Finance costs	5	<b>(508)</b>	(584)
<b>LOSS BEFORE INCOME TAX</b>		<b>(5,300)</b>	(9,728)
Income tax	6	<b>(100)</b>	(223)
<b>LOSS FOR THE YEAR</b>		<b>(5,400)</b>	(9,951)
Attributable to:			
Equity holders of the Company		<b>(5,359)</b>	(10,045)
Minority interests		<b>(41)</b>	94
		<b>(5,400)</b>	(9,951)
<b>DIVIDENDS</b>	7	-	-
<b>LOSS PER SHARE</b>	8		
- Basic		<b>(HK1.3 cents)</b>	(HK2.51 cents)
- Diluted		<b>N/A</b>	N/A

**CONSOLIDATED BALANCE SHEET**

As at 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		1,210	6,166
Long-term investments		–	830
Rental and sundry deposits		2,132	1,723
		<b>3,342</b>	8,719
<b>CURRENT ASSETS</b>			
Short-term investments		–	1,434
Inventories		1,788	3,023
Accounts receivable	9	3,521	6,591
Prepayments, deposits and other receivables		1,876	2,144
Due from a minority shareholder		360	360
Taxes refundable		2	28
Pledged bank deposits		–	2,742
Cash and bank balances		3,962	1,527
		<b>11,509</b>	17,849
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	3,680	3,418
Accrued expenses and other payables		1,279	1,317
Taxes payable		131	167
Amount due to a shareholder		453	–
Bills payable – secured		–	4,381
Bank overdrafts – secured		–	3,810
Short-term bank loans – secured		377	600
Current portion of long-term bank loans – secured		–	947
Current portion of other long-term loan – secured		500	–
		<b>6,420</b>	14,640
		<b>5,089</b>	3,209
<b>NET CURRENT ASSETS</b>			
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>8,431</b>	11,928
<b>NON-CURRENT LIABILITIES</b>			
Other long-term loans – secured		83	–
<b>NET ASSETS</b>			
		<b>8,348</b>	11,928
<b>FINANCED BY</b>			
Share capital		4,605	4,000
Reserves		3,663	7,807
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
		<b>8,268</b>	11,807
<b>MINORITY INTERESTS</b>			
		<b>80</b>	121
		<b>8,348</b>	11,928

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2006

	<b>Issued share capital</b>	<b>Share premium</b>	<b>Retained earnings/ (Accumulated losses)</b>	<b>Total</b>	<b>Minority interest</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2004	4,000	13,703	4,149	21,852	27	21,879
Net loss for the year	-	-	(10,045)	(10,045)	94	(9,951)
Balance at 1 April 2005	4,000	13,703	(5,896)	11,807	121	11,928
Issue of new shares	605	1,392	-	1,997	-	1,997
Issuing cost	-	(177)	-	(177)	-	(177)
Net loss for the year	-	-	(5,359)	(5,359)	(41)	(5,400)
<b>Balance at 31 March 2006</b>	<b>4,605</b>	<b>14,918</b>	<b>(11,255)</b>	<b>8,268</b>	<b>80</b>	<b>8,348</b>

Notes:

## 1. BASIS OF PRESENTATION AND ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") (Collectively referred to as the "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the disclosure requirements of the Hong Kong Company Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The accounting policies and method computation used in the preparation of these financial statements are consistent with those used in the annual accounts of the Group for the year ended 31 March 2005, except that the Group has changed certain of its presentation of the accounts following the adoption of the New HKFRSs which have become effective for accounting periods beginning on or after 1 January 2005, and which have not been early adopted by the Group for the preparation of the annual accounts of the Group for the year ended 31 March 2005.

Except for adoption of HKAS 1 and HKAS 27, which result in changes to the presentation of the accounts on minority interests, the adoption of all other New HKFRSs did not result in substantial changes to the accounting policies and their methods of computation used in the Group's accounts for the year ended 31 March 2006.

In the prior periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 April 2005, in order to comply with HKAS1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

At the date of this announcement, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	(Note a)	Capital disclosures
HKAS 19 (Amendment)	(Note b)	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	(Note b)	The effect of changes in foreign exchange rates – Net investment in a foreign operation
HKAS 39 (Amendment)	(Note b)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	(Note b)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	(Note b)	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 6	(Note b)	Exploration for and evaluation of mineral resources
HKFRS 7	(Note a)	Financial instruments: Disclosures
HKFRS – Int 4	(Note b)	Determining whether an arrangement contains a lease
HKFRS – Int 5	(Note b)	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	(Note c)	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment
HK(IFRIC) – Int 7	(Note d)	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	(Note e)	Scope of HKFRS 2
HK(IFRIC) – Int 9	(Note f)	Reassessment of embedded derivatives

Note a: effective for annual periods beginning on or after 1 January 2007

Note b: effective for annual periods beginning on or after 1 January 2006

Note c: effective for annual periods beginning on or after 1 December 2005

Note d: effective for annual periods beginning on or after 1 March 2006

Note e: effective for annual periods beginning on or after 1 May 2006

Note f: effective for annual periods beginning on or after 1 June 2006

The Group has commenced considering the potential impact of the above new HKFRS but is not yet in a position to determine whether these HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

## 2. SEGMENT REPORTING

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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:								
Sales to external customers	<b>39,715</b>	45,028	<b>31,198</b>	24,865	-	-	<b>70,913</b>	69,893
Segment results	<b>3,761</b>	7,637	<b>1,219</b>	(3,457)	<b>(9,772)</b>	(13,324)	<b>(4,792)</b>	(9,144)
Finance costs							<b>(508)</b>	(584)
Loss before income tax							<b>(5,300)</b>	(9,728)
Income tax							<b>(100)</b>	(223)
Loss for the year							<b>(5,400)</b>	(9,951)
<b>BALANCE SHEET</b>								
<b>ASSETS</b>								
Segment assets	<b>4,172</b>	8,547	<b>4,806</b>	10,504	<b>5,873</b>	7,517	<b>14,851</b>	26,568
Unallocated assets	-	-	-	-	-	-	-	-
Total assets							<b>14,851</b>	26,568
<b>LIABILITIES</b>								
Segment liabilities	-	66	<b>103</b>	27	<b>6,400</b>	14,547	<b>6,503</b>	14,640
Unallocated liabilities							-	-
Total liabilities							<b>6,503</b>	14,640
Other segment information:								
Depreciation	<b>644</b>	635	<b>962</b>	911	<b>131</b>	196	<b>1,737</b>	1,742
Capital expenditure	<b>208</b>	941	-	527	<b>73</b>	242	<b>281</b>	1,710

## (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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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	53,664	51,660	5,617	3,087	9,393	12,442	1,744	1,876	495	828	70,913	69,893
Other segment information:												
Segment assets	13,145	16,015	673	7,019	1,030	3,442	-	92	3	-	14,851	26,568
Capital expenditure	281	935	-	527	-	248	-	-	-	-	281	1,710

## (iii) Segment information

### Business segments

	2006 HK\$'000	2005 HK\$'000
Retail sales	39,715	45,028
Wholesale sales	31,198	24,865
	<b>70,913</b>	69,893

### Geographical segments

PRC:		
Hong Kong, SAR	53,664	51,660
Elsewhere	5,617	3,087
Taiwan	9,393	12,442
Singapore	1,744	1,876
Others	495	828
	<b>70,913</b>	69,893

### Business segments

#### Retail sales

Retail sales decreased by approximately 12%, as compared to the previous corresponding year, to approximately HK\$39,715,000 (2005: approximately HK\$45,028,000).

#### Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Sales to agents increased by approximately HK\$5,927,000, as compared to the previous corresponding year, to approximately HK\$11,264,000 (2005: approximately HK\$5,337,000). The increase was mainly attributed to the increase in sales to the agents in the PRC.

Sales to distributors increased by approximately 2%, as compared to the previous corresponding year, to approximately HK\$19,933,000 (2005: approximately HK\$19,528,000). The increase was mainly attributed to the increase in orders from existing customers.

### Geographical segments

For the year ended 31 March 2006, sales in Hong Kong increased by approximately 4% 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 2006, sales to elsewhere in the PRC increased by approximately 82% as compared to the previous corresponding year. The increase was mainly attributed to the increase in sales to the Group's agents in the PRC.

For the year ended 31 March 2006, sales to Taiwan decreased by approximately 25% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in sales and close of the retail outlets in Taiwan.

For the year ended 31 March 2006, sales to Singapore decreased by approximately 7% as compared to the previous corresponding year. The decrease was attributed to the decrease in sales to the Group's agent in Singapore.

For the year ended 31 March 2006, sales to other countries decreased by approximately 40% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in orders from countries other than above.

### 3. 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>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Turnover		
Sales	<b>70,913</b>	69,893
Other revenue		
Interest income	<b>152</b>	58
Exchange gains	-	216
Management income	<b>900</b>	-
Machinery rental income	<b>600</b>	-
Sundry income	<b>527</b>	407
	<b>2,179</b>	681
Total revenue	<b>73,092</b>	70,574

### 4. LOSS FROM OPERATIONS

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
<b>Crediting:</b>		
Interest income	<b>152</b>	58
Recovery of bad debts	-	249
Exchange gains	-	216
<b>Charging:</b>		
Auditors' remuneration	<b>250</b>	230
Bad debts written off	<b>1,495</b>	2,190
Cost of inventories sold	<b>38,576</b>	36,628
Depreciation	<b>1,737</b>	1,742
Directors' remuneration	<b>909</b>	1,044
Exchange losses	<b>32</b>	-
Provision for impairment of fixed assets	<b>3,500</b>	-
Provision for impairment loss of other investments	-	3,500
Loss on disposal of other investments	<b>260</b>	-
Loss on disposals of fixed assets	-	1,041
Minimum lease payments under operating lease rentals for land and buildings	<b>11,319</b>	10,822
Staff costs (excluding directors' remuneration, note (8))		
Salaries	<b>10,573</b>	11,362
Pension scheme contributions	<b>366</b>	340



## 5. FINANCE COSTS

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<b>508</b>	584

## 6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The amount of income tax in the consolidated income statement represents:

	<b>Group</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Hong Kong		
Current year	<b>110</b>	150
(Over)/Under provision in prior years	<b>(10)</b>	73
Other jurisdictions	-	-
<b>Tax charge for the year</b>	<b>100</b>	223

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

	<b>Group</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Loss before income tax	<b>(5,300)</b>	(9,728)
Tax at the domestic tax rate of 17.5% (2005: 17.5%)	<b>(927)</b>	(1,702)
Tax effect on non-deductible expenses	<b>851</b>	965
Tax effect on non-taxable revenue	<b>(27)</b>	(170)
Tax effect on accelerated depreciation allowance	<b>100</b>	78
Tax effect on prior year's tax losses utilised this year	<b>(82)</b>	(41)
Tax effect on unused tax losses not recognized	<b>195</b>	1,020
(Over)/Under provision in prior years	<b>(10)</b>	73
<b>Tax charge for the year</b>	<b>100</b>	223

## 7. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2005: Nil).

## 8. LOSS PER SHARE

Basic loss per share is calculated based on the loss attributable to shareholders of HK\$5,359,000 (2005: HK\$10,045,000) and on the weighted average number of 421,549,370 shares in issue during the year (2005: 400,000,000 shares).

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

## 9. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, which generally have credit terms of up to 90 days (2005: 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:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>3,485</b>	5,570
91-180 days	-	1,013
181-365 days	-	4
Over 1 year	<b>36</b>	4
	<b>3,521</b>	6,591

## 10. 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:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>3,229</b>	2,748
91-180 days	<b>400</b>	190
181-365 days	<b>51</b>	-
Over 1 year	-	480
	<b>3,680</b>	3,418

## 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.

### Market Overview

The retail environment in Hong Kong experienced a tough year due to the keen competition from the competitors as well as experienced an increase of rental and costs in Hong Kong. The Group recorded decrease in retail sales of approximately 12% in the year under review.

However, the Group recorded an increase in wholesale sales by approximately 25% in the year under review compared to the previous corresponding year mainly due to more orders from existing customers.

As a result of the above, overall sales increased by approximately 1%.

## **Business Overview**

During the year ended 31 March 2006, the Group closed 8 retail outlets in Hong Kong, 2 retail shops outlets were opened, 8 and 11 department store counters were closed in Hong Kong and Taiwan respectively. The retail outlets shops and department store counters were closed because of the expiry of the leases and the Group considered it is not economically feasible to renew the leases and to streamline its operations and resources and franchise to operate the Group's retail network in Hong Kong.

The Group continued to identify potential new agents in new areas but no new agency agreement was signed during the year ended 31 March 2006. 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\$5,359,000 was recorded in the year under review. The losses were mainly attributed to increase in the rental expenses, provision for impairment of fixed assets, loss from disposals of other investments, and cost of inventories sold.

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.

## **FINANCIAL REVIEW**

### **Results**

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK\$70,913,000 (2005: approximately HK\$69,893,000), representing an increase of approximately 1% as compared to the previous corresponding year. The increase in turnover was attributed to the increase in sales of 25% in the wholesale segment which was offset by the decrease in sales of 12% in the retail segment.

Net loss attributable to shareholders for the year ended 31 March 2006 amounted to approximately HK\$5,359,000 (2005: HK\$10,045,000). The losses were mainly attributed to increase in the rental expenses, provision for impairment of fixed assets, loss from disposals of other investments and cost of inventories sold.

### **Liquidity, financial resources and capital structure**

During the year, the Group financed its operations with its own working capital and bank borrowings.

As at 31 March 2006, the Group had net current assets of approximately HK\$5,089,000 (2005: approximately HK\$3,209,000) including bank and cash balances of approximately HK\$3,962,000. As at 31 March 2005, bank and cash balances (including pledged bank deposits) were approximately HK\$4,269,000.

The Group did not have any banking facilities as at 31 March 2006. As at 31 March 2005, the Group had total available banking facilities of approximately HK\$14,887,000 which were supported by the following:

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

As at 31 March 2005, approximately HK\$9,738,000 was utilized by the Group.

As at 31 March 2006, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.03 (2005: 0.37). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in Hong Kong dollars.

As at 31 March 2006, the Group had outstanding tax loan with bank of approximately HK\$377,000, which was repayable within one year. As at 31 March 2005, the Group had total outstanding bank borrowings of approximately HK\$9,738,000 comprising secured bank overdrafts of approximately HK\$3,810,000, secured bills payable of approximately HK\$4,381,000 and secured bank loans of approximately HK\$1,547,000.

As at 31 March 2006, the Group had other secured loan of approximately HK\$583,000 (2005: Nil), of which approximately HK\$500,000 was repayable within one year and approximately HK\$83,000 was repayable beyond one year but within five years.

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.

On 9 December 2005, the Company issued and allotted 60,504,000 shares to 6 places who were independent third parties.

On 26 May 2006, the Company, by way of open offer of new Shares, will issue not less than 232,552,000 offer shares and not more than 249,302,000 offer shares on the basis of one offer share for every two existing shares. Following the completion of open offer on the estimated date of 14 July 2006, the total issued share capital is expecting to enlarge to 747,906,000 shares.

### Significant investments

As at 31 March 2006, there was no significant investment held by the Group. As at 31 March 2005, the Group had investment in listed securities in Hong Kong which fair value as at that date were approximately HK\$500,000.

### 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 2006, the Group had no material contingent liabilities.

As at 31 March 2005, the Group had discounted bills with recourse of approximately HK\$76,000. In addition, the Company had provided guarantees for banking facilities granted to and utilised by subsidiaries of approximately HK\$9,738,000 as at 31 May 2005.

### 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 2006, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Within one year	<b>6,165</b>	8,498
In the second to fifth years, inclusive	<b>3,905</b>	3,582
	<b>10,070</b>	12,080

### **Foreign exchange exposure**

The Group's income and expenditure during the year ended 31 March 2006 were denominated in United States ("US") dollars, Hong Kong ("HK") dollars and New Taiwanese ("NT") dollars, and most of the assets and liabilities as at 31 March 2006 were denominated in HK dollars and NT dollars. Accordingly, the Board is of the view that, to 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.

### **Future plans for material investments and expected source of funding**

While looking at ways to improve the business further, the Group is looking for business opportunities elsewhere to improve the financial performance and improve shareholders returns.

To seek more business opportunities and to maximise the return to the Group in the long run, the Group entered into a memorandum of understanding with independent third parties on 2 June 2006 in respect of an acquisition in whole, or in part, of the equity interests of a company which has secured an exclusive distribution rights in relation to the sale and distribution of funeral related products and services on a worldwide basis.

On 25 May 2006, the Company proposes to raise not less than approximately HK\$13.95 million and not more than approximately HK\$14.96 million before expenses, by way of an open offer of new shares, of is not less than 232,552,000 offer shares and not more than 249,302,000 offer shares at a price of HK\$0.06 per offer share on the basis of one offer share for every two existing shares held on the 19 June 2006.

### **Employees and remuneration policies**

As at 31 March 2006, the Group had 80 (2005: 137) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$11,848,000 for the year ended 31 March 2006 (2005: approximately HK\$12,746,000). 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.

### **PROSPECTS**

The Group views the prospects of its business as challenging as the Group is experiencing rental and costs increases in Hong Kong while sales have not increased at the same percentage due to a more competitive business environment. Nevertheless, the Group is continuing to introduce new designs and products while maintaining cost control measures to remain competitive. To expand its sales network and to streamline its operations and resources, the Group is looking for new franchisees to operate the Group's retail network in Hong Kong. On the wholesale side, the Group is continuing to look for new agents in new countries as well as working more closely with the existing agents.

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.

While looking at ways to improve its business further, the Group is looking for business opportunities elsewhere to improve its financial performance and improve shareholders returns.

On 8 March 2006, the controlling shareholder of the Company was changed and Mr. Wong Wing Cheung, Peter has been appointed as an executive director and Chairman with effect from 1 April 2006 and 19 April 2006 respectively. It is expected that by virtue of the experience of Mr. Wong in the manufacturing of leather goods and his marketing network, synergistic effect and more business opportunities would be brought to the existing business of the Group.

To seek more business opportunities and to maximize return to the Group in the long run, the Group entered into a memorandum of understanding with independent third parties on 2 June 2006 in respect of an acquisition of the whole or part of the equity interests of a company which has secured an exclusive distribution rights in relation to the sale and distribution of funeral related products and services on a worldwide basis.

#### **COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES**

The Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005, which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CCGP. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. Not only is it a question of regularly compliance but also is the guidance of the Company to do the right thing. Therefore, the Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in following, the Group has adopted practices which meets the code provisions of the CCGP throughout the year ended 31 March 2006 (i) the roles of chairman and chief executive officer are not separate and are performed by the same individual, and (ii) no nomination committee of the Board is established.

Under the code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. Wong Wing Cheung, Peter is both the Chairman and Chief Executive Officer of the Company who is responsible for managing the Board and the Group's business. Mr. Wong has been both Chairman and Chief Executive Officer of the Company since April 2006. The Board considers that, with the present board structure and scope of business of the Group, there is no imminent need to separate the roles into two individuals as Mr. Wong is perfectly capable of distinguishing the priority of these roles in which he has been acting. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of Chairman and Chief Executive Officer is necessary.

Up to the date of this announcement, the Board has not yet established a Nomination Committee. The appointment of any new director is therefore being considered and approved by the Board. The Board considers that the new directors are expected to equip with expertise in making positive contribution to the Group and to provide timely and sufficient attention to the affairs of the Group. The Group is in the progress of forming a nomination committee which is expected to be established in accordance with the GEM Listing Rule as and when appropriate.

## **COMPETITION AND CONFLICT OF INTERESTS**

Up to the date of this announcement, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

## **SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code"). During the year ended 31 March 2006, the Company had made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard set out in the Code.

## **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. Lee Kun Hung, Mr. Wong Hou Yan, Norman and Mr. Cheung Chi Hwa, Justin. The consolidated financial statements of the Group for the year ended 31 March 2006 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 current financial year.

## **REMUNERATION COMMITTEE**

The remuneration committee was established with written terms of reference in compliance with the code provision. The remuneration committee consists of three members, of which all are independent non-executive directors, namely Mr. Cheung Chi Hwa, Justin, Mr. Lee Kun Hung and Mr. Wong Hou Yan, Norman. The chairman of the committee is Mr. Wong Hou Yan, Norman.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

## **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.

At the date of this announcement, the Company's executive directors are Mr. Wong Wing Cheung, Peter, Mr. Chan Man Yin, Mr. Chan Francis Ping Kuen and the Company's independent non-executive directors are Mr. Lee Kun Hung, Mr. Wong Hou Yan, Norman and Mr. Cheung Chi Hwa, Justin.

By order of the Board  
**FX Creations International Holdings Limited**  
**Wong Wing Cheung, Peter**  
*Director*

Hong Kong, 27 June 2006

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