



**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)

**Annual Report 2003**

\* For identification purposes only

**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 and no assurance is given that there will be 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)  
Ho Kai Chung, David  
Ong Chor Wei

#### Non-Executive Director

Wong Wai Shan

#### Independent Non-Executive Directors

Kau Man Wai, Leslie  
Christopher C. Leu

### COMPLIANCE OFFICER

Ng Pak To, Petto

### QUALIFIED ACCOUNTANT

Ong Chor Wei, ACA, AHKSA

### COMPANY SECRETARY

Ong Chor Wei, ACA, AHKSA

### AUDIT COMMITTEE

Kau Man Wai, Leslie  
Christopher C. Leu

### AUTHORISED REPRESENTATIVES

Ng Pak To, Petto  
Ong Chor Wei

### REGISTERED OFFICE

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

### 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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 G.T.  
36C, Bermuda House  
3rd Floor  
Dr. Roy's Drive  
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

### SPONSOR

Kingston Corporate Finance Limited

## AUDITORS

RSM Nelson Wheeler  
*Certified Public Accountants*

## LEGAL ADVISORS

**As to Hong Kong Law**  
Vincent T.K. Cheung, Yap & Co.

**As to Taiwanese Law**  
Huang & Partners

**As to Cayman Islands Law**  
Conyers Dill & Pearman, Cayman

## PRINCIPAL BANKERS

Shanghai Commercial Bank Limited  
Asia Commercial Bank Limited  
Standard Chartered Bank

## 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 2003 to our shareholders.

### MARKET OVERVIEW

The retail environment in Hong Kong and Taiwan continued to be weak due to weak consumer demand and the continued weak global economy. Despite this, the Group managed to achieve a growth in its sales by opening more retail outlets in Taiwan and by increasing its sales to wholesalers. The Group believes that introducing more new designs and products at competitive prices is the strategy in this weak consumer market and hence, controlling operating costs will be crucial.

### FINANCIAL OVERVIEW

During the year ended 31 March 2003, the Group recorded a turnover of approximately HK\$59,564,000 (2002: HK\$49,587,000), an increase of approximately 20% compared to the previous corresponding year. The turnover for the year ended 31 March 2003 comprised retail sales and wholesale sales which accounted for approximately 55% and 45% (2002: 66% and 34%) of the total turnover respectively. As at 31 March 2003, the Group had 12 (2002: 12) retail outlets in Hong Kong which consisted of 6 (2002: 8) retail shops and 6 (2002: 4) department store counters and 13 (2002: 12) department store counters in Taiwan.

The increase in turnover was mainly attributable to increase in sales to wholesalers due to increase in the number of distributors, and sales to existing and new distributors.

Net profit attributable to shareholders for the year ended 31 March 2003 amounted to approximately HK\$1,696,000 (2002: HK\$1,920,000), a decrease of approximately 12% 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 commanded lower gross profit margins.

### PROSPECTS AND APPRECIATION

The Group foresees that the retail environment in Hong Kong and Taiwan to be weak in the coming year due to weak domestic demand and weak global economy generally. To cope with such challenges, the Group will continue to implement new promotion strategies to boost sales and also introduce new designs and products more frequently to keep up with the corporate image and maintain consumers' interests in the products of the Group. At the same time, the Group will also continue to expand its sales to wholesalers to target overseas markets.

The Group will 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 and staff for their dedication and contribution to the Group and to those who have supported us. We will make our best efforts in developing our businesses to produce good economic results and better returns for our shareholders.

**Ng Pak To, Petto**  
*Chairman*

24 June 2003

## MANAGEMENT DISCUSSION AND ANALYSIS

### GENERAL

The Group is principally engaged in retail and wholesales 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 People's Republic of China (the "PRC"), Singapore, Malaysia, Indonesia, Australia, New Zealand, Korea, Japan and Europe markets.

### BUSINESS OVERVIEW

During the year ended 31 March 2003, the Group opened 3 new retail outlets and closed 3 retail outlets in Hong Kong. In Taiwan, the Group opened 7 new retail outlets and closed 6 retail outlets in the year under review. The retail outlets were closed because of the expiry of the leases and the Group considered it not economically feasible to renew the leases.

The Group launched two new brands, USU, for bags such as casual bags, briefcases and waist bags and Annvu for ladies bags during the year. The new brands continued to broaden the Group's product range.

During the year, the Group entered into partnership with a new agent in the United Kingdom.

At the same time, the Group set up its own manufacturing capacity through a processing agent in the PRC.

### FINANCIAL REVIEW

#### Results

During the year ended 31 March 2003, the Group recorded a turnover of approximately HK\$59,564,000 (2002: HK\$49,587,000), an increase of approximately 20% compared to the previous corresponding year. The increase in turnover was mainly attributable to increase in sales to wholesalers due to increase in the number of distributors, and sales to existing and new distributors.

Net profit attributable to shareholders for the year ended 31 March 2003 amounted to approximately HK\$1,696,000 (2002: HK\$1,920,000), a decrease of approximately 12% 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 commanded lower gross profit margins.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity, financial resources and capital structure

For the year under review, the Group financed its operations with its own working capital and bank borrowings of approximately HK\$6,889,000 as at 31 March 2003 (2002: HK\$5,460,000).

As at 31 March 2003, the Group had net current assets of approximately HK\$8,984,000 (2002: HK\$118,000) including bank and cash balances of approximately HK\$6,837,000 (2002: HK\$223,000) and pledged bank deposits of approximately HK\$3,403,000 (2002: HK\$1,840,000).

At 31 March 2003, the Group had total available banking facilities of approximately HK\$23,804,000 (2002: HK\$10,210,000) which were supported by the following:

- (i) the pledge of a bank deposit of approximately HK\$3,403,000 (2002: HK\$1,840,000);
- (ii) corporate guarantee executed by the Company totaling to HK\$20,517,000 (2002: Nil); and
- (iii) the pledge of certain current asset of a subsidiary of the Company amounting to HK\$156,000 (2002: HK\$156,000).

As at 31 March 2003, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.20 (2002: 0.44). To Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 31 March 2003, the Group has outstanding bank borrowings of approximately HK\$6,889,000 (2002: HK\$5,460,000). The bank borrowings comprised secured bank overdrafts of approximately HK\$2,637,000 (2002: HK\$2,078,000), secured trust receipt loans of approximately HK\$2,390,000 (2002: HK\$1,321,000), a secured bank loan of approximately HK\$1,862,000 (2002: HK\$600,000) and nil unsecured bank loans (2002: HK\$1,461,000). As at 31 March 2003, all the bank borrowings are repayable within one year. As at 31 March 2002, approximately HK\$5,215,000 was repayable within one year and approximately HK\$245,000 was repayable in the second year.

## Significant investments

At 31 March 2003, there was no significant investment held by the Group (2002: Nil).

## Material acquisition or disposal of subsidiaries and affiliated companies

Other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares on GEM on 21 May 2002, there were no material acquisition or disposal of subsidiaries and affiliated companies in the course of the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Contingent liabilities

As at 31 March 2003, the Group had the following contingent liabilities:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bills discounted with recourse	<b>201</b>	–

As at 31 March 2003, the Company had provided guarantees for banking facilities granted and utilised by subsidiaries of approximately HK\$7,079,000 (2002: Nil).

### 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 2003, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Land and buildings expiring:		
Within one year	<b>5,854</b>	7,287
In the second to fifth years, inclusive	<b>1,640</b>	5,958
	<b>7,494</b>	13,245

At the balance sheet date, the Group had not contracted any commitment in respect of purchases of fixed assets (2002: HK\$157,500).

### Foreign exchange exposure

The Group's income and expenditure during the year ended 31 March 2003 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 2003 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 Director 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 of 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*

	2003 HK\$'000	2002 HK\$'000
Retail sales	32,437	32,726
Wholesale sales	27,127	16,861
	<b>59,564</b>	49,587

#### *Geographical segments*

##### PRC:

Hong Kong, SAR	39,233	32,136
Elsewhere	6,169	9,254
Taiwan	11,345	5,621
Singapore	1,693	1,603
Others	1,124	973
	<b>59,564</b>	49,587

#### *Business segments*

##### Retail sales

Retail sales decreased by approximately 1%, as compared to the previous corresponding year, to HK\$32,437,000 (2002: HK\$32,726,000). Owing to the weak consumer spending in Taiwan and Hong Kong, no significant growth in retail sales was recorded despite the increase in the number of total retail outlets.

##### Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Sales to agents decreased by approximately 40%, as compared to the previous corresponding year, to approximately HK\$6,836,000 (2002: HK\$11,263,000). The decrease was mainly attributed to the decrease in sales to new and existing agents. A new agent was engaged in the United Kingdom during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

Sales to distributors increased by approximately 262%, as compared to the previous corresponding year, to approximately HK\$20,291,000 (2002: HK\$5,598,000). The increase was mainly attributed to increase in sales to new and existing distributors.

### *Geographical segment*

For the year ended 31 March 2003, sales in Hong Kong, SAR increased by approximately 22% compared to the previous corresponding year. The increase was mainly attributed to the increase in sales to distributors in HK who resell to other countries.

For the year ended 31 March 2003, sales to elsewhere in the PRC decreased by approximately 33% compared to the previous corresponding year. The decrease was mainly attributed to the decrease in sales to the Group's agent in the PRC.

For the year ended 31 March 2003, sales to Taiwan increased by approximately 102% compared to the previous corresponding year. The increase was mainly attributed to the opening of new retail outlets in Taiwan.

For the year ended 31 March 2003, sales to Singapore increased by approximately 6% compared to the previous corresponding year. The increase was mainly attributed to increase in sales to the Group's agent in Singapore.

For the year ended 31 March 2003, sales to other countries increased by approximately 16% compared to the previous corresponding year. The increase was mainly attributed to increase in orders from countries other than above.

Please refer to note 4 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 Company's 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, the Group did not have any plan for material investments or capital assets.

### **Employees and remuneration policies**

As at 31 March 2003, the Group had 87 (2002: 81) full time employees. Remuneration is determined by 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 2002 to 31 March 2003 (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

The Group opened 3 retail outlets in Hong Kong during the year. 3 retail outlets were closed during the year as the leases expired and the Group considered it not economically feasible to renew the leases.

In Taiwan, 7 retail outlets were opened and 6 retail outlets were closed due to expiry of the leases during the year.

Enter into partnerships with new agents  
in new areas

The Group entered into partnership with an agent in the United Kingdom during the year.

The Group is in the process of finalising the partnership agreement with a new agent in Thailand.

Promote and strengthen brand loyalty:  
Enter into partnerships with business partners  
to issue credit cards

The Group has suspended plans to enter into partnerships with business partners to issue credit cards as the operating costs for issuing credit cards is not economically justified.

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 during the year. The Group also participated in promotion activities with credit card issuers.

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

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

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

### Actual business progress in the Review Period

#### Design and product development:

Develop new series and models for existing products

During the year, the Group developed a series of professional office bags under the brandname **FX CREATIONS**. At the same time, the Group also introduced two new brands: USU for bags such as casual bags, briefcases and waist bags and Annvu for ladies bags.

Develop professional office bags

The Group developed and introduced a series of professional office bags under the brandname **FX CREATIONS**.

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

The Group has entered into an agreement with a company in Hong Kong to develop eyewear products under the **FX CREATIONS** brandname. Eyewear products were developed by the business partner and were sold under the **FX CREATIONS** brandname.

#### Geographical expansion:

Negotiate and sign up new sole agents in Japan

The Group has commenced negotiations with its existing authorized distributors on sole agency arrangement in Japan and the negotiation is still ongoing. The Group expects to conclude the negotiation by September 2003.

Negotiate and sign up new agents in USA

The Group has commenced identification of potential agents in the US. No agreement has been reached as at 31 March 2003.

#### Human resources development:

Expand the marketing and retail sales team

As at 31 March 2003, there are 56 staff in the marketing and retail sales team (2002: 48).

Expand the product development and design team

As at 31 March 2003, there are 6 staff in the product development and design team (2002: 5).

Expand the production and quality control team

As at 31 March 2003, there are 13 staff in the production and quality control team (2002: 12).

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### 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 recruited one new production manager with extensive experience in production during the year.

As planned, the Group has commenced to establish its own manufacturing capacity through a processing agent in the PRC. During the year, the Group acquired plant, machinery and production facilities and worked with a processing agent in Guanlan, Shenzhen, the PRC. Under the processing agent arrangement, the Group will be responsible for the provision of plant, machinery, related leasehold improvements and fixtures and the processing agent will be responsible for the provision of production premises, water, electricity and labour.

## USE OF PROCEEDS

The Company was listed on GEM on 21 May 2002 by way of placing and public offer of 81,000,000 shares. The net proceeds from such placement and public offer after deduction of the related expenses were approximately HK\$12,800,000 and were applied during the period from 3 May 2002 (Latest Practicable Date) to 31 March 2003 in accordance with the proposed application set out in the Company's prospectus dated 8 May 2002, as follows:

	<b>Proposed</b> HK\$'000	<b>Actual</b> HK\$'000
Opening of new retail outlets	800	800
Marketing and promotion	400	400
Production facilities ( <i>Note</i> )	10,000	7,400
Geographical expansion	200	200
<b>Total</b>	<b>11,400</b>	<b>8,800</b>

*Note:*

The Group intends to utilise the funding for the production facilities in subsequent periods. The delay has been due to the Group's decision to set up the production facilities in several stages to allow the set up to be more effective.

The remaining net proceeds as at 31 March 2003 was approximately HK\$4 million and was placed with a bank in Hong Kong.

## DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Ng Pak To, Petto**, aged 42, 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, a senior management of the Group, and the brother-in-law of Mr. Ho Kai Chung, David, an executive Director of the Group. Mr. Ng was appointed as a Director in January 2002.

**Ho Kai Chung, David**, aged 39, is an executive Director and one of the founders of the Group. He is the brother-in-law of Mr. Ng and the brother of Madam Ho. 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, for approximately one year. Mr. Ho was appointed as a Director in January 2002.

**Ong Chor Wei**, aged 33, is an executive Director. 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 from the University of Wales and University of Manchester. He is an associate member of the Institute Chartered Accountants England and Wales and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in January 2002, he worked as a finance director for a manufacturer of bags and luggages. Mr. Ong was appointed as a Director in January 2002.

### NON-EXECUTIVE DIRECTOR

**Wong Wai Shan**, aged 49, is the deputy chairman and non-executive Director. Mr. Wong is responsible for business development and strategic planning of the Group. Mr. Wong has over twenty years of experience in sales and marketing in the garment industry. Mr. Wong is also a director of a garment trading and manufacturing company. Mr. Wong was appointed as a Director in January 2002.

## DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Kau Man Wai, Leslie**, aged 38, is a director of an investment holding company. She was appointed as an independent non-executive Director in January 2002. She has over twenty years experience in management and investments.

**Christopher C. Leu**, aged 43, is an independent non-executive director of Vaso Digital International Holdings Limited which is listed on GEM. He holds a Bachelor of Science Degree in Business Administration and Master of Science degree in Systems Management from the University of Southern California. He is also a Ph.D. candidate in International Political Economy at the University of Southern California. He has over twenty years of finance and banking experience. He was appointed as an independent non-executive Director in January 2002.

### SENIOR MANAGEMENT

**Ho Pui Lai**, aged 41, 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 eight years 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 and the sister of Mr. Ho.

**Cheung King Hei, Davis**, aged 41, 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 33, is the sales and operation manager of the Group. She is responsible for the retail operation for the Hong Kong market. She has over fourteen 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 27, 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 Giordano Limited, a trading company for approximately two years.

# 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, “the Group”) for the year ended 31 March 2003.

## 1. GROUP REORGANISATION

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 Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of other companies comprising the Group on 2 May 2002.

Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in note 1 to the financial statements and in the section headed “Corporate Reorganisation” in Appendix IV to the Company’s prospectus dated 8 May 2002 (the “Prospectus”).

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

## 2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company (the “Subsidiaries”) are set out in note 15 to the financial statements.

## 3. SEGMENT INFORMATION

An analysis of the Group’s performance for the year by principal activities and geographical segments is set out in note 4 to the financial statements.

## 4. RESULTS AND DIVIDENDS

The Group’s consolidated profit for the year ended 31 March 2003 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 27.

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2003.

## REPORT OF THE DIRECTORS

### 5. SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the four years ended 31 March 2003 prepared on the basis as set out in notes 1 and 2 below:

#### Consolidated results

	2003 HK\$'000	Year ended 31 March		
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<b>59,564</b>	49,587	38,502	39,861
Profit before tax	<b>2,253</b>	2,342	2,279	682
Taxation	<b>(542)</b>	(422)	(410)	3
Profit before minority interests	<b>1,711</b>	1,920	1,869	685
Minority interests	<b>(15)</b>	–	–	–
Net profit attributable to shareholders	<b>1,696</b>	1,920	1,869	685

#### Consolidated assets and liabilities

	2003 HK\$'000	As at 31 March		
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	<b>34,713</b>	12,315	8,903	7,856
Total liabilities	<b>(13,197)</b>	(10,557)	(7,065)	(7,887)
Minority interests	<b>(415)</b>	–	–	–
Net assets/(liabilities)	<b>21,101</b>	1,758	1,838	(31)

#### Notes:

1. The consolidated results of the Group for the four years ended 31 March 2003 were prepared as if the current group structure had been in existence since 1 April 1999.
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.

## 6. FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

## 7. 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 22 and 23 to the financial statements respectively.

## 8. RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity of the Group on page 28 and in note 24(b) to the financial statements respectively.

## 9. 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 of the Company.

## 10. MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the turnover attributable to the five largest customers of the Group accounted for approximately 32% of the Group's total turnover for the year. Turnover from the Group's largest customer accounted for approximately 8% of the Group's total turnover for the year.

The purchases attributable to the five largest suppliers of the Group accounted for approximately 45% of the Group's total purchases for the year. Purchases from the Group's largest supplier accounted for approximately 19% 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.

## REPORT OF THE DIRECTORS

### 11. DIRECTORS

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

Executive directors:

Ng Pak To, Petto (*Chairman*)

Ho Kai Chung, David

Ong Chor Wei

Non-executive director:

Wong Wai Shan

Independent non-executive directors:

Kau Man Wai, Leslie

Christopher C. Leu

In accordance with article 87 the Company's Articles of Association, Ms. Kau Man Wai, Leslie will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting. The non-executive director is not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

### 12. 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.

### 13. DIRECTORS' INTERESTS IN CONTRACTS

Save for the transactions relating to the Group Reorganisation, 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.

### 14. DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ng Pak To, Petto and Mr. Ho Kai Chung, David has entered into a service contract 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.

## 15. DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out below:

	<b>Type of interest</b>	<b>Number of issued ordinary shares held</b>
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.

Save as disclosed above, as at 31 March 2003, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings prescribed by the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

## 16. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the section headed "Directors' interests in shares" and the transactions relating to the Group Reorganisation as disclosed 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.

## REPORT OF THE DIRECTORS

### 17. SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, other than the interests of certain directors as disclosed under the section headed "Directors' interests in shares" above, the register of substantial shareholder maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following shareholders with interest representing 10% or more of the Company's issued share capital:

		<b>Number of shares held</b>	<b>Percentage of holding</b>
WNML	Note	280,000,000	70%
Cashtram Associates Limited	Note	280,000,000	70%

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

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more in the issued share capital of the Company at the balance sheet date.

### 18. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As 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.

### 19. PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Since the listing of the Company on GEM on 21 May 2002 and up to the date of this report, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

### 20. POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 29 to the financial statements.

## 21. 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, and will receive, fees for acting as the Company's retained sponsor for the period from 21 May 2002 to 31 March 2005.

## 22. COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 21 May 2002.

## 23. USE OF PROCEEDS

Details of the use of proceeds of the Company are set out in page 14 of the annual report.

## 24. CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 26 to the financial statements.

## 25. 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 the two independent non-executive directors of the Company, namely Mr. Christopher C. Leu and Ms. Kau Man Wai, Leslie. The consolidated financial statements of the Group for the year ended 31 March 2003 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.

## 26. AUDITORS

Ernst and Young resigned as auditors of the Company on 26 March 2003. At the extraordinary general meeting of the Company held on 22 April 2003, RSM Nelson Wheeler were appointed as auditors of the Company to fill the casual vacancy.

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming annual general meeting.

On behalf of the board  
**Ng Pak To, Petto**  
*Chairman*

Hong Kong  
24 June 2003

## REPORT OF THE AUDITORS

### **RSM Nelson Wheeler**

羅 申 美 會 計 師 行

Certified Public Accountants

TO THE SHAREHOLDERS OF  
**FX CREATIONS INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 25 to 54 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 to you.

#### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an 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 affairs of the Company and the Group as at 31 March 2003 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong  
24 June 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	5	59,564	49,587
Cost of goods sold		(28,989)	(18,416)
<b>Gross profit</b>		<b>30,575</b>	31,171
Other revenue	5	497	244
Selling and distribution costs		(17,595)	(17,899)
Administrative expenses		(10,564)	(10,793)
<b>Profit from operations</b>	6	<b>2,913</b>	2,723
Finance costs	7	(660)	(381)
<b>Profit before tax</b>		<b>2,253</b>	2,342
<b>Taxation</b>	10	<b>(542)</b>	(422)
<b>Profit before minority interests</b>		<b>1,711</b>	1,920
<b>Minority interests</b>		<b>(15)</b>	–
<b>Net profit attributable to shareholders</b>		<b>1,696</b>	1,920
<b>Dividend</b>	12	–	2,000
<b>Earnings per share</b>	13		
<b>Basic</b>		<b>HK0.44 cent</b>	HK0.69 cent
<b>Diluted</b>		<b>N/A</b>	N/A

The notes on pages 31 to 54 form an integral part of these financial statements.

**CONSOLIDATED BALANCE SHEET**

31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	14	7,087	946
Other investments	16	4,000	–
Rental and sundry deposits		1,445	939
		<b>12,532</b>	1,885
<b>Current assets</b>			
Inventories	17	2,139	978
Accounts receivable	18	7,938	4,342
Prepayments, deposits and other receivables		1,442	3,047
Due from a minority shareholder	19	360	–
Tax refundable		62	–
Pledged bank deposits	21	3,403	1,840
Bank and cash balances		6,837	223
		<b>22,181</b>	10,430
<b>Less: Current liabilities</b>			
Accounts payable	20	4,495	3,020
Accrued liabilities and other payables		1,354	1,659
Tax payable		459	418
Bank borrowings	21	6,889	5,215
		<b>13,197</b>	10,312
<b>Net current assets</b>		<b>8,984</b>	118
<b>Total assets less current liabilities</b>		<b>21,516</b>	2,003
<b>Non-current liabilities</b>			
Bank borrowings	21	–	245
		<b>21,516</b>	1,758
<b>CAPITAL AND RESERVES</b>			
Share capital	22	4,000	56
Reserves		17,101	1,702
<b>SHAREHOLDERS' FUNDS</b>		<b>21,101</b>	1,758
<b>MINORITY INTERESTS</b>		<b>415</b>	–
		<b>21,516</b>	1,758

Approved by the Board of Directors on 24 June 2003

*Director**Director*

The notes on pages 31 to 54 form an integral part of these financial statements.

# BALANCE SHEET

At 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	15	18,100	–
<b>Current assets</b>			
Bank and cash balances		3	–
Less: <b>Current liabilities</b>			
Accrued liabilities and other payables		393	–
<b>Net current liabilities</b>		(390)	–
<b>NET ASSETS</b>		17,710	–
<b>CAPITAL AND RESERVES</b>			
Share capital	22	4,000	–
Reserves	24	13,710	–
<b>SHAREHOLDERS' FUNDS</b>		17,710	–

Approved by the Board of Directors on 24 June 2003

*Director*

*Director*

The notes on pages 31 to 54 form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 31 March 2003*

	Note	Issued share capital HK\$'000	Share premium HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2001	22	56	–	1,782	1,838
Net profit for the year		–	–	1,920	1,920
Dividend paid	12	–	–	(2,000)	(2,000)
At 31 March 2002		56	–	1,702	1,758
Issue of shares to the Pre-IPO Investors	22(g)	8	4,867	–	4,875
Capitalisation issue	22(i)	3,126	(3,126)	–	–
New issue on public listing	22(j)	810	20,250	–	21,060
Shares issue expenses		–	(8,288)	–	(8,288)
Net profit for the year		–	–	1,696	1,696
<b>At 31 March 2003</b>		<b>4,000</b>	<b>13,703</b>	<b>3,398</b>	<b>21,101</b>

The notes on pages 31 to 54 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 March 2003*

Note	2003 HK\$'000	2002 HK\$'000
Profit before tax	2,253	2,342
Adjustments for:		
Depreciation	1,481	1,570
Interest income	(67)	(50)
Interest expenses	660	381
Operating cash flows before movements in working capital	4,327	4,243
(Increase)/Decrease in inventories	(1,161)	275
Increase in accounts receivable	(3,596)	(2,895)
Decrease/(Increase) in prepayments, deposits and other receivables	1,099	(362)
Increase in amount due from a minority shareholder	(360)	–
Increase in accounts payable	1,475	1,036
Increase in trust receipt loans	1,069	273
(Decrease)/Increase in accrued liabilities and other payables	(1,305)	931
Cash generated from operations	1,548	3,501
Interest income	67	50
Interest paid	(660)	(381)
Tax paid	(563)	(362)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>392</b>	<b>2,808</b>
<b>INVESTING ACTIVITIES</b>		
(Pledge)/Release of pledged bank deposits	(1,563)	206
Acquisition of a subsidiary	25 (3,000)	–
Increase in an amount due from a director	–	(3,603)
Purchase of fixed assets	(7,622)	(898)
Decrease in amount due from a related company	–	29
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(12,185)</b>	<b>(4,266)</b>

The notes on pages 31 to 54 form an integral part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31 March 2003*

	Note	2003 HK\$'000	2002 HK\$'000
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of new shares		25,935	–
Shares issue expenses		(8,288)	–
Contributions from minority interests		400	–
Repayments of bank loans		(1,419)	(1,986)
New bank loans raised		1,220	1,100
Increase in bank overdrafts		559	2,078
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>18,407</b>	<b>1,192</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>6,614</b>	<b>(266)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 APRIL</b>			
		<b>223</b>	<b>489</b>
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>			
		<b>6,837</b>	<b>223</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank and cash balances		<b>6,837</b>	<b>223</b>

The notes on pages 31 to 54 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2003*

## 1. GENERAL INFORMATION AND GROUP REORGANISATION

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 Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of its subsidiaries (collectively the “Group”) on 2 May 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 8 May 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger basis as set out in the Statement of Standard Accounting Practice No. 27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants.

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

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 PREPARATION

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAPs”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, other investments is stated at fair value.

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 2. BASIS OF PREPARATION (continued)

A summary of their major effects on the new and revised SSAPs is as follows:

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 28 of the financial statements and no such statement was required to be presented in previous year.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximately thereto, whereas previously they were translated at the exchange rates at the balance sheet date. The presentation of the 2002 comparative consolidated cash flow statement has been changed in accordance with the new layout.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 23 to the financial statements.

### 3. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2003.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (a) Basis of consolidation (continued)

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

### (b) Subsidiaries

A subsidiary is a company controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for on the basis of dividends received and receivable.

### (c) 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.

### (d) 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 disposal 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from investment revaluation reserve to the profit and loss account.

#### (f) 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.

#### (g) 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 exist or may have decreased. If any such indication exists, the asset recoverable amount is estimated. 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.

#### (h) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) 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 Taiwan dollars. In order to present the consolidated financial position of the Group in Hong Kong dollars, the monetary assets and liabilities of the branch are translated at the applicable rate of exchange ruling at the balance sheet date. The 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.

### (j) 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.

### (k) 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (k) Contingent liabilities and contingent assets (continued)

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.

#### (l) 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.

#### (m) 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.

#### (n) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Timing differences arise from the recognised for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised in the financial statements as deferred taxation to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. 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 2003

### 4. 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. Summary details of the business segments are 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	32,437	32,726	27,127	16,861	-	-	59,564	49,587
Segment results	4,213	3,728	5,616	2,654	(6,916)	(3,659)	2,913	2,723
Finance costs							(660)	(381)
Profit before tax							2,253	2,342
Taxation							(542)	(422)
Profit before minority interests							1,711	1,920
Minority interests							(15)	-
Net profit attributable to shareholders							1,696	1,920

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 4. SEGMENT INFORMATION (continued)

### (i) Business segments (continued)

	Retail		Wholesale		Corporate		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
ASSETS								
Segment assets	5,633	4,421	12,259	3,011	16,821	4,258	34,713	11,690
Unallocated assets							-	625
Total assets							34,713	12,315
LIABILITIES								
Segment liabilities	2,281	-	4,453	-	6,463	4,589	13,197	4,589
Unallocated liabilities							-	5,968
Total liabilities							13,197	10,557
Other segment information:								
Depreciation	746	1,280	251	-	484	290	1,481	1,570
Capital expenditure	693	501	5,011	-	1,918	397	7,622	898

### (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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue												
Sale to external customers	39,233	32,136	6,169	9,254	11,345	5,621	1,693	1,603	1,124	973	59,564	49,587
Other segment information:												
Segment assets	23,337	9,421	9,267	1,335	1,964	1,214	18	230	127	115	34,713	12,315
Capital expenditure	396	554	6,812	-	414	344	-	-	-	-	7,622	898

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 5. TURNOVER AND REVENUE

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

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Sales	<b>59,564</b>	49,587
Other revenue		
Interest income	<b>67</b>	50
Sundry income	<b>430</b>	194
	<b>497</b>	244
<b>Total revenue</b>	<b>60,061</b>	49,831

### 6. PROFIT FROM OPERATIONS

The Group's profit from operations is stated after charging the following:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Auditors' remuneration	<b>336</b>	476
Depreciation	<b>1,481</b>	1,570
Staff costs (excluding directors' emoluments, note (8))		
Salaries	<b>8,933</b>	10,674
Pension scheme contributions	<b>321</b>	411
Minimum lease payments under operating lease rentals for land and buildings	<b>10,357</b>	12,421
Exchange (gains) /losses, net	<b>(2)</b>	209

### 7. FINANCE COSTS

Finance costs represents interest on bank loans and overdrafts wholly repayable within five years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 8. DIRECTORS' EMOLUMENTS

Details of directors' emoluments 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	
	2003 HK\$'000	2002 HK\$'000
Fees		
Executive directors	-	-
Independent non-executive directors	-	-
Other emoluments of executive directors		
Basic salaries, housing benefits, other allowances and benefits in kind	1,106	234
Pension scheme contributions	11	11
	<hr/> <b>1,117</b>	<hr/> 245

Two (2002: one) executive directors of the Group received individual emoluments of approximately HK\$445,000 (2002: HK\$245,000) and HK\$672,000 (2002: Nil) during the year ended 31 March 2003. No emoluments were paid to the other directors of the Company during the year.

The emolument of each director fell within the HK\$Nil – HK\$1,000,000 band.

During the year, two directors of the Group waived emolument totalling HK\$167,000 (2002: Nil), which represented the differences between the salaries under their service contracts (effective since 21 May 2002) for the period from 21 May 2002 to 31 March 2003 and the actual salaries drawn by the directors during this period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: one) executive directors, details of whose emoluments are set out in note 8 above. Details of the emoluments of the remaining three (2002: four) employees are set out as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>1,806</b>	1,369
Bonuses	<b>8</b>	66
Pension scheme contributions	<b>47</b>	58
	<b>1,861</b>	1,493

The emoluments of each of the above remaining employees fell 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.

Except for the waiver of directors' emoluments mentioned in note 8 to the financial statements, there was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2002: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 10. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16% (2002: 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.

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong		
Current year	489	542
Overprovision in prior year	(76)	(87)
Other jurisdictions	129	27
	<hr/>	<hr/>
	542	482
Deferred tax credit	-	(60)
	<hr/>	<hr/>
Tax charge for the year	542	422

(b) Deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the consolidated financial statements has not been accounted for as the effect of timing differences is not material.

## 11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$7,000 (2002: Nil).

## 12. DIVIDEND

	Group	
	2003 HK\$'000	2002 HK\$'000
Special dividend	-	2,000

During the year ended 31 March 2002, a special dividend was paid by a subsidiary of the Group to its then shareholders prior to the Group Reorganisation as set out in note 1 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 13. EARNINGS PER SHARE

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

The comparative basic earnings per share is calculated based on the profit attributable to shareholders of HK\$1,920,000 and on the weighted average of 280,000,000 shares deemed to be in issue as further describe in note 22 to the financial statements throughout that year.

Diluted earnings per share amount for the years ended 31 March 2002 and 2003 have not been disclosed as no diluting events existed during those years.

### 14. FIXED ASSETS

#### Group

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1 April 2002	–	2,039	2,482	4,521
Additions	5,010	833	1,779	7,622
At 31 March 2003	5,010	2,872	4,261	12,143
<b>Accumulated depreciation</b>				
At 1 April 2002	–	1,450	2,125	3,575
Charge for the year	251	387	843	1,481
At 31 March 2003	251	1,837	2,968	5,056
<b>Net book value</b>				
At 31 March 2003	4,759	1,035	1,293	7,087
At 31 March 2002	–	589	357	946

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	64	—
Due from subsidiaries	19,494	—
Due to subsidiaries	(1,458)	—
	<b>18,100</b>	—

The amounts due are unsecured, interest free and have no fixed repayment terms.

Particulars of the subsidiaries of the Company are as follows:

<u>Company</u>	<u>Place of incorporation and operation</u>	<u>Nominal value of issued share capital</u>	<u>Percentage of equity attributable to the Company</u>	<u>Principal activities</u>
<b>Directly held</b>				
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
<b>Indirectly held</b>				
FX Creations International Limited	Hong Kong	Ordinary HK\$10	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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 15. INTERESTS IN SUBSIDIARIES (continued)

<u>Company</u>	<u>Place of incorporation and operation</u>	<u>Nominal value of issued ordinary share capital</u>	<u>Percentage of equity attributable to the Company</u>	<u>Principal activities</u>
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*	Trading of bags and accessories
Hugo Point International Limited	Hong Kong	Ordinary HK\$100	100	Sub-letting of leased properties

\* New subsidiaries established/acquired after Group Reorganisation set out in note 1.

### 16. OTHER INVESTMENTS

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Listed securities in Hong Kong, at fair value	<b>4,000</b>	–

Pursuant to Section 129 of the Hong Kong Companies Ordinance, details of other investments held by the Group exceeds 10% of the total assets of the Group at 31 March 2003 are as follows:

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

### 17. INVENTORIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Finished goods	<b>2,139</b>	978

At 31 March 2003, no inventories were stated at net realisable value (2002: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 18. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, which generally have credit terms of up to 90 days (2002: 75 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	5,271	3,977
91-180 days	2,639	365
181-365 days	7	–
Over 1 year	21	–
	<b>7,938</b>	<b>4,342</b>

## 19. DUE FROM A MINORITY SHAREHOLDER

The amount due is unsecured, interest free and repayable on demand.

## 20. ACCOUNTS PAYABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	3,248	2,806
91-180 days	1,247	214
	<b>4,495</b>	<b>3,020</b>
Represented by:		
Payable to a related company	1,377	–
Payable to third parties	3,118	3,020
	<b>4,495</b>	<b>3,020</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 21. BANK BORROWINGS

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Trust receipt loans, secured	<b>2,390</b>	1,321
Bank overdrafts, secured	<b>2,637</b>	2,078
Bank loans, secured	<b>1,862</b>	600
Bank loans, unsecured	–	1,461
	<b>6,889</b>	5,460
The borrowings are repayable as follows:		
On demand or within one year	<b>6,889</b>	5,215
In the second year	–	245
	<b>6,889</b>	5,460
Less: Amount classified as current liabilities	<b>6,889</b>	5,215
Long term portion	–	245

At 31 March 2003, the bank borrowings of the Group were secured by the following:

- (a) the pledge of bank deposit of approximately HK\$3,403,000 (2002: HK\$1,840,000);
- (b) corporate guarantees executed by the Company totaling to HK\$20,517,000 (2002: Nil);  
and
- (c) the pledge of certain current asset of a subsidiary of the Company amounting to HK\$156,000 (2002: HK\$156,000).

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2003*

### 22. SHARE CAPITAL

#### Group and Company

	Note	Number of authorised shares '000	Number of issued shares '000	Nominal value of shares issued HK\$'000
Pro-forma share capital as at 1 April 2001	(a),(b),(e)	10,000	5,600	56
Increase in authorised share capital	(d)	9,990,000	–	–
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the shares offer to the public	(f)	–	274,400	–
Pro-forma share capital as at 31 March 2002		10,000,000	280,000	56
Shares issued to the Pre-IPO Investors	(g)	–	780	8
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the shares offer to the public	(h)	–	38,220	–
Capitalisation of the share premium account as set out above	(i)	–	–	3,126
New issue on public listing	(j)	–	81,000	810
<b>Share capital as at 31 March 2003</b>		<b>10,000,000</b>	<b>400,000</b>	<b>4,000</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 22. SHARE CAPITAL (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 10 January 2002 (date of incorporation) to 31 March 2003:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.
- (b) On 14 January 2002, one subscriber share of HK\$0.01 was allotted and issued fully paid.
- (c) On 14 January 2002, the subscriber share was transferred to Wise New Management Limited ("WNML").
- (d) On 2 May 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of a further 9,990,000,000 shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (e) On 2 May 2002, as part of the Group Reorganisation set out in note 1 to the financial statements, the Company allotted and issued an aggregate of 5,599,999 shares, credited as fully paid, to WNML as consideration for the acquisition of the entire issued share capital of Resource Base Enterprises Limited.
- (f) On 2 May 2002, a total of 274,400,000 shares of HK\$0.01 each were allotted as fully paid at par to WNML.
- (g) On 2 May 2002, the Company allotted and issued 260,000 shares of HK\$0.01 to each of Teamwire Industrial Limited, Multibest Industrial Limited and Giant Ample Investments Limited (collectively referred to as the "Pre-IPO Investors") at a total consideration of HK\$4,875,000.
- (h) On 2 May 2002, a total of 38,220,000 shares of HK\$0.01 each were allotted as fully paid at par to the Pre-IPO Investors.
- (i) The shares, as stated in (f) and (h), were issued by way of the capitalisation of the sum of a total of approximately HK\$3,126,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public.
- (j) On 16 May 2002, 81,000,000 shares of HK\$0.01 each were issued to the public at HK\$0.26 each for a total cash consideration of HK\$21,060,000.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2003*

### 23. 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.

### 24. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the year and the prior year are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 24. RESERVES (continued)

#### (b) Company

	Note	Share premium HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 10 January 2002 and 31 March 2002		–	–	–
Issue of shares to the Pre-IPO Investors	22(g)	4,867	–	4,867
Issue of new shares by way of capitalisation	22(i)	(3,126)	–	(3,126)
Issue of new shares by way of share offer to the public	22(j)	20,250	–	20,250
Share issue expenses		(8,288)	–	(8,288)
Profit for the year		–	7	7
At 31 March 2003		13,703	7	13,710

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 dividend, 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 2003

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### Acquisition of subsidiary

On 25 March 2003, the Group acquired 100% equity interests in Million Hero Investments Limited for cash consideration of HK\$3,000,000. This transaction has been accounted for by the purchase method of accounting.

	HK\$'000
Net assets acquired:	
Other investments	4,000
Other payable	(1,000)
<hr/>	
Satisfied by cash	3,000
<hr/>	
Net cash outflow arising on acquisition:	
Cash consideration	(3,000)
<hr/>	

## 26. RELATED PARTY TRANSACTIONS

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

	2003 HK\$'000	2002 HK\$'000
(a) <u>Purchases from a related company</u>	5,067	–
(b) During the year, a related company have given corporate guarantee for the banking facilities granted to a subsidiary of the Group to the extent of HK\$3,120,000.		

At the balance sheet date, the banking facilities have not been utilised by the subsidiary.

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.

## 27. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given for banking facilities granted and utilised by subsidiaries	–	–	7,079	–
Bills discounted with recourse	201	–	–	–
<hr/>				
	201	–	7,079	–
<hr/>				

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

### 28. COMMITMENTS

#### (a) Capital commitment

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Contracted but not provided for	–	158

#### (b) 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.

At 31 March 2003, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
Within one year	<b>5,854</b>	7,287
In the second to fifth years, inclusive	<b>1,640</b>	5,958
	<b>7,494</b>	13,245

### 29. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date the board of directors has approved to acquire the plant and machinery from a third party at a total consideration of approximately HK\$3.4 million.

### 30. ULTIMATE HOLDING COMPANY

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

### 31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 June 2003.

## NOTICE OF ANNUAL GENERAL MEETING

**Notice is hereby given** that the annual general meeting of the shareholders of FX Creations International Holdings Limited (the “Company”) will be held at Workshop A6, 12th Floor, Block A, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Kowloon, Hong Kong on Friday, 25 July 2003, at 11:00 a.m. for the following purposes:

1. to receive and adopt the audited financial statements and the reports of the directors and the auditors for the year ended 31 March 2003;
2. to re-elect directors and to authorize the board of directors to fix the directors’ remuneration;
3. to re-appoint auditors and to authorize the board of directors to fix their remuneration;

and by way of special business, to consider and, if thought fit, to pass with or without alterations, the following resolutions as ordinary resolutions:

4. **That:**

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including, without limitation, warrants, bonds and debentures convertible into shares) which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including, without limitation, warrants, bonds and debentures convertible into shares) which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
  - (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

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(ii) (if the directors of the Company are so authorized by the passing of a separate ordinary resolution by the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in a general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for share open for a period fixed by the directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

5. **That:**

- (a) the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase its shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the memorandum and articles of association of the Company, and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

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- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in a general meeting revoking or varying the authority given to the directors of the Company by this Resolution.
6. **That** the directors of the Company be and are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By order of the Board  
**Ong Chor Wei**  
*Company Secretary*

30 June 2003

*Registered Office:*

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

*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

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### Notes:

- (a) A shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
- (c) In relation to resolutions no. 4 above, approval is being sought from the shareholders of the Company for the grant to the directors of the Company of a general mandate to authorize the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange. The directors of the Company have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.