



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 2004

* 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
Guo Jian

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 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
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

CORPORATE INFORMATION

SPONSOR

Kingston Corporate Finance Limited

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

LEGAL ADVISOR

Vincent T.K.Cheung, Yap & Co.

PRINCIPAL BANKERS

Shanghai Commercial Bank Limited
Asia Commercial Bank Limited
Standard Chartered Bank

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 2004 to our shareholders.

MARKET OVERVIEW

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

FINANCIAL OVERVIEW

For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$65,847,000 (2003: approximately HK\$59,564,000), an increase of approximately 11% compared to the previous corresponding year. The turnover for the year ended 31 March 2004 comprised retail sales and wholesale sales which accounted for approximately 53% and 47% (2003: approximately 55% and 45% respectively) of the total turnover respectively. As at 31 March 2004, the Group had 10 (2003: 12) retail outlets in Hong Kong which consisted of 5 (2003: 6) retail shops and 5 (2003: 6) department store counters, and 9 (2003: 13) department store counters in Taiwan.

The increase in turnover was attributable to the increase in various promotion activities undertaken with its customers in Hong Kong, and the increase in sales to wholesalers due to the increase in the number of distributors, and sales to existing and new distributors.

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

PROSPECTS AND APPRECIATION

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

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

CHAIRMAN'S STATEMENT

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

Ng Pak To, Petto
Chairman

18 June 2004

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL

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

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

BUSINESS OVERVIEW

During the year ended 31 March 2004, the Group closed 2 retail outlets in Hong Kong and closed 4 retail outlets in Taiwan. The retail outlets were closed because of the expiry of the leases and the Group considered it is not economically feasible to renew the leases.

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

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

FINANCIAL REVIEW

Results

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resources and capital structure

During the year, the Group financed its operations with its own working capital and bank borrowings, which was approximately HK\$9,483,000 as at 31 March 2004 (2003: approximately HK\$6,889,000).

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

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

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

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

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

The shares of the Company were listed on GEM on 21 May 2002. There has been no change in the capital structure of the Company since that day.

Significant investments

Other than the investment detailed in note 17 to the financial statements, as at 31 March 2004, there was no other significant investment held by the Group.

Material acquisitions or disposals of subsidiaries and affiliated companies

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

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

As at 31 March 2004, the Group had the following contingent liabilities:

	2004	2003
	HK\$'000	HK\$'000
Bills discount with recourse	100	201

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

Lease and contracted commitments

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

As at 31 March 2004, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

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

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

Foreign exchange exposure

The Group's income and expenditure during the year ended 31 March 2004 were denominated in United States ("US") dollars, HK dollars and New Taiwanese ("NT") dollars, and most of the assets and liabilities as at 31 March 2004 were denominated in HK dollars and NT dollars. Accordingly, the Board is of the view that, to certain extent, the Group is exposed to foreign currency exchange risk. For the US dollars foreign exchange exposure, the Board believes the exposure is small as the exchange rate of US dollars to HK dollars is comparatively stable. However, the Group is exposed to NT dollars foreign exchange exposure and fluctuation of exchange rates of NT dollars against HK dollars could affect the Group's results of operations. During the year, no hedging transaction or arrangement was made.

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 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

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

Geographical segments

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

Business segments

Retail sales

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

Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Geographical segment

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

For the year ended 31 March 2004, sales to elsewhere in the PRC decreased by approximately 31% as compared to the previous corresponding year. The decrease was mainly attributed to the decrease in sales to the Group's agents in the PRC.

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

For the year ended 31 March 2004, sales to Singapore increased by approximately 3.7% as compared to the previous corresponding year. The increase was attributed to the increase in sales to the Group's agent in Singapore.

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

Please refer to note 5 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 dated 8 May 2002 ("Prospectus") under the sections headed "Statement of Business Objectives" and "Reasons for the Share Offer and the Use of Proceeds" respectively. Other than those disclosed therein and under sections headed "Comparison of Business Objectives with Actual Business Progress" and "Use of Proceeds" in this annual report, the Group did not have any other plans for material investments or capital assets.

Employees and remuneration policies

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

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

Sales and marketing:

Open new retail outlets in Hong Kong and Taiwan

As at 31 March 2004, there were 10 retail outlets in Hong Kong which consisted of 5 retail shops and 5 department store counters, and 9 retail outlets in Taiwan. No retail outlet was closed in Hong Kong during the Review Period. 3 retail outlets were closed in Taiwan during the Review Period due to the expiry of leases. The Group is continuing to identify new retail outlet premises in Hong Kong and Taiwan.

Enter into partnerships with new agents
in new areas

The Group continued on the lookout of potential new agents in new areas and is finalising the partnership agreement with the agent in Thailand.

Conduct advertising campaigns:

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

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

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

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the Prospectus

Design and product development:

Develop new series and models for existing products

Develop professional office bags

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

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

Geographical expansion:

Negotiate and sign up new sole agents in Japan

Negotiate and sign up new agents in USA

Negotiate and sign up new agents in Europe

Actual business progress in the Review Period

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

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

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

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

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

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

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

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

Negotiate and sign up new agents in Macau

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

Negotiate and sign up new agents in Thailand

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

Negotiate and sign up new agents in Philippines

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

Negotiate and sign up new agents in Indonesia

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

Human resources development:

Expand the marketing and retail sales team

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

Expand the product development and design team

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

Expand the production and quality control team

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

Implementation of training programmes to improve the marketing skills of staff

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

To recruit more experienced management staff

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

Production:

Set up own production facilities in China

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

USE OF PROCEEDS

The shares of the Company were listed on GEM by way of placing and public offer on 21 May 2002. The net proceeds from such placement and public offer after deduction of the related expenses were approximately HK\$12,800,000.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ng Pak To, Petto, aged 43, 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 of the Company in January 2002.

Ho Kai Chung, David, aged 40, 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. Mr. Ho was appointed as a director of the Company in January 2002.

Ong Chor Wei, aged 34, 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 by the University of Wales and University of Manchester. He is an associate member of the Institute Chartered Accountants in 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 of the Company in January 2002.

NON-EXECUTIVE DIRECTOR

Wong Wai Shan, aged 50, is the deputy chairman and non-executive director of the Company. 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 of the Company in January 2002.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Kau Man Wai, Leslie, aged 39, is a director of an investment holding company. She was appointed as an independent non-executive director of the Company in January 2002. She has over twenty years experience in management and investments.

Christopher C. Leu, aged 44, 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 of the Company in January 2002.

Guo Jian, aged 38, was appointed an independent non-executive director of the Company in August 2003. Mr. Guo has been working as a manager for an import and export company in the PRC since June 2001. Prior to that, he worked as a general manager in a luggage manufacturing company in the PRC for about two years. He completed a diploma course in Electrical and Engineering at 湖南工業職工大學 (Hunan Industrial Professional University) in the PRC in July 1994 and a diploma course in Economic Management from 中共中央黨校函授學院 (Communist China Public School) in December 1999.

SENIOR MANAGEMENT

Ho Pui Lai, aged 42, is the vice president for administration and one of the founders of the Group. Madam Ho is responsible for the administration and management functions of the Group. Madam Ho has over ten years 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 42, 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 34, is the sales and operation manager of the Group. She is responsible for the retail operation for the Hong Kong market. She has over fifteen years of experience in the retail industry. Prior to joining the Group in May 1999, she worked in various managerial and sales positions for a bags retailer.

Lam Shuk Fung, aged 28, is the marketing executive of the Group. She is responsible for the sales and marketing of the Group for the Asia Pacific region. She holds a Professional Diploma in Marketing Management granted by the Hong Kong Management Association. Prior to joining the Group in March 2001, she worked for a garment trading company.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of FX Creations International Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) for the year ended 31 March 2004.

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.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 16 to the financial statements. There have been no significant changes in the nature of the Group’s principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to results by principal activities and geographical areas of operations for the year is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s consolidated profit for the year ended 31 March 2004 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 any dividends during the year.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the five years ended 31 March 2004 prepared on the basis as set out in notes 1 and 2 below:

Consolidated results

	Year ended 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	65,847	59,564	49,587	38,502	39,861
Profit before taxation	644	2,253	2,342	2,279	682
Taxation	(281)	(542)	(422)	(410)	3
Profit before minority interests	363	1,711	1,920	1,869	685
Minority interests	388	(15)	–	–	–
Net profit attributable to shareholders	751	1,696	1,920	1,869	685

Consolidated assets and liabilities

	As at 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	37,327	34,713	12,315	8,903	7,856
Total liabilities	(15,448)	(13,197)	(10,557)	(7,065)	(7,887)
Minority interests	(27)	(415)	–	–	–
Net assets/(liabilities)	21,852	21,101	1,758	1,838	(31)

Notes:

- (1) The consolidated results of the Group for the five years ended 31 March 2004 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.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's share capital, together with the reasons therefore and details of the Company's share option scheme, are set out in notes 23 and 24 to the financial statements respectively.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity of the Group on page 28 and in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made to the five largest customers of the Group accounted for approximately 30% of the Group's total turnover for the year. Turnover made to the Group's largest customer accounted for approximately 9% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 71% of the Group's total purchases for the year. Purchases from the Group's largest supplier accounted for approximately 36% of the Group's total purchases for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Ng Pak To, Petto (*Chairman*)
Ho Kai Chung, David
Ong Chor Wei

Non-executive director:

Wong Wai Shan

Independent non-executive directors:

Kau Man Wai, Leslie
Christopher C. Leu
Guo Jian (appointed on 25 August 2003)

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

In accordance with Article 86(3) of the Company's Articles of Association, Guo Jian will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

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.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

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

Save as disclosed above, as at 31 March 2004, none of the directors had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, other than the interests of certain directors as disclosed under the section headed “Directors’ interests in shares” above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follow:

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

Note: The details are disclosed under the section headed “Directors’ interests in shares” above.

Save as disclosed above, as at 31 March 2004, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

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

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

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

SPONSOR’S INTERESTS

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

Pursuant to the sponsor agreement entered into between the Company and the Sponsor, the Sponsor received, and will receive, fees for acting as the Company’s retained sponsor for the period from 21 May 2002 to 31 March 2005.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

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

CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 27 to the financial statements.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 2 May 2002, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors of the Company, namely Mr. Christopher C. Leu, Miss Kau Man Wai, Leslie and Mr. Guo Jian (who was appointed on 25 August 2003). The consolidated financial statements of the Group for the year ended 31 March 2004 have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. 4 meetings were held during the current financial year.

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.

RSM Nelson Wheeler acted as the Company’s auditors for the year ended 31 March 2003.

RSM Nelson Wheeler resigned effective from 23 April 2004 and Baker Tilly Hong Kong Limited were appointed at the extraordinary general meeting held on 13 May 2004 to fill the casual vacancy.

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

ON BEHALF OF THE BOARD

Ng Pak To, Petto

Chairman

Hong Kong
18 June 2004

REPORT OF THE AUDITORS

AUDITORS' REPORT TO THE MEMBERS OF FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong
18 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	6	65,847	59,564
Cost of sales		(34,318)	(28,989)
Gross profit		31,529	30,575
Other revenue	6	557	497
Selling and distribution costs		(17,797)	(17,595)
Administrative expenses		(13,146)	(10,564)
PROFIT FROM OPERATIONS	7	1,143	2,913
Finance costs	8	(499)	(660)
PROFIT BEFORE TAXATION		644	2,253
Taxation	11	(281)	(542)
PROFIT BEFORE MINORITY INTERESTS		363	1,711
Minority interests		388	(15)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	12	751	1,696
DIVIDENDS	13	–	–
EARNINGS PER SHARE	14		
– Basic		HK0.19 cent	HK0.44 cent
– Diluted		N/A	N/A

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

CONSOLIDATED BALANCE SHEET

As at 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	15	6,198	7,087
Other investments	17	4,000	4,000
Rental and sundry deposits		2,111	1,445
		12,309	12,532
CURRENT ASSETS			
Inventories	18	2,668	2,139
Accounts receivable	19	7,744	7,938
Prepayments, deposits and other receivables		3,789	1,442
Due from a minority shareholder	20	360	360
Taxes refundable		125	62
Pledged bank deposits	22	3,567	3,403
Cash and bank balances		6,765	6,837
		25,018	22,181
CURRENT LIABILITIES			
Accounts payable	21	3,907	4,495
Accrued expenses and other payables		1,318	1,354
Taxes payable		740	459
Bills payable – secured	22	3,556	2,390
Bank overdrafts – secured	22	3,644	2,637
Short-term bank loans – secured	22	600	1,862
Current portion of long-term bank loans – secured	22	1,080	–
		14,845	13,197
NET CURRENT ASSETS		10,173	8,984
TOTAL ASSETS LESS CURRENT LIABILITIES		22,482	21,516
NON-CURRENT LIABILITIES			
Long-term bank loans – secured	22	603	–
		21,879	21,516
MINORITY INTERESTS		(27)	(415)
		21,852	21,101
CAPITAL AND RESERVES			
Share capital	23	4,000	4,000
Reserves	25	17,852	17,101
		21,852	21,101

Director

Director

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

BALANCE SHEET*As at 31 March 2004*

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	18,095	18,100
CURRENT ASSETS			
Cash and bank balances		3	3
CURRENT LIABILITIES			
Accrued expenses and other payables		270	393
Taxes payable		21	–
		291	393
NET CURRENT LIABILITIES			
		(288)	(390)
NET ASSETS			
		17,807	17,710
CAPITAL AND RESERVES			
Share capital	23	4,000	4,000
Reserves	25	13,807	13,710
		17,807	17,710

*Director**Director*

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

STATEMENT OF CHANGES IN EQUITY OF THE GROUP AND THE COMPANY

For the year ended 31 March 2004

Group

	Notes	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2002		56	–	1,702	1,758
Issue of shares to the Pre-IPO					
Investors	23(a)	8	4,867	–	4,875
Capitalisation issue	23(c)	3,126	(3,126)	–	–
New issue on public listing	23(d)	810	20,250	–	21,060
Share issue expenses		–	(8,288)	–	(8,288)
Net profit for the year		–	–	1,696	1,696
Balance at 31 March 2003		4,000	13,703	3,398	21,101
Net profit for the year		–	–	751	751
Balance at 31 March 2004		4,000	13,703	4,149	21,852

Company

	Notes	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2002		56	–	–	56
Issue of shares to the Pre-IPO					
Investors	23(a)	8	4,867	–	4,875
Capitalisation issue	23(c)	3,126	(3,126)	–	–
New issue on public listing	23(d)	810	20,250	–	21,060
Share issue expenses		–	(8,288)	–	(8,288)
Net profit for the year		–	–	7	7
Balance at 31 March 2003		4,000	13,703	7	17,710
Net profit for the year		–	–	97	97
Balance at 31 March 2004		4,000	13,703	104	17,807

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	644	2,253
Adjustments for:		
Depreciation	1,498	1,481
Interest income	(17)	(67)
Interest expenses	499	660
Operating cash flows before movements in working capital	2,624	4,327
Increase in inventories	(529)	(1,161)
Decrease/(Increase) in accounts receivable	194	(3,596)
(Increase)/Decrease in prepayments, deposits and other receivables	(3,013)	1,099
Increase in amount due from a minority shareholder	–	(360)
(Decrease)/Increase in accounts payable	(588)	1,475
Increase in bills payable	1,166	1,069
Decrease in accrued expenses and other payables	(36)	(1,305)
Cash (used in)/generated from operations	(182)	1,548
Interest income	17	67
Interest paid	(499)	(660)
Tax paid	(63)	(563)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(727)	392
INVESTING ACTIVITIES		
New pledged bank deposits	(164)	(1,563)
Acquisition of a subsidiary	–	(3,000)
Purchases of fixed assets	(609)	(7,622)
NET CASH OULFLOW FROM INVESTING ACTIVITIES	(773)	(12,185)

CONSOLIDATED CASH FLOW STATEMENT (continued)

For the year ended 31 March 2004

	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	–	25,935
Share issue expenses	–	(8,288)
Contribution from minority interests	–	400
Repayments of bank loans	(1,579)	(1,419)
New bank loans raised	2,000	1,220
NET CASH INFLOW FROM FINANCING ACTIVITIES	421	17,848
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,079)	6,055
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,200	(1,855)
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,121	4,200
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	6,765	6,837
Bank overdrafts	(3,644)	(2,637)
	3,121	4,200

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

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 referred to as 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 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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice (“SSAP”) 12 issued by the Hong Kong Society of Accountants.

The revision to SSAP 12 (Revised) “Income taxes” has introduced a new basis of accounting for income taxes (including both current taxation and deferred taxation). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. On adoption of the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. As the adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. BASIS OF PRESENTATION

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

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES

(a) 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.

(b) Related parties

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets

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

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

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

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

(d) Other investments

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

(e) Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Impairment of assets

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

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

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

(g) Cash and cash equivalents

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

(h) Foreign currencies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Provisions

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

(j) Contingent liabilities and contingent assets

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

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

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

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

(k) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Operating leases

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

(m) Taxation

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

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

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

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(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.

(o) 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.

5. SEGMENT INFORMATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. SEGEMENT INFORMATION (continued)

(i) Business segments

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. SEGEMENT INFORMATION (continued)

(ii) Geographical segments

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

	Hong Kong, SAR		PRC (not including Hong Kong, SAR)		Taiwan		Singapore		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	48,059	39,233	4,257	6,169	10,340	11,345	1,755	1,693	1,436	1,124	65,847	59,564
Other segment information:												
Segment assets	27,296	23,337	7,426	9,267	2,605	1,964	-	18	-	127	37,327	34,713
Capital expenditure	547	396	-	6,812	62	414	-	-	-	-	609	7,622

6. TURNOVER AND REVENUE

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. PROFIT FROM OPERATIONS

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

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

8. FINANCE COSTS

	2004	Group 2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	499	660

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

9. DIRECTORS' REMUNERATIONS

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	-	-
	-	-
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,080	1,106
Pension scheme contributions	12	11
	1,092	1,117

Two executive directors of the Group received individual emoluments of approximately HK\$660,000 (2003: HK\$672,000) and HK\$432,000 (2003: HK\$445,000) during the year ended 31 March 2004.

All independent non-executive directors and the non-executive director did not receive any emoluments during the year (2003: Nil).

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

Emolument bands	Number of directors	
	2004	2003
Nil to HK\$1,000,000	7	6

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: HK\$167,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) executive directors, details of whose emoluments are set out in note 9 above. Details of the emoluments of the remaining three (2003: three) employees are set out as follows:

	2004	Group
	HK\$'000	2003 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,838	1,806
Bonuses	–	8
Pension scheme contributions	47	47
	1,885	1,861

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

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

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2003: HK\$167,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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

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

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

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

(b) Details of deferred taxation of the Group are set out in note 26.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$97,000 (2003: HK\$7,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

13. DIVIDENDS

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

14. EARNINGS PER SHARE

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

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

15. FIXED ASSETS

Group

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
Cost				
At 1 April 2003	5,010	2,872	4,261	12,143
Additions	–	195	414	609
Disposals	–	–	(2,032)	(2,032)
At 31 March 2004	5,010	3,067	2,643	10,720
Accumulated depreciation				
At 1 April 2003	251	1,837	2,968	5,056
Charge for the year	501	423	574	1,498
Eliminated on disposals	–	–	(2,032)	(2,032)
At 31 March 2004	752	2,260	1,510	4,522
Net book value				
At 31 March 2004	4,258	807	1,133	6,198
At 31 March 2003	4,759	1,035	1,293	7,087

As at 31 March 2004, plant and machinery with a net book value of HK\$2,555,000 (2003: Nil) has been leased to a third party.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	64	64
Due from subsidiaries	19,489	19,494
Due to subsidiaries	(1,458)	(1,458)
	18,095	18,100

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

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Resource Base Enterprises Limited	British Virgin Islands	Ordinary US\$100	100	–	Investment holding
Multi Merchant Investments Limited	British Virgin Islands	Ordinary US\$1,000	100	–	Investment holding
FX Creations International Limited	Hong Kong	Ordinary HK\$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
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
FX Wealthmark International Limited	Hong Kong	Ordinary HK\$1,000,000	-	60	Business not yet commenced
Hugo Point International Limited	Hong Kong	Ordinary HK\$100	-	100	Dormant

17. OTHER INVESTMENTS

Other investments represent an investment, at cost, in a company listed in Hong Kong. Details of this investment held by the Group as at 31 March 2004, are as follows:

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

18. INVENTORIES

All inventories held at year end are finished goods. At 31 March 2004, no inventories were stated at net realizable value (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

19. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, which generally have credit terms of up to 90 days (2003: 90 days). Each customer has a maximum credit limit. The Group seeks to maintain strict controls over its outstanding receivables to minimise credit risk. Overdue balances are reviewed by senior management on a regular basis.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	7,288	5,271
91-180 days	151	2,639
181-365 days	270	7
Over 1 year	35	21
	7,744	7,938

20. DUE FROM A MINORITY SHAREHOLDER

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

21. ACCOUNTS PAYABLE

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	3,178	3,248
91-180 days	-	1,247
181-365 days	25	-
Over 1 year	704	-
	3,907	4,495
Represented by:		
Payable to a related company	1,433	1,377
Payable to third parties	2,474	3,118
	3,907	4,495

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

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 March 2004***22. BANK BORROWINGS**

	2004	Group
	HK\$'000	2003 HK\$'000
Bills payable, secured	3,556	2,390
Bank overdrafts, secured	3,644	2,637
Short-term bank loans, secured	600	1,862
Long term bank loans, secured		
Wholly repayable within five years	1,683	–
Less: Current portion included in current liabilities	(1,080)	–
Long-term portion	603	–

The above bank borrowings of the Group as at 31 March 2004 are secured by the following:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

23. SHARE CAPITAL

	Notes	Number of authorised shares In thousand	Number of issued shares In thousand	Nominal value of shares issued HK\$'000
Pro-forma share capital as at 1 April 2002		10,000,000	280,000	56
Shares issued to the Pre-IPO Investors	(a)	–	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	(b)	–	38,220	–
Capitalisation of the share premium account as set out above	(c)	–	–	3,126
New issue on public listing	(d)	–	81,000	810
Share capital as at 31 March 2003 and 2004		10,000,000	400,000	4,000

Notes

- (a) 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.
- (b) 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.
- (c) The shares, as stated in (a) and (b), 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.
- (d) 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.

There have been no movements in share capital during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

24. 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.

25. RESERVES

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. UNRECOGNISED DEFERRED TAXATION

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

	2004	Group
	HK\$'000	2003
		HK\$'000
Taxation effect of temporary differences arising as a result of excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	309	255

No provision for deferred taxation has been recognised as the amount is insignificant.

The amount of unrecognised deferred taxation credit for the year is as follows:

	2004	Group
	HK\$'000	2003
		HK\$'000
Taxation effect of timing differences arising as a result of excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	54	255

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

27. RELATED PARTY TRANSACTIONS

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

	2004	2003
	HK\$'000	HK\$'000
(a) Purchases from a related company	1,774	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

28. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given on the banking facilities granted and utilised by subsidiaries	–	–	9,483	7,079
Bills discount with recourse	100	201	–	–
	100	201	9,483	7,079

29. COMMITMENTS

(a) Operating lease arrangements

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

At 31 March 2004, the Group had total future minimum lease payments in respect of non-cancellable operating leases for land and buildings falling due as follows:

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

(b) Capital commitment

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	137	–

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

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 18 June 2004.

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 30 July 2004 (Friday), 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 2004;
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 and special resolutions:

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

NOTICE OF ANNUAL GENERAL MEETING

- (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;

NOTICE OF ANNUAL GENERAL MEETING

(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.

Special Resolution

7. **That** the following amendments to the Articles of Association of the Company be and are hereby approved:

(a) by adding the following definition before the definition of “Auditor”:

““associate” the meaning attributed to it in the rules of the Designated Stock Exchange.”;

(b) by deleting the definition of “clearing house” in its entirety and replacing it with the following definition:

““clearing house” a clearing house or authorised share depository recognised by the laws of the jurisdiction in which the shares are listed or quoted on a stock exchange in such jurisdiction.”;

(c) by amending the reference of the existing Article 76 to Article 76(1) and adding the following new Article 76(2) immediately after Article 76(1):

“(2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”;

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- (d) by deleting the existing Article 88 in its entirety and replacing with the following new Article 88:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgement of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”; and

- (e) by deleting the existing Article 103 in its entirety and replacing with the following new Article 103:

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

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- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option or share incentive scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has/have no beneficial interest, any shares comprised in a trust in which the interests of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

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- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman and/or his associates as known to such chairman has not been fairly disclosed to the Board.”.

By order of the Board
Ong Chor Wei
Company Secretary

28 June 2004

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

Notes:

- (a) A shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. 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 certified copy of such power or authority must be deposited with the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, BEA 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 adjourned meeting thereof.
- (c) Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.