



# FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Interim Report 2002

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

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## RESULTS

The board of directors (the “Directors”) of FX Creations International Holdings Limited (the “Company”) herein presents the condensed unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 September 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

|  | Notes | Six months ended<br>30 September |                                 | Three months ended<br>30 September |                                 |
|--|-------|----------------------------------|---------------------------------|------------------------------------|---------------------------------|
|  |       | 2002<br>(unaudited)<br>HK\$'000  | 2001<br>(unaudited)<br>HK\$'000 | 2002<br>(unaudited)<br>HK\$'000    | 2001<br>(unaudited)<br>HK\$'000 |
| TURNOVER   | 3     | 27,114                           | 23,902                          | 14,959                             | 13,053                          |
| Cost of goods sold   |       | (11,657)                         | (8,153)                         | (6,819)                            | (4,417)                         |
| Gross profit   |       | 15,457                           | 15,749                          | 8,140                              | 8,636                           |
| Other revenue  |       | 492                              | 131                             | 420                                | 16                              |
| Selling and distribution costs   |       | (8,795)                          | (9,381)                         | (4,820)                            | (5,060)                         |
| Administrative expenses  |       | (5,930)                          | (5,729)                         | (3,145)                            | (3,032)                         |
| PROFIT FROM OPERATING<br>ACTIVITIES                                    |       | 1,224                            | 770                             | 595                                | 560                             |
| Finance costs  |       | (351)                            | (194)                           | (228)                              | (82)                            |
| PROFIT BEFORE TAX  | 4     | 873                              | 576                             | 367                                | 478                             |
| Tax  | 5     | (142)                            | (85)                            | (43)                               | (70)                            |
| NET PROFIT FROM ORDINARY<br>ACTIVITIES ATTRIBUTABLE TO<br>SHAREHOLDERS |       | 731                              | 491                             | 324                                | 408                             |
| DIVIDEND   | 7     | —                                | —                               | —                                  | —                               |
| EARNINGS PER SHARE   | 6     |                                  |                                 |                                    |                                 |
| Basic  |       | HK0.20 cent                      | HK0.18 cent                     | HK0.08 cent                        | HK0.15 cent                     |
| Diluted  |       | N/A                              | N/A                             | N/A                                | N/A                             |

INTERIM REPORT 2002

FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

**CONDENSED CONSOLIDATED BALANCE SHEET**

| Notes                      | As at<br>30 September<br>2002<br>(Unaudited)<br>HK\$'000 | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|----------------------------|--|--|
| <b>NON-CURRENT ASSETS</b>  |  |  |
|                            | 7,789  | 946  |
|                            | 1,087  | 939  |
|                            | <b>8,876</b>   | <b>1,885</b>                                       |
| <b>CURRENT ASSETS</b>      |  |  |
|                            | 2,603  | 978  |
| 8                          | 5,887  | 4,342  |
|                            | 5,706  | 3,047  |
|                            | —  | 1,840  |
|                            | 10,140   | —  |
|                            | 1,176  | 223  |
|                            | <b>25,512</b>  | <b>10,430</b>                                      |
| <b>CURRENT LIABILITIES</b> |  |  |
| 9                          | 2,042  | 3,020  |
|                            | 2,008  | 1,321  |
|                            | 1,860  | 1,659  |
|                            | 494  | 418  |
|                            | 1,094  | 1,216  |
|                            | —  | 600  |
|                            | —  | 2,078  |
|                            | 6,693  | —  |
|                            | <b>14,191</b>  | <b>10,312</b>                                      |
|                            | <b>11,321</b>  | <b>118</b>   |

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

|                                       | Notes | As at<br>30 September<br>2002<br>(Unaudited)<br>HK\$'000 | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|---------------------------------------|-------|--|--|
| TOTAL ASSETS LESS CURRENT LIABILITIES |       | 20,197   | 2,003  |
| NON-CURRENT LIABILITY                 |       |  |  |
| Bank loans, unsecured                 |       | 62   | 245  |
|                                       |       | 62   | 245  |
|                                       |       | <b>20,135</b>  | 1,758  |
| CAPITAL AND RESERVES                  |       |  |  |
| Issued capital                        |       | 4,000  | 56   |
| Share premium                         |       | 13,702   | —  |
| Retained profits                      |       | 2,433  | 1,702  |
|                                       |       | <b>20,135</b>  | 1,758  |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

|  | <b>Six months<br/>ended<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | Six months<br>ended<br>30 September<br>2001<br>(Unaudited)<br>HK\$'000 |
|--|--|--|
| <b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING<br/>ACTIVITIES</b> |  |  |
| Cash (used in)/generated from operations                       | (4,994)  | 896  |
| Interest received  | 41   | 37   |
| Interest paid  | (351)  | (194)  |
| Tax paid   | (66)   | (25)   |
| <b>Net cash (outflow)/inflow from operating activities</b>     | <b>(5,370)</b>   | <b>714</b>   |
| <b>INVESTING ACTIVITIES</b>                                    |  |  |
| Purchases of fixed assets                                      | (7,420)  | (963)  |
| Increase in an amount due from<br>a related company            | —  | (14)   |
| Release of pledged bank deposit                                | 1,840  | 41   |
| <b>Net cash outflow from investing activities</b>              | <b>(5,580)</b>   | <b>(936)</b>   |
| <b>NET CASH OUTFLOW BEFORE FINANCING<br/>ACTIVITIES</b>        |  |  |
|  | <b>(10,950)</b>  | <b>(222)</b>   |
| <b>FINANCING ACTIVITIES</b>                                    |  |  |
| Repayment to a shareholder                                     | —  | (325)  |
| Repayment of bank loans  | (905)  | (1,079)  |
| Proceeds from issue of shares before public listing            | 4,875  | —  |
| Proceeds from issue of shares on public listing                | 21,060   | —  |
| Share issue expenses   | (8,289)  | —  |
| <b>Net cash inflow/(outflow) from financing activities</b>     | <b>16,741</b>  | <b>(1,404)</b>   |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Continued)**

|   | <b>Six months<br/>ended<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | Six months<br>ended<br>30 September<br>2001<br>(Unaudited)<br>HK\$'000 |
|---|--|--|
| INCREASE/(DECREASE) IN CASH AND CASH<br>EQUIVALENTS                                   | 5,791  | (1,626)  |
| Cash and cash equivalents at beginning of period                                      | <b>(3,176)</b>   | (559)  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                     | <b>2,615</b>   | <b>(2,185)</b>   |
| ANALYSIS OF BALANCES OF CASH AND CASH<br>EQUIVALENTS                                  |  |  |
| Cash and bank balances  | 1,176  | 401  |
| Time deposits with maturity of less than three<br>months                              | 10,140   | —  |
| Bank overdrafts   | <b>(6,693)</b>   | (1,197)  |
| Trust receipt loans with original maturity of less<br>than three months when advanced | <b>(2,008)</b>   | (1,389)  |
|   | <b>2,615</b>   | <b>(2,185)</b>   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Share<br>Capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|---|---------------------------------|-------------------|
| At 1 April 2001                             | 56                           | —                                       | 1,782                           | 1,838             |
| Net profit for the period                   | —                            | —                                       | 491                             | 491               |
| At 30 September 2001                        | 56                           | —                                       | 2,273                           | 2,329             |
| At 1 April 2002                             | 56                           | —                                       | 1,702                           | 1,758             |
| Issue of shares to public                   | 810                          | 20,250                                  | —                               | 21,060            |
| Issue of shares to the pre-IPO<br>Investors | 8                            | 4,867                                   | —                               | 4,875             |
| Capitalisation on issue of shares           | 3,126                        | (3,126)                                 | —                               | —                 |
| Share issue expenses                        | —                            | (8,289)                                 | —                               | (8,289)           |
| Net profit for the period                   | —                            | —                                       | 731                             | 731               |
| At 30 September 2002                        | 4,000                        | 13,702                                  | 2,433                           | 20,135            |

*Notes:*

**1. GROUP REORGANISATION AND BASIS OF PRESENTATION**

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

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") 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") in May 2002, the Company became the holding company of the companies now comprising the Group on 2 May 2002. This was accomplished by the Company acquiring the entire issued share capital of Resource Base Enterprises Limited ("RBEL"), the then holding company of other subsidiaries, in consideration for the allotment and issue of 5,599,999 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid, to Wise New Management Limited ("WNML"), the former shareholder of RBEL. Further details of the Group Reorganisation are set out in the Company's prospectus dated 8 May 2002 (the "Prospectus"). The Shares of the Company (the "Shares") were listed on GEM on 21 May 2002.

The unaudited consolidated/combined results have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation rather than from the date of their acquisition pursuant to the Group Reorganisation. Accordingly the unaudited consolidated/combined results of the Group for the six months ended 30 September 2001 and 2002 included the results of the Company and its subsidiaries with effect from 1 April 2001 as if the current Group structure has been in existence throughout the periods.

In the opinion of the Directors, the unaudited consolidated/combined results prepared on the above basis present fairly the results of the Group as a whole.

All significant transactions and balances within the Group have been eliminated on consolidation/combination.

**2. EFFECT OF NEW AND REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE**

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current periods' condensed consolidated financial statements:

|                   |   |  |
|-------------------|---|--|
| SSAP 1 (Revised)  | : | "Presentation of Financial Statements" |
| SSAP 11 (Revised) | : | "Foreign Currency Translation"         |
| SSAP 15 (Revised) | : | "Cash Flow Statements"                 |
| SSAP 34           | : | "Employee Benefits"                    |

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into those from operating, investing and financing activities. The format of condensed consolidated cash flow statement for the current interim period and the comparative figures are presented in accordance with the revised SSAP 15.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This SSAP has had no major impact on the condensed consolidated financial statements.

### 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts.

#### (a) Business segments

The following tables present revenue and results for the Group's business segments.

|  | Six months ended 30 September |          |           |          |           |          |                |          |
|--|-------------------------------|----------|-----------|----------|-----------|----------|----------------|----------|
|  | Retail                        |          | Wholesale |          | Corporate |          | Combined total |          |
|  | 2002                          | 2001     | 2002      | 2001     | 2002      | 2001     | 2002           | 2001     |
|  | HK\$'000                      | HK\$'000 | HK\$'000  | HK\$'000 | HK\$'000  | HK\$'000 | HK\$'000       | HK\$'000 |
| Segment revenue:   |                               |          |           |          |           |          |                |          |
| Sales to external customers                                      | 16,219                        | 17,551   | 10,895    | 6,351    | —         | —        | 27,114         | 23,902   |
| Segment results  | 2,072                         | 2,131    | 1,373     | 842      | (2,221)   | (2,203)  | 1,224          | 770      |
| Finance costs  |                               |          |           |          |           |          | (351)          | (194)    |
| Profit before tax  |                               |          |           |          |           |          | 873            | 576      |
| Tax  |                               |          |           |          |           |          | (142)          | (85)     |
| Net profit from ordinary activities attributable to shareholders |                               |          |           |          |           |          | 731            | 491      |

#### (b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

|                             | Six months ended 30 September |          |                |          |          |          |           |          |          |          |                |          |
|-----------------------------|-------------------------------|----------|----------------|----------|----------|----------|-----------|----------|----------|----------|----------------|----------|
|                             | PRC (not including)           |          |                |          | Taiwan   |          | Singapore |          | Other    |          | Combined total |          |
|                             | Hong Kong, SAR                |          | Hong Kong, SAR |          | Taiwan   |          | Singapore |          | Other    |          | Combined total |          |
|                             | 2002                          | 2001     | 2002           | 2001     | 2002     | 2001     | 2002      | 2001     | 2002     | 2001     | 2002           | 2001     |
|                             | 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 | 18,763                        | 14,799   | 2,496          | 4,771    | 4,325    | 3,237    | 917       | 624      | 613      | 471      | 27,114         | 23,902   |

## 4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

|                                       | For the six months ended |          | For the three months ended |          |
|---------------------------------------|--------------------------|----------|----------------------------|----------|
|                                       | 30 September             |          | 30 September               |          |
|                                       | 2002                     | 2001     | 2002                       | 2001     |
|                                       | HK\$'000                 | HK\$'000 | HK\$'000                   | HK\$'000 |
| Interest on overdrafts and bank loans | 351                      | 194      | 228                        | 82       |
| Depreciation                          | 577                      | 941      | 290                        | 491      |

## 5. TAX

Hong Kong profits tax for the three and six months ended 30 September 2002 have been provided at the rate of 16% (three and six months ended 30 September 2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profit assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 6. EARNINGS PER SHARE

The calculations of basic earnings per share for the three and six months ended 30 September 2002 are based on the unaudited net profit from ordinary activities attributable to shareholders for the three and six months ended 30 September 2002 of approximately HK\$524,000 and HK\$731,000 respectively (three and six months ended 30 September 2001: HK\$408,000 and HK\$491,000) and the weighted average of approximately 400,000,000 shares and 373,475,000 shares in issue during the three and six months ended 30 September 2002 respectively (pro forma number of shares in issue for the three and six months ended 30 September 2001: 280,000,000).

Diluted earnings per share for the three months and six months ended 30 September 2002 and the corresponding periods in 2001 have not been disclosed as no dilutive events existed during these periods.

## 7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (six months ended 30 September 2001: Nil).

**8. ACCOUNTS RECEIVABLE**

The Group's trading terms with its customers are mainly on credit terms of up to 75 days.

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

|                | <b>30 September<br/>2002<br/>HK\$'000<br/>(Unaudited)</b> | <b>31 March<br/>2002<br/>HK\$'000<br/>(Audited)</b> |
|----------------|---|---|
| Within 90 days | 5,717   | 3,977   |
| 91-180 days    | 170   | 365   |
|                | <b>5,887</b>  | <b>4,342</b>  |

**9. ACCOUNTS PAYABLE**

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

|                | <b>30 September<br/>2002<br/>HK\$'000<br/>(Unaudited)</b> | <b>31 March<br/>2002<br/>HK\$'000<br/>(Audited)</b> |
|----------------|---|---|
| Within 90 days | 2,042   | 2,806   |
| 91-180 days    | —   | 214   |
|                | <b>2,042</b>  | <b>3,020</b>  |

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Group is principally engaged in retail sales 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, Singapore, Malaysia, Indonesia, Australia, New Zealand, Korea, Japan and Europe markets.

## FINANCIAL REVIEW

### Results

During the six months ended 30 September 2002, the Group recorded a turnover of approximately HK\$27.1 million (2001: HK\$23.9 million), an increase of approximately 13.4% compared to the corresponding period in previous year. The turnover for the six months ended 30 September 2002 comprised retail sales and wholesales sales which accounted for approximately 60% and 40% (2001: 73% and 27%) of the total turnover respectively. As at 30 September 2002, the Group had 13 retail outlets in Hong Kong which consisted of 7 retail shops and 6 department store counters and 15 department store counters in Taiwan.

The increase in turnover was mainly attributable to higher sales from wholesales sales due to increase in the quantity sold to new and existing agents and distributors.

The net profit attributable to shareholders for the six months ended 30 September 2002 amounted to approximately HK\$731,000 (2001: HK\$491,000) an increase of approximately 48.9% compared to the corresponding period in previous year. The increase was mainly attributed to lower level of selling and distribution costs due to special promotion and advertising costs incurred in the corresponding period in previous year.

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

For the year under review, the Group financed its operations with its own working capital and bank borrowings of approximately HK\$9.9 million (31 March 2001: HK\$5.5 million).

As at 30 September 2002, the Group had net current assets of approximately HK\$11.3 million (31 March 2002: HK\$0.1 million) including cash and cash equivalents of approximately HK\$11.3 million (31 March 2002: HK\$2.1 million).

As at 30 September 2002, the Group had total available banking facilities of approximately HK\$15.8 million (31 March 2002: HK\$10.2 million) which were supported by the corporate guarantee executed by the Company and certain of its subsidiaries.

As at 30 September 2002, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was 0.29 (31 March 2002: 0.44). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 30 September 2002, the Group has outstanding bank borrowings of approximately HK\$9.9 million (31 March 2002: HK\$5.5 million). The bank borrowings comprised unsecured bank overdrafts of approximately HK\$6.7 million (31 March 2002: Nil), secured bank overdrafts of approximately HK\$Nil (31 March 2002: HK\$2.1 million), trust receipt loans of approximately HK\$2.0 million (31 March 2002: HK\$1.3 million), a secured bank loan of approximately HK\$Nil (31 March 2002: HK\$0.6 million) and unsecured bank loans of approximately HK\$1.2 million (31 March 2002: HK\$1.5 million). Approximately HK\$9.8 million (31 March 2002: HK\$5.3 million) of the total outstanding borrowings are repayable within one year and the remaining balance of approximately HK\$62,000 (31 March 2002: HK\$0.2 million) is repayable in the second year.

### **Release of personal guarantees and legal charges**

Upon the listing of the Company's shares on GEM, the Group's bankers have released (a) the personal guarantees from two directors of the Company and a director of a subsidiary of the Company; and (b) the legal charges over certain properties owned by a director of the Company, a director of a subsidiary of the Company and a relative of a director of the Company. The aforementioned personal guarantees and legal charges were replaced by corporate guarantees executed by the Company.

### **Significant investment**

During the period under review, there was no significant investment held by the Group (31 March 2002: Nil).

### **Material acquisition or disposal of subsidiaries and affiliated companies**

Other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares on GEM, there were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of this period.

### **Contingent liabilities**

The Company had provided guarantees for the bank facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 30 September 2002 amounted to HK\$9.9 million (31 March 2002: Nil)

The Group had no other material contingent liabilities as at 30 September 2002.

### 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.

At 30 September 2002, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

|   | <b>30 September<br/>2002<br/>HK\$'000<br/>(Unaudited)</b> | <b>31 March<br/>2002<br/>HK\$'000<br/>(Audited)</b> |
|---|---|---|
| Land and buildings expiring:            |   |   |
| Within one year                         | 6,896   | 7,287   |
| In the second to fifth years, inclusive | 4,898   | 5,958   |
|   | <b>11,794</b>   | <b>13,245</b>                                       |

At 31 March 2002, the Group had contracted commitments in respect of purchases of certain fixed assets of HK\$157,500.

### Foreign exchange exposure

The Group's income and expenditure during the six months ended 30 September 2002 were denominated in US Dollars, HK Dollars and New Taiwanese ("NT") Dollars, and most of the assets and liabilities as at 30 September 2002 were denominated in HK Dollars and NT Dollars. Accordingly, the Directors are of the view that, to certain extent, the Group is exposed to foreign currency exchange risk. For the US Dollars foreign exchange exposure, the Director believe the exposure is small as the exchange rate of US Dollars to HK Dollars is comparatively stable. However, the Group is exposed to NT Dollars foreign exchange exposure and fluctuation of exchange rates of NT Dollars against HK Dollars could affect the Group's results of operations. During the year, no hedging transaction or arrangement was made.

### Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the board of

directors closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

## **Segment information**

### ***Business segments***

#### *Retail sales*

Retail sales decreased by approximately 7.6%, as compared to the previous corresponding period, to HK\$16.2 million (2001: HK\$17.6 million). The decrease was mainly attributed to a decrease in the level of sales due to difficult retail environment in Hong Kong.

#### *Wholesale sales*

Wholesale sales comprised sales to agents and sales to distributors.

Wholesale sales increased by approximately 71.5%, as compared to the previous corresponding period, to HK\$10.9 million (2001: HK\$6.4 million). The increase was mainly attributed to increase in the quantity sold to new and existing agents and distributors.

### ***Geographical segment***

For the six months ended 30 September 2002, sales in Hong Kong, SAR increased by 26.8% compared to the corresponding period in previous year. The increase was mainly attributed to increase in wholesale sales in Hong Kong.

For the six months ended 30 September 2002, sales to elsewhere in the PRC decreased by 47.7% compared to the corresponding period in previous year. The decrease was mainly attributed to decrease in quantity sold to the Group's agent in the PRC.

For the six months ended 30 September 2002, sales to Taiwan increased by 33.6% compared to the corresponding period in previous year. The increase was mainly attributed to the opening of new retail outlets in Taiwan and increase in the quantity sold.

For the six months ended 30 September 2002, sales to Singapore increased by 47.0% compared to the corresponding period in previous year. The increase was mainly attributed to increase in quantity sold to the Group's agent in Singapore.

For the six months ended 30 September 2002, sales to other countries increased by 30.1% compared to the corresponding period in previous year. The increase was mainly attributed to increase in orders from countries other than above.

Please also refer to note 3 to the report for details of business and geographical segments.

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

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Company's Prospectus under the sections headed "Statement of Business Objectives" and "Reasons for the Share Offer and the Use of Proceeds" respectively. Other than those disclosed, the Group did not have any plan for material investments or capital assets.

### **Employees and remuneration policies**

As at 30 September 2002, the Group had 83 (31 March 2002: 81) full time employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong. To date, no share options have been granted to employees.

### **Comparison of business objectives with actual business progress**

The following is a summary of the actual progress of the Group compared with the business objectives set out in the prospectus for the period from 3 May 2002 (Latest Practicable Date) to 30 September 2002.

| <b>According to the business objectives as stated in the prospectus dated 8 May 2002</b> | <b>Actual business progress in the Review Period</b> |
|--|--|
|--|--|

#### ***Sales and marketing***

|  |   |
|--|---|
| Open new retail outlets in Hong Kong and Taiwan      | The Group opened 6 department store counters in Taiwan and 2 retail outlets in Hong Kong during the period.           |
| Enter into partnerships with new agents in new areas | The Group is in the process of negotiating with new agents in new areas. No agreements were signed during the period. |

**According to the business objectives as stated in the prospectus dated 8 May 2002**

**Actual business progress in the Review Period**

*Promote and strengthen brand loyalty:*

Enter into partnerships with business partners to issue credit cards

The Group has commenced negotiation with a business partner to issue credit cards. No agreement has been reached.

*Conduct advertising campaigns:*

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

The Group continued to conduct advertising campaigns such as bill boards and road shows during the period. The Group also participated in promotion activities with a credit card issuer.

***Design and product development***

Develop new series and models for existing products

The Group has developed a new executive bags and ladies series to its product line. In addition, the Group has also developed a ladies line under the new brandname "Annvu".

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

The Group has entered into an agreement with a company in Hong Kong to develop eyewear products under the FX Creations brandname.

***Geographical expansion***

Negotiate and sign up new sole agents in Japan

The Group has commenced negotiation with its existing authorised distributors on sole agency arrangement in Japan.

***Human resources deployment***

Expand the marketing sales and retail sales team

The Group has expanded its sales team in Taiwan due to the strong sales. However, the Group reduced its sales team in Hong Kong to control costs due to continued slow recovery in Hong Kong.

**According to the business objectives as stated in the prospectus dated 8 May 2002**

**Actual business progress in the Review Period**

Expand the product development and design team

During the period, the Group has continued to increase its product development and design team by recruiting one new staff.

Expand the production and quality control team

During the period, the Group has continued to increase its product development and quality control team. One new staff was recruited.

Implementation of training programmes to improve the marketing skills of staff

The Group continued to implement various staff training program to improve the marketing skills of staff.

To recruit more experienced management staff

The Group continued to explore more experienced management staff.

*Production*

Set up own production facilities in China

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

## USE OF PROCEEDS

During the period from 21 May 2002 (the date of Listing of the Company's shares on GEM) to 30 September 2002, the Group has applied the net proceeds as follows:

|  | Proposed<br>HK\$'000 | Actual<br>HK\$'000 |
|--|----------------------|--------------------|
| Expenditure in relation to setting up additional retail outlets  | 300                  | 300                |
| Expenditure in relation to conducting advertising and marketing campaigns and other corporate image enhancement programs | 200                  | 200                |
| Expenditure in relation to financing the acquisition of plant, machinery and production facilities                       | 7,000                | 7,000              |
| Expenditure in relation to financing the expansion of the geographical coverage of the Group's network                   | 100                  | 100                |
|  | 7,600                | 7,600              |

The remaining net proceeds as at 30 September 2002 was approximately HK\$5.7 million and has placed on short term interest bearing deposits with a bank in Hong Kong.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out below:

|                  | Type of interest |           | Number of issued<br>ordinary shares held |
|------------------|------------------|-----------|--|
|                  | Note             | Corporate |  |
| Ng Pak To, Petto | Note             | Corporate | 280,000,000                              |

*Note:* These shares represent a 70% equity interest in the Company and are held by 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.

Save as disclosed above, as at 30 September 2002, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations as defined in Section 29 of

the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the “Listing Rules”) on GEM.

#### **SUBSTANTIAL SHAREHOLDER**

As at 30 September 2002, so far as the directors are aware, other than the interests of the directors as disclosed under the heading “Directors’ interests in securities” above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed no person as having an interest of more than 10% of the nominal value of the Company’s issued share capital.

#### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the “Scheme”) for the purpose of recognising significant contributions of specified participants including 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 term success and prosperity. The Scheme became effective on 21 May 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 30 September 2002, no share options have been granted under the Scheme.

#### **DIRECTORS’ RIGHTS TO ACQUIRE SECURITIES**

Apart from as disclosed under the heading “Directors interests in securities” and the transactions relating to the Group Reorganisation as disclosed above, at no time since the incorporation of the Company 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 director 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 arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

#### **PURCHASE, REDEMPTION OR SALES OF THE LISTED SECURITIES OF THE COMPANY**

Since the listing of the Company on GEM on 21 May 2002 and up to 30 September 2002, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

## COMPETING INTERESTS

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

## INTEREST OF SPONSOR

As at 30 September 2002, 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 up to 31 March 2005.

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

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

## 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. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The Committee comprises the two independent non-executive directors of the Company, Mr. Christopher Leu and Ms. Kau Man Wai, Leslie. The consolidated results of the Group for the six months ended 30 September 2002 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

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

Hong Kong, 8 November 2002