

First Quarterly Report 2003



FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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

RESULTS

The board of directors (the “Board”) of FX Creations International Holdings Limited (the “Company”) herein presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 June 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

		Three months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
	<i>Notes</i>		
TURNOVER	2	13,313	12,156
Cost of goods sold		(6,187)	(4,838)
Gross profit		7,126	7,318
Other revenue		8	71
Selling and distribution costs		(3,888)	(3,975)
Administrative expenses		(2,579)	(2,770)
PROFIT FROM OPERATIONS		667	644
Finance costs		(130)	(138)
PROFIT BEFORE TAXATION		537	506
Taxation	3	(94)	(98)
PROFIT BEFORE MINORITY INTERESTS		443	408
Minority interests		-	-
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		443	408
DIVIDEND	5	Nil	Nil
EARNINGS PER SHARE	4		
Basic		HK0.11 cent	HK0.12 cent
Diluted		N/A	N/A

Notes:

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

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

Pursuant to a 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 GEM of the Stock Exchange in May 2002, the Company became the holding company of the companies now comprising the Group on 2 May 2002. Details of the Group Reorganisation are set out in the Company’s prospectus dated 8 May 2002. The shares of the Company were listed on GEM on 21 May 2002.

The unaudited consolidated results for the three months ended 30 June 2003 included the results of the Company and all of its subsidiaries for the three months ended 30 June 2003.

The unaudited comparative consolidated 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 results of the Group for the three months ended 30 June 2002 included the results of the Company and its subsidiaries with effect from 1 April 2002 as if the current Group structure has been in existence throughout the periods.

In the opinion of the directors, the unaudited consolidated 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.

2. TURNOVER

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

	Three months ended	
	30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Retail	6,992	7,142
Wholesale	6,321	5,014
	13,313	12,156

3. TAXATION

Hong Kong profits tax for the three months ended 30 June 2003 has been provided at the rate of 17.5% (three months ended 30 June 2002: 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.

4. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2003 is based on the unaudited net profit attributable to shareholders for the three months ended 30 June 2003 of approximately HK\$443,000 (three months ended 30 June 2002: HK\$408,000) and 400,000,000 shares in issue during the three months ended 30 June 2003 (weighted average number of shares in issue for the three months ended 30 June 2002: 346,925,000).

Diluted earnings per share for the three months ended 30 June 2002 and 2003 have not been disclosed as no diluting events existed during those periods.

5. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2003 (three months ended 30 June 2002: Nil).

6. RESERVES

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	–	1,702	1,702
Issue of shares to public	20,250	–	20,250
Issue of shares to the pre-IPO Investors	4,867	–	4,867
Capitalisation on issue of shares	(3,126)	–	(3,126)
Share issue expenses	(8,259)	–	(8,259)
Net profit for the period	–	408	408
At 30 June 2002	<u>13,732</u>	<u>2,110</u>	<u>15,842</u>
At 1 April 2003	13,703	3,398	17,101
Net profit for the period	–	443	443
At 30 June 2003	<u>13,703</u>	<u>3,841</u>	<u>17,544</u>

FINANCIAL REVIEW

During the three months ended 30 June 2003, the Group recorded a turnover of approximately HK\$13,313,000 (three months ended 30 June 2002: approximately HK\$12,156,000), an increase of approximately 9.5% as compared to the previous corresponding period. The turnover for the three months ended 30 June 2003 comprised retail sales and wholesale sales which accounted for approximately 53% and 47% (three months ended 30 June 2002: approximately 59% and 41%) of the total turnover respectively.

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

The gross profit margin decreased to approximately 54% from approximately 60% in the previous corresponding period. The decrease was mainly due to the increase in the proportion of sales to wholesalers (agents and distributors) which have lower gross profit margins compared to retail sales.

The net profit attributable to shareholders for the three months ended 30 June 2003 amounted to approximately HK\$443,000 (three months ended 30 June 2002: approximately HK\$408,000), an increase of approximately 9% compared to the previous corresponding period. The increase in net profit was mainly attributable to the reduction in staff salaries as a result of cost control.

BUSINESS REVIEW

During the three months ended 30 June 2003, the status of the Group's operations were as follows:

Sales and marketing

No new retail outlet was opened and one retail outlet was closed during the three months ended 30 June 2003.

The Group finalized its partnership agreement with a new agent in Thailand and goods were sold to the customers during the period under review.

The Group continued to conduct various advertising campaigns such as road shows and brochures to promote the Group's profile and the FX CREATIONS members club.

Design and product development

The Group continued to develop new series and models for existing products including professional office bags for the new season. The brandnames include FX CREATIONS, USU for bags such as casual bags, briefcase and waist bags and Annvu for ladies bags.

The Group's partner in the eyewear products continued to develop new designs and products were sold under the FX CREATIONS brandname.

The Group has commenced discussion with other potential partners to develop the apparel products.

Geographical expansion

The Group is in the process of negotiations with its existing authorized distributors on sole agency arrangements in Japan and the Group expects to conclude the negotiation by September 2003.

The Group continues to identify potential agents in the United States. To date, no agreement has been concluded.

Production

The Group continues to acquire machinery, related leasehold improvements and fixtures to meet the expected increase in the demand in its own manufacturing capacity through a processing agent in the People's Republic of China (the "PRC").

PROSPECTS

The Group foresees the current weak retail environment in Hong Kong to improve as a consequence of the increase in the number of tourists to Hong Kong from the PRC. To capture the expected increase in sales because of the increase in tourists and to strengthen its competitive position further, the Group will continue to implement new promotion strategies to boost sales and also introduce new designs and products more frequently to keep up with the corporate image and maintain consumers' interests in the products of the Group. At the same time, the Group will also continue to expand its sales to wholesalers to target overseas markets.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, 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 required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 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 30 June 2003, 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 required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2003, 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	<i>Note</i>	280,000,000	70%
Cashtram Associates Limited	<i>Note</i>	280,000,000	70%

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

Save as disclosed above, as at 30 June 2003, 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.

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 June 2003, no share options have been granted under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors interests in shares" 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 the Company or in any other body corporate.

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

Since the listing of the Company's shares on GEM on 21 May 2002 and up to 30 June 2003, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares.

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 June 2003, 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.

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 three months ended 30 June 2003 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the three months ended 30 June 2003, the Company has complied with the Board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board

Ng Pak To, Petto

Chairman

Hong Kong, 11 August 2003