

Interim 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 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, 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 and six months ended 30 September 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	<i>Notes</i>	Six months ended 30 September		Three months ended 30 September	
		2003 (unaudited) <i>HK\$'000</i>	2002 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>	2002 (unaudited) <i>HK\$'000</i>
TURNOVER	2	29,234	27,114	15,921	14,959
Cost of goods sold		(14,560)	(11,657)	(8,373)	(6,819)
Gross profit		14,674	15,457	7,548	8,140
Other revenue		16	492	8	420
Selling and distribution costs		(8,396)	(8,795)	(4,508)	(4,820)
Administrative expenses		(5,150)	(5,930)	(2,571)	(3,145)
PROFIT FROM OPERATIONS		1,144	1,224	477	595
Finance costs		(228)	(351)	(98)	(228)
PROFIT BEFORE TAX	3	916	873	379	367
Taxation	4	(160)	(142)	(66)	(43)
PROFIT BEFORE MINORITY INTERESTS		756	731	313	324
MINORITY INTERESTS		27	-	27	-
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		783	731	340	324
DIVIDEND	6	-	-	-	-
EARNINGS PER SHARE	5				
Basic		HK0.20 cent	HK0.20 cent	HK0.09 cent	HK0.08 cent
Diluted		N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	As at 30 September 2003 (Unaudited)	As at 31 March 2003 (Audited)
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	8,450	7,087
Other investments	4,000	4,000
Rental and sundry deposits	1,491	1,445
	13,941	12,532
CURRENT ASSETS		
Inventories	1,725	2,139
Accounts receivable	4,630	7,938
Prepayments, deposits and other receivables	2,224	1,442
Due from a minority shareholder	360	360
Tax refundable	125	62
Pledged bank deposit	2,346	3,403
Bank and cash balances	9,363	6,837
	20,773	22,181
CURRENT LIABILITIES		
Accounts payable	4,723	4,495
Trust receipt loans, secured	2,689	2,390
Accrued liabilities and other payables	1,630	1,354
Tax payable	620	459
Bank loan, unsecured	463	–
Bank loan, secured	600	1,862
Bank overdrafts, secured	1,717	2,637
	12,442	13,197
NET CURRENT ASSETS	8,331	8,984
TOTAL ASSETS LESS CURRENT LIABILITIES	22,272	21,516
CAPITAL AND RESERVES		
Share capital	4,000	4,000
Reserves	17,884	17,101
SHAREHOLDERS' FUNDS	21,884	21,101
MINORITY INTERESTS	388	415
	22,272	21,516

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2003 (Unaudited) HK\$'000	Six months ended 30 September 2002 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	5,067	(4,683)
Net cash outflow from investing activities	(822)	(15,720)
Net cash (outflow)/inflow from financing activities	(1,719)	21,356
INCREASE IN CASH AND CASH EQUIVALENTS	2,526	953
Cash and cash equivalents at beginning of period	6,837	223
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,363	1,176
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	9,363	1,176

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	56	–	1,702	1,758
New issue on public listing	810	20,250	–	21,060
Issue of shares to the Pre-IPO Investors	8	4,867	–	4,875
Capitalisation issue	3,126	(3,126)	–	–
Share issue expenses	–	(8,288)	–	(8,288)
Net profit for the period	–	–	731	731
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2002	4,000	13,703	2,433	20,136
At 1 April 2003	4,000	13,703	3,398	21,101
Net profit for the period	–	–	783	783
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	4,000	13,703	4,181	21,884

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION

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 group structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of its subsidiaries on 2 May 2002 (collectively the "Group"). Details of the Group Reorganisation are set out in the Company's prospectus dated 8 May 2002 (the "Prospectus"). The shares of the Company were listed on GEM on 21 May 2002.

The unaudited 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.

The unaudited condensed consolidated interim accounts have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The principal accounting policies used in the preparation of these unaudited condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2003, except for the new adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Accounting for Income Taxes" issued by the Hong Kong Society of Accountants, which has no significant impact on the unaudited consolidated results for the six months ended 30 September 2003.

2. TURNOVER AND SEGMENT INFORMATION

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

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

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

(a) **Business segments**

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

	Six months ended 30 September							
	Retail		Wholesale		Corporate		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	16,882	16,219	12,352	10,895	-	-	29,234	27,114
Segment results	2,741	2,072	2,025	1,373	(3,622)	(2,221)	1,144	1,224
Finance costs							(228)	(351)
Profit before tax							916	873
Taxation							(160)	(142)
Profit before minority interests							756	731
Minority interests							27	-
Net profit from ordinary activities attributable to shareholders							783	731
ASSETS								
Segment assets	4,965	6,113	9,648	10,682	20,101	17,593	34,714	34,388
LIABILITIES								
Segment liabilities	2,996	2,157	3,481	1,845	5,965	10,251	12,442	14,253
Other segment information:								
Depreciation	228	479	431	-	108	98	767	577
Capital expenditure	76	536	2,023	6,815	31	69	2,130	7,420

(b) Geographical segments

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

	Six months ended 30 September											
	Hong Kong		People's Republic of China ("PRC") (not including Hong Kong)		Taiwan		Singapore		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	20,705	18,763	1,696	2,496	5,221	4,325	728	917	884	613	29,234	27,114
Other segment information:												
Segment assets	21,510	23,441	10,433	8,837	2,700	1,625	71	66	-	419	34,714	34,388
Capital expenditure	80	195	2,023	6,815	27	410	-	-	-	-	2,130	7,420

3. PROFIT BEFORE TAX

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

	For the six months ended 30 September		For the three months ended 30 September	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on overdrafts and bank loans	228	351	98	228
Depreciation	767	577	355	290

4. TAXATION

Hong Kong Profits Tax for the three and six months ended 30 September 2003 have been provided at the rate of 17.5% (three and six months ended 30 September 2002: 16%) on the estimated assessable profits arising in Hong Kong during the periods. 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.

5. EARNINGS PER SHARE

The calculations of basic earnings per share for the three and six months ended 30 September 2003 are based on the unaudited consolidated net profit attributable to shareholders for the three and six months ended 30 September 2003 of approximately HK\$340,000 and HK\$783,000 respectively (three and six months ended 30 September 2002: HK\$324,000 and HK\$731,000) and on 400,000,000 shares in issue during the three and six months ended 30 September 2003 (weighted average number of shares in issue for the three and six months ended 30 September 2002: 400,000,000 shares and 373,475,000 shares respectively).

Diluted earnings per share for the three months and six months ended 30 September 2003 and the corresponding periods in 2002 have not been disclosed as no dilutive events existed during those periods.

6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2003 (six months ended 30 September 2002: Nil).

7. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, which generally have credit terms of up to 90 days (six months ended 30 September 2002: 75 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	30 September 2003 HK\$'000 (Unaudited)	31 March 2003 HK\$'000 (Audited)
Within 90 days	3,713	5,271
91-180 days	163	2,639
181-365 days	745	7
Over 1 year	9	21
	4,630	7,938

8. ACCOUNTS PAYABLE

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

	30 September 2003 HK\$'000 (Unaudited)	31 March 2003 HK\$'000 (Audited)
Within 90 days	2,656	3,248
91-180 days	1,279	1,247
181-365 days	145	-
Over 1 year	643	-
	4,723	4,495

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

BUSINESS REVIEW

Slight increase in turnover was recorded in the six months ended 30 September 2003 owing to the outbreak of the Severe Acute Respiratory Syndrome (“SARS”). The business of the Group was not adversely affected due to the promotion strategies the Group implemented during the difficult time.

During the three months ended 30 September 2003, the Group entered into a sole agency agreement with a company in Japan for the “Astro Boy” products whereby the Group will design, develop and distribute bags under the “Astro Boy” brandname in Hong Kong. The sales of products under the “Astro Boy” brandname will commence in November 2003 in the retail outlets of the Group in Hong Kong.

During the six months ended 30 September 2003, the Group did not open new retail outlets as no suitable retail outlets premises were identified. At the same time, three retail outlets in Hong Kong and Taiwan were closed as the leases expired and were not renewed as the terms of the extension could not be agreed upon and it was not economically feasible.

FINANCIAL REVIEW

Results

During the six months ended 30 September 2003, the Group recorded a turnover of approximately HK\$29.2 million (six months ended 30 September 2002: approximately HK\$27.1 million), an increase of approximately 7.7% compared to the corresponding period in previous year. The turnover for the six months ended 30 September 2003 comprised retail sales and wholesales sales which accounted for approximately 58% and 42% (six months ended 30 September 2002: approximately 60% and 40%) of the total turnover respectively. As at 30 September 2003, the Group had 10 retail outlets in Hong Kong which consisted of 5 (31 March 2003: 6) retail shops and 5 (31 March 2003: 6) department store counters and 12 (31 March 2003: 13) 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 2003 amounted to approximately HK\$783,000 an increase of approximately 7.1% compared to the corresponding period in previous year. Gross profit margin for the six months ended 30 September 2003 reduced from approximately 57% in the corresponding period in previous year to 50% due to increase in the proportion of sales from wholesales which commanded less gross profit margin and slight decrease in selling prices as a result of competition. Selling and distribution costs and administrative expenses were reduced by approximately 5% and 13% respectively from the corresponding period in previous year despite the increase in turnover due to the costs saving efforts by the management of the Group.

Liquidity, financial resources and capital structure

For the period under review, the Group financed its operations with its own working capital and bank borrowings of approximately HK\$5.5 million as at 30 September 2003 (31 March 2003: approximately HK\$6.9 million).

As at 30 September 2003, the Group had net current assets of approximately HK\$8.3 million (31 March 2003: approximately HK\$9 million) including cash and cash equivalents of approximately HK\$9.4 million (31 March 2003: approximately HK\$6.8 million).

As at 30 September 2003, the Group had total available banking facilities of approximately HK\$13.7 million (31 March 2003: approximately HK\$23.8 million) which were supported by the following:

- (i) the pledge of bank deposits of approximately HK\$2,346,000 (31 March 2003: HK\$3,403,000);
- (ii) corporate guarantee executed by the Company; and
- (iii) the pledge of certain current asset of a subsidiary of the Company amounting to HK\$156,000 (31 March 2003: HK\$156,000).

As at 30 September 2003, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.16 (31 March 2003: approximately 0.2). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 30 September 2003, the Group has outstanding bank borrowings of approximately HK\$5.5 million (31 March 2003: approximately HK\$6.9 million). The bank borrowings comprised secured bank overdrafts of approximately HK\$1.7 million (31 March 2003: approximately HK\$2.6 million), trust receipt loans of approximately HK\$2.7 million (31 March 2003: approximately HK\$2.4 million), a secured bank loan of approximately HK\$0.6 million (31 March 2003: approximately HK\$1.9 million) and unsecured bank loans of approximately HK\$0.5 million (31 March 2003: Nil). The total outstanding bank borrowings of approximately HK\$5.5 million (31 March 2003: approximately HK\$6.9 million) are repayable within one year.

The share 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 date.

Significant investment

As at 30 September 2003, there was no significant investment held by the Group (31 March 2003: Nil).

Material acquisition or disposal of subsidiaries and affiliated companies

There were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of the six months ended 30 September 2003.

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 2003 amounted to approximately HK\$5.5 million (31 March 2003: approximately HK\$7.0 million).

The Group had no other material contingent liabilities as at 30 September 2003.

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

	30 September 2003	31 March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Land and buildings expiring:		
Within one year	3,895	5,854
In the second to fifth years, inclusive	1,406	1,640
	5,301	7,494

As at 30 September 2003, the Group had contracted commitments in respect of purchases of certain fixed assets of HK\$200,000 (31 March 2003: Nil).

Foreign exchange exposure

The Group's income and expenditure during the six months ended 30 September 2003 were mainly denominated in US Dollars, HK Dollars and New Taiwanese ("NT") Dollars, and most of the assets and liabilities as at 30 September 2003 were denominated in HK Dollars and NT Dollars. Accordingly, the Directors are of the view that, to certain extent, the Group is exposed to foreign currency exchange risk. For the US Dollars foreign exchange exposure, the Director believe the exposure is small as the exchange rate of US Dollars to HK Dollars is comparatively stable. However, the Group is exposed to NT Dollars foreign exchange exposure and fluctuation of exchange rates of NT Dollars against HK Dollars could affect the Group's results of operations. During the year, no hedging transaction or arrangement was made.

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 increased by approximately 4.3%, as compared to the corresponding period in previous year, to approximately HK\$16.9 million (six months ended 30 September 2002: approximately HK\$16.2 million). The increase was mainly attributed to the increase in the level of sales in the retail outlets in Taiwan.

Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Wholesale sales increased by approximately 13.8%, as compared to the corresponding period in previous year, to approximately HK\$12.4 million (six months ended 30 September 2002: approximately HK\$10.9 million). The increase was mainly attributed to the increase in quantity sold to new and existing agents and distributors.

Geographical segment

For the six months ended 30 September 2003, sales in Hong Kong increased by approximately 10.4% 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 2003, sales to elsewhere in the PRC decreased by approximately 32.1% compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in quantity sold to the Group's agents in the PRC due to higher level of competition.

For the six months ended 30 September 2003, sales to Taiwan increased by approximately 20.7% compared to the corresponding period in previous year. The increase was mainly attributed to the increase in the level of sales by retail outlets in Taiwan.

For the six months ended 30 September 2003, sales to Singapore decreased by approximately 20.6% compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in quantity sold to the Group's agent in Singapore due to weak retail market generally in Singapore.

For the six months ended 30 September 2003, sales to other countries increased by approximately 44.2% compared to the corresponding period in previous year. The increase was mainly attributed to the increase in orders from countries other than above, which include United States, Thailand, Philippines and Chile.

Please also refer to note 2 to the Results of this 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 2003, the Group had 89 (31 March 2003: 87) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$5 million in the six months 30 September 2003 as compared to approximately HK\$5.6 million in the six months ended 30 September 2002. 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.

PROSPECTS

With the increase in the number of tourists in Hong Kong and the recovery in the consumer markets in the US, the Group is optimistic of the prospects of the Group and will continue to implement various promotion strategies to boost sales. The Group will continue on the work in identifying distributors to target overseas markets. The Group will also continue to introduce new innovative designs and products more frequently to keep up with the corporate image and maintain consumers' interests in the products of the Group.

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 April 2003 to 30 September 2003 (the "Review Period").

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

Sales and marketing

Open new retail outlets in Hong Kong and Taiwan

The Group closed 2 retail outlets in Hong Kong during the Review Period as the leases expired and the agreement to extend the tenancy period was not reached.

In Taiwan, 1 retail outlet was closed due to expiry of the lease and the Group considered it not economically feasible to renew the lease.

The Group is continuing to identify new retail outlets premises in Hong Kong and Taiwan.

Enter into partnerships with new agents in new areas

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

Promote and strengthen brand loyalty:

Enter into partnerships with business partners to issue credit cards

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

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

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 Review Period. The Group also participated in promotion activities with credit card and discount card issuers.

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

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

Design and product development

Develop new series and models for existing products

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

Develop professional office bags

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

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

The Group is in the process of identifying business partners for the development of apparel products.

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

Eyewear products continued to be developed by business partner under the **FX CREATIONS** brandname and sold during the Review period.

According to the business objectives as stated in the Prospectus**Actual business progress in the Review Period*****Geographical expansion***

Negotiate and sign up new sole agents in Japan

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

Negotiate and sign up new agents in USA

The Group is in the process of identifying potential agents in the US. No agreement has been reached as at 30 September 2003.

Negotiate and sign up new agents in Europe

The Group has signed an agency agreement with a distributor in the United Kingdom. The Group is continuing to identify other possible new distributors in Europe.

Human resources deployment

Expand the marketing sales and retail sales team

As at 30 September 2003, there are 50 staff in the marketing and retail sales team (31 March 2003: 56). The number of staff has decreased as 3 retail outlets were closed during the Review Period. The Group will recruit more sales staff once location of suitable outlet is identified.

Expand the product development and design team

As at 30 September 2003, there are 6 staff in the product development and design team (31 March 2003: 6).

Expand the production and quality control team

As at 30 September 2003, there are 17 staff in the production and quality control team (31 March 2003: 13).

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

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 experience management staff

The Group is always looking to recruit experienced management staff for the expansion of operations. During the Review Period, there was no change in management staff.

Production

Set up own production facilities in China

As planned, the Group has established its own manufacturing capacity through a processing agent in Guanlan, Shenzhen, the PRC. During the Review Period, the Group continued to acquire further plant, machinery and production facilities as planned. Under the processing agent arrangement, the Group will be responsible for the provision of plant, machinery, related leasehold improvements and fixtures and the processing agent will be responsible for the provision of production premises, water, electricity and labour.

USE OF PROCEEDS

During the period from 3 May 2002, (Latest Practicable Date), to 30 September 2003, the Group has applied the net proceeds from the placing of shares as follows:

	Amount extracted from the Prospectus HK\$'000	Actual usage HK\$'000
Expenditure in relation to setting up additional retail outlets	1,300	1,300
Expenditure in relation to conducting advertising and marketing campaigns and other corporate image enhancement programs	600	700
Expenditure in relation to financing the acquisition of plant, machinery and production facilities	10,300	9,700
Expenditure in relation to financing the expansion of the geographical coverage of the Group's network	<u>300</u>	<u>350</u>
	<u>12,500</u>	<u>12,050</u>

The remaining net proceeds as at 30 September 2003 was approximately HK\$1,250,000 and was placed on short-term interest bearing deposits with banks in Hong Kong.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 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	<i>(Note)</i>	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 September 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 September 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 September 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 September 2003, 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 the Company in any other body corporate.

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

During the six months ended 30 September 2003, 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 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the six months ended 30 September 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.

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. After the appointment of Mr. Guo Jian as an independent non-executive director and audit committee member from 25 August 2003, the Committee comprises the three independent non-executive directors of the Company, Mr. Christopher Leu, Ms. Kau Man Wai, Leslie and Mr. Guo Jian. The unaudited consolidated results of the Group for the six months ended 30 September 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.

By Order of the Board
Ng Pak To, Petto
Chairman

Hong Kong, 5 November 2003