

# Third Quarterly Report 2003



**FX CREATIONS INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 and nine months ended 31 December 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	<i>Notes</i>	Nine months ended 31 December		Three months ended 31 December	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER	2	<b>50,167</b>	42,893	<b>20,933</b>	15,779
Cost of goods sold		<u>(27,211)</u>	<u>(18,452)</u>	<u>(12,651)</u>	<u>(6,795)</u>
Gross profit		<b>22,956</b>	24,441	<b>8,282</b>	8,984
Other revenue		<b>16</b>	484	<b>0</b>	2
Selling and distribution costs		<b>(13,219)</b>	(13,608)	<b>(4,823)</b>	(4,813)
Administrative expenses		<b>(8,195)</b>	(9,504)	<b>(3,045)</b>	(3,585)
PROFIT FROM OPERATING ACTIVITIES		<b>1,558</b>	1,813	<b>414</b>	588
Finance costs		<u>(368)</u>	<u>(515)</u>	<u>(140)</u>	<u>(163)</u>
PROFIT BEFORE TAX		<b>1,190</b>	1,298	<b>274</b>	425
Tax	3	<u>(173)</u>	<u>(208)</u>	<u>(13)</u>	<u>(66)</u>
PROFIT BEFORE MINORITY INTERESTS		<b>1,017</b>	1,090	<b>261</b>	359
Minority interest		<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>1,044</b>	1,090	<b>261</b>	359
DIVIDEND	5	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EARNINGS PER SHARE	4				
Basic		<b>HK0.26 cent</b>	HK0.30 cent	<b>HK0.07 cent</b>	HK0.09 cent
Diluted		<b>N/A</b>	N/A	<b>N/A</b>	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, the Company acquired the holding company of its subsidiaries 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 (the "Shares") 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 principal accounting policies used in the preparation of these unaudited consolidated results 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) "Income Taxes" issued by the Hong Kong Society of Accountants, which has no significant impact on the unaudited consolidated results for the nine months ended 31 December 2003.

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.

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Turnover				
Retail	<b>25,749</b>	25,419	<b>8,867</b>	9,200
Wholesale	<b>24,418</b>	17,474	<b>12,066</b>	6,579
	<b><u>50,167</u></b>	<u>42,893</u>	<b><u>20,933</u></b>	<u>15,779</u>

**3. TAX**

Hong Kong Profits Tax for the three months and nine months ended 31 December 2003 has been provided at the rate of 17.5% (three months and nine months ended 31 December 2002: 16%) on the estimated assessable profits arising in Hong Kong during the periods. Taxes on profit 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.

**4. EARNINGS PER SHARE**

The calculation of basic earnings per share for the three months and nine months ended 31 December 2003 is based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and nine months ended 31 December 2003 of approximately HK\$261,000 and HK\$1,044,000 respectively (three months and nine months ended 31 December 2002: HK\$359,000 and HK\$1,090,000 respectively) and on 400,000,000 shares in issue during the three months and nine months ended 31 December 2003 (weighted average shares in issue for the three months and nine months ended 31 December 2002: 400,000,000 and 360,219,000 shares respectively).

Diluted earnings per share for the three months and nine months ended 31 December 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 an interim dividend for the three months and nine months ended 31 December 2003 (three months and nine months ended 31 December 2002: Nil).

**6. RESERVES**

	<b>Share premium HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
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	(8,288)	–	(8,288)
Net profit for the period	<u>–</u>	<u>731</u>	<u>731</u>
At 30 September 2002	13,703	2,433	16,136
Net profit for the period	<u>–</u>	<u>359</u>	<u>359</u>
At 31 December 2002	<u>13,703</u>	<u>2,792</u>	<u>16,495</u>
At 1 April 2003	13,703	3,398	17,101
Net profit for the period	<u>–</u>	<u>783</u>	<u>783</u>
At 30 September 2003	13,703	4,181	17,884
Net profit for the period	<u>–</u>	<u>261</u>	<u>261</u>
At 31 December 2003	<u>13,703</u>	<u>4,442</u>	<u>18,145</u>

## FINANCIAL REVIEW

During the nine months ended 31 December 2003, the Group recorded a turnover of approximately HK\$50.2 million (nine months ended 31 December 2002: approximately HK\$42.9 million), an increase of approximately 17% as compared to the corresponding period in previous year. The turnover for the nine months ended 31 December 2003 comprised retail sales and wholesale sales which accounted for approximately 51% and 49% (nine months ended 31 December 2002: approximately 59% and 41%) of the total turnover respectively.

The increase in turnover was mainly attributable to the increase in sales to wholesalers due to the increase in quantity sold to new and existing customers.

The gross profit margin decreased to approximately 46% from approximately 57% in the corresponding period in previous year. The decrease was mainly attributable to intense competition in the retail sectors and an increase in the proportion of turnover from wholesalers which commanded a lower gross profit margin.

The net profit attributable to shareholders for the nine months ended 31 December 2003 amounted to approximately HK\$1 million (nine months ended 31 December 2002: approximately HK\$1.1 million), a decrease of approximately 9% as compared to the corresponding period in previous year. The decrease was mainly attributable to the decrease in gross profit margin. Administrative expenses decreased by approximately 14% from corresponding period in previous year due mainly to the decrease in directors' remuneration.

## BUSINESS REVIEW AND PROSPECTS

### General

The Group is principally engaged in retail sales 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 People's Republic of China ("PRC"), Macau, Singapore, Malaysia, Philippines, Indonesia, Thailand, Australia, New Zealand, United States, Chile, Korea, Japan and Europe markets.

**Business Review**

During the three months ended 31 December 2003, no retail outlet was opened as no suitable retail outlet was identified. The Group closed 3 retail outlets in Taiwan as the leases expired and were not renewed as the terms of the extension could not be agreed upon.

Sales of products under the “Astro Boy” brandname commenced in the three months ended 31 December 2003 and the Group expects to achieve satisfactory results in the sales of these products.

The Group continued to identify potential new agents in new areas but none was identified in the three months ended 31 December 2003.

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

**Prospects**

The Group foresees the retail environment in Hong Kong will improve in the year 2004 owing to the increase in the number of tourists from the PRC and the general increase in spending from the consumers in Hong Kong. However, with the recent bird flu outbreak in several countries in Asia and the PRC, the Group is concerned that retail environment in Hong Kong may be affected if the outbreak shows no sign of under control. Wholesale to agents for Thailand and the PRC markets may also be affected if the outbreak persists in those countries.

Nevertheless, to capture the spending from the PRC tourists and consumers in Hong Kong and Taiwan as well as to increase sales to wholesalers, the Group will continue to broaden its products base by introducing new innovative designs and products frequently and implement various promotion strategies to boost sales.

**DIRECTORS' INTERESTS IN SHARES**

As at 31 December 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:

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

## SUBSTANTIAL SHAREHOLDER

As at 31 December 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:

		<b>Number of shares held</b>	<b>Percentage of holding</b>
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.

## 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 31 December 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 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 any other body corporate.

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

During the nine months ended 31 December 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 31 December 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 nine months ended 31 December 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”) 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 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 three months and nine months ended 31 December 2003 have been reviewed by the Committee, who was 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, 9 February 2004