

FIRST QUARTERLY REPORT
2004/05



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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		Three months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
	<i>Notes</i>		
TURNOVER	2	16,193	13,313
Cost of goods sold		(8,640)	(6,187)
Gross profit		7,553	7,126
Other revenue		383	8
Selling and distribution costs		(4,701)	(3,888)
Administrative expenses		(2,714)	(2,579)
PROFIT FROM OPERATIONS		521	667
Finance costs		(140)	(130)
PROFIT BEFORE TAXATION		381	537
Taxation	3	(32)	(94)
PROFIT BEFORE MINORITY INTERESTS		349	443
Minority interests		(95)	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		254	443
DIVIDEND	4	—	—
EARNINGS PER SHARE	5		
Basic		HK0.06 cent	HK0.11 cent
Diluted		N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2004.

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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Retail	8,690	6,992
Wholesale	7,503	6,321
	16,193	13,313

3. TAXATION

Hong Kong profits tax for the three months ended 30 June 2004 has been provided at the rate of 17.5% (three months ended 30 June 2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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.

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the balance sheet date (30 June 2003: Nil).

4. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2004 (three months ended 30 June 2003: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2004 is based on the unaudited net profit attributable to shareholders for the three months ended 30 June 2004 of approximately HK\$254,000 (three months ended 30 June 2003: approximately HK\$443,000) and 400,000,000 shares in issue during the three months ended 30 June 2004 (three months ended 30 June 2003: 400,000,000).

Diluted earnings per share for the three months ended 30 June 2003 and 2004 have not been disclosed as no diluting events existed during those periods.

6. RESERVES

	Share premium (Unaudited) <i>HK\$'000</i>	Retained earnings (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2003	13,703	3,398	17,101
Net profit for the period	—	443	443
	13,703	3,841	17,544
At 30 June 2003	13,703	3,841	17,544
At 1 April 2004	13,703	4,149	17,852
Net profit for the period	—	254	254
	13,703	4,403	18,106
At 30 June 2004	13,703	4,403	18,106

FINANCIAL REVIEW

During the three months ended 30 June 2004, the Group recorded a turnover of approximately HK\$16,193,000 (three months ended 30 June 2003: approximately HK\$13,313,000), an increase of approximately 21.6% as compared to the previous corresponding period. The turnover for the three months ended 30 June 2004 comprised retail sales and wholesale sales which accounted for approximately 54% and 46% (three months ended 30 June 2003: approximately 53% and 47%) of the total turnover respectively.

The increase in turnover was attributable to the increase in retail sales, both in Hong Kong and Taiwan and wholesale sales. Retail and wholesale sales increased by approximately 24% and 19% respectively and retail sales in Hong Kong and Taiwan increased by approximately 24% and 25% respectively compared to the previous corresponding period.

The gross profit margin decreased to approximately 47% from approximately 54% in the previous corresponding period. The decrease was mainly due to the increase in the costs of raw materials.

The net profit attributable to shareholders for the three months ended 30 June 2004 amounted to approximately HK\$254,000 (three months ended 30 June 2003: approximately HK\$443,000), a decrease of approximately 43% compared to the previous corresponding period. The decrease in net profit was attributable to the decrease in gross profit margin and the increase in selling and distribution costs. More advertising and promotion campaigns were conducted in the current period to promote the Group's profile and the **FX CREATIONS** members club compared to previous corresponding period. Rentals and salary expenses also increased as a result of the opening of three retail outlets in the current period due to the expansion of the Group.

BUSINESS REVIEW

During the three months ended 30 June 2004, the status of the Group's operations were as follows:

Sales and marketing

Two retail outlets in Hong Kong and one retail outlet in Taiwan were opened in the period under review. One retail outlet in Taiwan was closed in the same period.

The Group continued to conduct various advertising campaigns such as bill boards, 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 various types of bags such as business bags, sports bags, backpacks, handbags and wallets, and accessories such as belts, watches, spectacles and umbrellas for the new season. The brandnames of the Group include **FX CREATIONS**, **USU**, **Annvu** and **Astro Boy**.

The Group continued the discussion with other potential partners to develop apparel products and footwear.

Geographical expansion

The Group currently has agents and/or distributors in Japan, United Kingdom, Thailand, Singapore and the People's Republic of China (the "PRC").

The Group continued to identify potential agents in the United States, Europe, Macau and Phillipines. To date, no agreement has been concluded.

Production

The Group continued to look for suitable machinery and production facilities for acquisition in order to meet the expected increase in the demand in its manufacturing capacity through a processing agent in the PRC.

PROSPECTS

With the influx of visitors from the PRC to Hong Kong which brings with it a huge spending power, the Board believes the strategy for the retail market is to try to capture the spending from these PRC customers. As well as keeping on introducing new innovative designs and products, with quality assurance, regularly to keep up with the corporate image and maintain consumers' interests in the products of the Group, the Group will also continue to implement various promotion strategies to boost sales. On the wholesale side, the Group will continue to identify agent and distributors to target overseas and local markets.

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 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 June 2004, none of the directors had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SHARES

As at 30 June 2004, other than the interests of certain directors as disclosed under the section headed "Directors' interests in shares" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follow:

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

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 2004, 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" 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 directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

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 2004, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares.

COMPETING INTERESTS

As at 30 June 2004, none of the directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

INTEREST OF SPONSOR

As at 30 June 2004, Kingston Corporate Finance Limited (the "Sponsor"), its directors, employees or associates did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

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

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 2 May 2002, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors of the Company, namely Mr. Christopher C. Leu, Miss Kau Man Wai, Leslie and Mr. Guo Jian. The consolidated results of the Group for the three months ended 30 June 2004 have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the three months ended 30 June 2004, the Company has complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

By Order of the Board
Ng Pak To, Petto
Chairman

Hong Kong, 6 August 2004

As at the date of this report, the Company’s executive directors are Ng Pak To, Petto, Ho Kai Chung, David and Ong Chor Wei, the Company’s non-executive director is Wong Wai Shan, and the Company’s independent non-executive directors are Christopher C. Leu, Kau Man Wai, Leslie and Guo Jian respectively.