

INTERIM 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

	Notes	Six months ended 30 September		Three months ended 30 September	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	2	33,956	29,234	17,764	15,921
Cost of goods sold		<u>(17,466)</u>	<u>(14,560)</u>	<u>(8,826)</u>	<u>(8,373)</u>
Gross profit		16,490	14,674	8,938	7,548
Other revenue		383	16	-	8
Selling and distribution costs		(10,401)	(8,396)	(5,700)	(4,508)
Administrative expenses		<u>(7,306)</u>	<u>(5,150)</u>	<u>(4,592)</u>	<u>(2,571)</u>
(LOSS)/PROFIT FROM OPERATIONS		(834)	1,144	(1,354)	477
Finance costs		<u>(280)</u>	<u>(228)</u>	<u>(140)</u>	<u>(98)</u>
(LOSS)/PROFIT BEFORE TAX	3	(1,114)	916	(1,494)	379
Taxation	4	<u>(8)</u>	<u>(160)</u>	<u>23</u>	<u>(66)</u>
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(1,122)	756	(1,471)	313
MINORITY INTERESTS		<u>(95)</u>	<u>27</u>	<u>-</u>	<u>27</u>
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,217)</u>	<u>783</u>	<u>(1,471)</u>	<u>340</u>
DIVIDEND	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(LOSS)/EARNINGS PER SHARE	5				
Basic		<u>HK(0.30) cent</u>	<u>HK0.20 cent</u>	<u>HK(0.37) cent</u>	<u>HK0.09 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		9,013	6,198
Other investments	9	3,000	4,000
Rental and sundry deposits		2,139	2,111
		14,152	12,309
CURRENT ASSETS			
Inventories		2,925	2,668
Accounts receivable	7	8,426	7,744
Prepayments, deposits and other receivables		3,931	3,789
Due from a minority shareholder		360	360
Taxes refundable		255	125
Pledged bank deposit		3,518	3,567
Cash and bank balances		3,912	6,765
		23,327	25,018
CURRENT LIABILITIES			
Accounts payable	8	4,182	3,907
Accrued expenses and other payables		1,984	1,318
Taxes payable		94	740
Bill payable – secured		4,398	3,556
Bank overdrafts – secured		3,769	3,644
Short-term bank loans – secured		600	600
Current portion of long-term bank loans – secured		1,092	1,080
		16,119	14,845
NET CURRENT ASSETS		7,208	10,173
TOTAL ASSETS LESS CURRENT LIABILITIES		21,360	22,482
NON-CURRENT LIABILITIES			
Long-term bank loans – secured		603	603
		20,757	21,879
MINORITY INTERESTS		(122)	(27)
		20,635	21,852
CAPITAL AND RESERVES			
Share capital		4,000	4,000
Reserves		16,635	17,852
		20,635	21,852

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2004 (Unaudited) HK\$'000	Six months ended 30 September 2003 (Unaudited) HK\$'000
Net cash inflow from operating activities	558	5,067
Net cash outflow from investing activities	(3,548)	(822)
Net cash inflow/(outflow) from financing activities	12	(799)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,978)	3,446
Cash and cash equivalents at beginning of period	3,121	4,200
CASH AND CASH EQUIVALENTS AT END OF PERIOD	143	7,646
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,912	9,363
Bank overdrafts	(3,769)	(1,717)
	143	7,646

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Accumulated profits/(loss) (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2003	4,000	13,703	3,398	21,101
Net profit for the period	—	—	783	783
At 30 September 2003	<u>4,000</u>	<u>13,703</u>	<u>4,181</u>	<u>21,884</u>
At 1 April 2004	4,000	13,703	4,149	21,852
Net loss for the period	—	—	(1,217)	(1,217)
At 30 September 2004	<u>4,000</u>	<u>13,703</u>	<u>2,932</u>	<u>20,635</u>

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated interim accounts have been prepared under the historical cost convention and in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules and 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 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. Details of the business segments are summarised 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	19,858	16,882	14,098	12,352	-	-	33,956	29,234
Segment results	2,487	2,741	964	2,025	(4,285)	(3,622)	(834)	1,144
Finance costs							(280)	(228)
(Loss)/profit before tax							(1,114)	916
Taxation							(8)	(160)
(Loss)/profit before minority interests							(1,122)	756
Minority interests							(95)	27
Net (loss)/profit from ordinary activities attributable to shareholders							(1,217)	783
BALANCE SHEET								
ASSETS								
Segment assets	7,277	4,965	17,659	9,648	12,543	20,101	37,479	34,714
LIABILITIES								
Segment liabilities	3,270	2,996	2,028	3,481	11,424	5,965	16,722	12,442
Other segment information:								
Depreciation	284	228	359	431	111	108	754	767
Capital expenditure	535	76	2,606	2,023	428	31	3,569	2,130

(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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	25,268	20,705	1,411	1,696	5,873	5,221	950	728	454	884	33,956	29,234
Other segment information:												
Segment assets	20,896	21,510	13,110	10,433	3,244	2,700	229	71	-	-	37,479	34,714
Capital expenditure	719	80	2,606	2,023	244	27	-	-	-	-	3,569	2,130

3. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

	Six months ended 30 September		Three months ended 30 September	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on overdrafts and bank loans	280	228	140	98
Depreciation	754	767	357	355

4. TAXATION

Hong Kong Profits Tax for the three and six months ended 30 September 2004 have been provided at the rate of 17.5% (three and six months ended 30 September 2003: 17.5%) 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. (LOSS)/EARNINGS PER SHARE

The calculations of basic (loss)/earnings per share for the three and six months ended 30 September 2004 are based on the unaudited consolidated net loss attributable to shareholders for the three and six months ended 30 September 2004 of approximately HK\$1,471,000 and HK\$1,217,000 respectively (three and six months ended 30 September 2003: net profit attributable to shareholders of HK\$340,000 and HK\$783,000 respectively) and on 400,000,000 shares in issue during the three and six months ended 30 September 2004 (weighted average number of shares in issue for the three and six months ended 30 September 2003: 400,000,000 shares).

Diluted (loss)/earnings per share for the three months and six months ended 30 September 2004 and the corresponding periods in 2003 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 2004 (six months ended 30 September 2003: 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 2003: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within 90 days	5,780	7,288
91-180 days	1,753	151
181-365 days	620	270
Over 1 year	273	35
	8,426	7,744

8. ACCOUNTS PAYABLE

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 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within 90 days	2,101	3,178
91-180 days	1,597	–
181-365 days	–	25
Over 1 year	484	704
	4,182	3,907

9. OTHER INVESTMENTS

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Non-trading securities		
Equity securities – listed in Hong Kong	4,000	4,000
Provision for deficit on revaluation	(1,000)	–
	3,000	4,000

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**, **Annvu** and **Astro Boy**.

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

BUSINESS REVIEW

The Group continued to record a double-digit growth in its turnover both in the three and six months ended 30 September 2004 as compared to the same period in previous year. To further capture the expected increasing number of tourists to Hong Kong, the Group has expanded its retail network by opening 7 more retail outlets in Hong Kong in the six months ended 30 September 2004.

FINANCIAL REVIEW

Results

During the six months ended 30 September 2004, the Group recorded a turnover of approximately HK\$34.0 million (six months ended 30 September 2003: approximately HK\$29.2 million), an increase of approximately 16% compared to the corresponding period in previous year. The turnover for the six months ended 30 September 2004 comprised retail sales and wholesales sales which accounted for approximately 58% and 42% (six months ended 30 September 2003: approximately 58% and 42%) of the total turnover respectively. As at 30 September 2004, the Group had 17 (31 March 2004: 10) retail outlets in Hong Kong which consisted of 7 (31 March 2004: 5) retail shops and 10 (31 March 2004: 5) department store counters and 9 (31 March 2004: 9) department store counters in Taiwan.

The increase in turnover was mainly attributable to the increase in retail sales, both in Hong Kong and Taiwan and wholesales sales. Retail and wholesale sales increased by approximately 18% and 14% respectively and retail sales in Hong Kong and Taiwan increased by approximately 22% and 12% respectively in the period under review compared to the previous corresponding period. The increase in retail sales was mainly attributed to our Group opening new retail outlets in Hong Kong.

The gross profit margin for the six months ended 30 September 2004 dropped slightly from approximately 50% during the corresponding period in previous year to approximately 49%. Selling and distribution costs increased by approximately 24% in

the period under review due to the increase in expenses, e.g. sales staff salaries and rentals, as more retail outlets were opened. Administrative expenses also increased by approximately 42% in the period under review due mainly to the provision for the deficit on revaluation of non-trading securities of HK\$1,000,000 and to the increase in salaries and related expenses.

Although the Group recorded an increase in turnover of approximately 16% to HK\$34 million in the six months ended 30 September 2004, the Group recorded a net loss attributable to shareholders of approximately HK\$1.2 million, compared to a net profit of approximately HK\$0.8 million in the corresponding period in previous year. The loss was attributed to the deficit in revaluation of the non-trading securities of approximately HK\$1 million and higher percentage increase in selling and distribution costs and administrative expenses as a result of increase in the number of staff level, rental and other overheads due to the opening of more retail outlets.

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\$10.5 million as at 30 September 2004 (31 March 2004: approximately HK\$9.5 million).

As at 30 September 2004, the Group had net current assets of approximately HK\$7.2 million (31 March 2004: approximately HK\$10 million) including cash and cash equivalents of approximately HK\$143,000 (31 March 2004: approximately HK\$3.1 million).

As at 30 September 2004, the Group had total available banking facilities of approximately HK\$16.1 million (31 March 2004: approximately HK\$16.3 million) which were supported by the following:

- (i) the pledge of bank deposits of approximately HK\$3,518,000 (31 March 2004: HK\$3,567,000);
- (ii) corporate guarantee executed by the Company; and
- (iii) the pledge of certain current asset of a subsidiary of the Company amounting to approximately HK\$984,000 (31 March 2004: HK\$934,000).

As at 30 September 2004, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was approximately 0.28 (31 March 2004: approximately 0.25). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 30 September 2004, the Group has outstanding bank borrowings of approximately HK\$10.5 million (31 March 2004: approximately HK\$9.5 million). The bank borrowings comprised secured bank overdrafts of approximately HK\$3.8 million (31 March 2004: approximately HK\$3.6 million), secured bills payable of approximately HK\$4.4 million (31 March 2004: approximately HK\$3.6 million) and secured bank loans of approximately HK\$2.3 million (31 March 2004: approximately HK\$2.3 million). As at 30 September 2004, approximately HK\$9.9 million (31 March 2004: approximately HK\$8.9 million) was repayable within one year and approximately HK\$0.6 million (31 March, 2004: approximately HK\$0.6 million) was repayable in the second 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 2004 and 31 March 2004, other than the investment in a company listed in Hong Kong disclosed as “other investments” in the balance sheet, there was no other significant investment held by the Group.

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 2004.

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 2004 amounted to approximately HK\$10.5 million (31 March 2004: approximately HK\$9.5 million)

The Group had no other material contingent liabilities as at 30 September 2004.

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 2004, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	3,895	4,068
In the second to fifth years, inclusive	1,406	2,793
	5,301	6,861

As at 30 September 2004, the Group had contracted commitments in respect of purchases of certain fixed assets of approximately HK\$200,000 (31 March 2004: commitments in respect of licence fee of approximately HK\$137,000).

Foreign exchange exposure

The Group's income and expenditure during the six months ended 30 September 2004 were denominated in United States ("US") dollars, HK dollars and New Taiwanese ("NT") dollars, and most of the assets and liabilities as at 30 September 2004 were denominated in HK dollars and NT dollars. Accordingly, the Board is of the view that, to certain extent, the Group is exposed to foreign currency exchange risk. For the US dollars foreign exchange exposure, the Board believes 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 period under review, 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 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 18%, as compared to the corresponding period in previous year, to approximately HK\$19.9 million (six months ended 30 September 2003: approximately HK\$16.9 million). The increase was attributed to the increase in the level of sales in the retail outlets in Hong Kong and Taiwan.

Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Wholesale sales increased by approximately 14%, as compared to the corresponding period in previous year, to approximately HK\$14.1 million (six months ended 30 September 2003: approximately HK\$12.4 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 2004, sales in Hong Kong increased by approximately 22% compared to the corresponding period in previous year. The increase was attributed to the increase in both retail and wholesale sales in Hong Kong.

For the six months ended 30 September 2004, sales to elsewhere in the PRC decreased by approximately 17% 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 2004, sales to Taiwan increased by approximately 12% 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 2004, sales to Singapore increased by approximately 30% compared to the corresponding period in previous year. The increase was mainly attributed to the increase in quantity sold to the Group's agent in Singapore due to an improved retail market generally in Singapore.

For the six months ended 30 September 2004, sales to other countries decreased by approximately 49% compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in orders from the United States and Philippines.

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 dated 8 May 2002 under the sections headed "Statement of Business Objectives" and in this report under section headed "Comparison of Business objectives with Actual Business Progress". As at the date of this report, the Group did not have any other plans for material investments or capital assets. However, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders' value.

Employees and remuneration policies

As at 30 September 2004, the Group had 130 (31 March 2004: 108) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$5.7 million in the six months 30 September 2004 as compared to approximately HK\$5 million in the six months ended 30 September 2003. Remuneration is determined with 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

The Group is optimistic about its business prospects for the remaining of the financial year. The strong positive performance trend in turnover in the retail business appears to continue. In addition to introducing new innovative designs and products regularly, the Group will also continue to implement various promotion strategies to boost and capture sales. The Group will also continue to identify agents 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.

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 2004 to 30 September 2004 (the "Review Period").

According to the business objectives as stated

Actual business progress in the Review Period in the Prospectus

Sales and marketing

Open new retail outlets in Hong Kong and Taiwan

As at 30 September 2004, there were 17 retail outlets in Hong Kong which consisted of 7 retail shops and 10 department store counters, and 9 retail outlets in Taiwan.

7 retail outlets were opened in Hong Kong in the Review Period. One retail outlet in Taiwan was closed in the Review Period due to expiry of lease and one was opened.

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

Enter into partnerships with new agents in new areas

The Group continued on the lookout of potential new agents in new areas and is finalising its partnership agreement with the agent in Thailand.

According to the business objectives as stated

Actual business progress in the Review Period in the Prospectus

Conduct advertising campaigns:

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

During the Review Period, the Group continued to conduct advertising campaigns such as bill boards, advertisements in magazines and road shows. The Group also participated in promotion activities with credit card issuers and cinemas during the Review Period.

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 existing brandnames, including **FX CREATIONS**, **USU**, **Annvu** and **AstroBoy**, 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 under the **FX CREATIONS** brandname.

Develop footwear with business partners under the **FX CREATIONS** brandname

The Group is in the process of identifying business partners for the development of footwear products under the **FX CREATIONS** brandname.

According to the business objectives as stated

Actual business progress in the Review Period in the Prospectus

Geographical expansion

Negotiate and sign up new sole agents in Japan

The Group has terminated its agency relationship with the Agent in Japan during the Review Period as the performance of the agent in Japan was not within the Group's expectation.

Negotiate and sign up new agents in USA

The Group is in the process of identifying potential agents in the USA. No agreement was signed during the Review Period.

Negotiate and sign up new agents in Europe

The Group signed an agency agreement with an agent in the United Kingdom in the last financial year. The Group is continuing to identify other potential new agents in Europe.

Negotiate and sign up new agents in Macau

The Group is in the process of identifying potential agents in the Macau. No agreement was signed during the Review Period.

Negotiate and sign up new agents in Thailand

The Group is finalising its agency agreement with the agent in Thailand.

Negotiate and sign up new agents in Philippines

The Group is in the process of identifying potential agents in Philippines. No agreement was signed during the Review Period.

Negotiate and sign up new agents in Indonesia

The Group has engaged the Singapore agent to cover the Indonesian market, as such, no agent will be engaged in Indonesia.

According to the business objectives as stated

Actual business progress in the Review Period in the Prospectus

Human resources deployment

Expand the marketing sales and retail sales team

As at 30 September 2004, there are 67 staff in the marketing and retail sales team (31 March 2004: 48).

Expand the product development and design team

As at 30 September 2004, there are 7 staff in the product development and design team (31 March 2004: 6).

Expand the production and quality control team

As at 30 September 2004, there are 42 staff in the production and quality control team (31 March 2004: 41).

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 experienced 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.

USE OF PROCEEDS

The net proceeds from the placement and public offer from the listing of the Company's shares on GEM on 21 May 2002 of approximately HK\$12,800,000 have all been applied as at 31 March 2004.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 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 September 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 September 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 September 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 September 2004, no share options have been granted under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR SECURITIES

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, 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 September 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 September 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.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the six months ended 30 September 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.

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, Ms. Kau Man Wai, Leslie and Mr. Guo Jian. The unaudited consolidated results of the Group for the six months ended 30 September 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.

By Order of the Board
Ng Pak To, Petto
Chairman

Hong Kong, 10 November 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.