

THIRD 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.

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

	Notes	Nine months ended 31 December		Three months ended 31 December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	52,875	50,167	18,919	20,933
Cost of goods sold		(29,982)	(27,211)	(12,516)	(12,651)
Gross profit		22,893	22,956	6,403	8,282
Other revenue		476	16	93	–
Selling and distribution costs		(16,577)	(13,219)	(6,175)	(4,823)
Administrative expenses		(11,773)	(8,195)	(4,468)	(3,045)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(4,981)	1,558	(4,147)	414
Finance costs		(444)	(368)	(164)	(140)
(LOSS)/PROFIT BEFORE TAX		(5,425)	1,190	(4,311)	274
Tax	3	(42)	(173)	(34)	(13)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(5,467)	1,017	(4,345)	261
Minority interest		(95)	27	–	–
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,562)	1,044	(4,345)	261
DIVIDEND	5	–	–	–	–
(LOSSES)/EARNINGS PER SHARE	4				
Basic		HK(1.39) cent	HK0.26 cent	HK(1.09) cent	HK0.07 cent
Diluted		N/A	N/A	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 principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. 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.

	Nine months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Retail	32,358	25,749	12,500	8,867
Wholesale	20,517	24,418	6,419	12,066
	52,875	50,167	18,919	20,933

3. TAX

Hong Kong Profits Tax for the three months and nine months ended 31 December 2004 has been provided at the rate of 17.5% (three months and nine months ended 31 December 2003: 17.5%) 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. (LOSSES)/EARNINGS PER SHARE

The calculation of basic (losses)/earnings per share for the three months and nine months ended 31 December 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the three months and nine months ended 31 December 2004 of approximately HK\$4,345,000 and HK\$5,562,000 respectively (unaudited net profit from ordinary activities attributable to shareholders for the three months and nine months ended 31 December 2003: HK\$261,000 and HK\$1,044,000 respectively) and on 400,000,000 shares in issue during the three months and nine months ended 31 December 2004 (three months and nine months ended 31 December 2003: 400,000,000 shares).

Diluted (losses)/earnings per share for the three months and nine months ended 31 December 2003 and 2004 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 2004 (three months and nine months ended 31 December 2003: Nil).

6. RESERVES

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
At 1 April 2004	13,703	4,149	17,852
Net loss for the period	<u>—</u>	<u>(1,217)</u>	<u>(1,217)</u>
At 30 September 2004	13,703	2,932	16,635
Net loss for the period	<u>—</u>	<u>(4,345)</u>	<u>(4,345)</u>
At 31 December 2004	<u>13,703</u>	<u>(1,413)</u>	<u>12,290</u>

FINANCIAL REVIEW

During the nine months ended 31 December 2004, the Group recorded a turnover of approximately HK\$52.9 million (nine months ended 31 December 2003: approximately HK\$50.2 million), an increase of approximately 5% as compared to the corresponding period in previous year. The turnover for the nine months ended 31 December 2004 comprised retail sales and wholesale sales which accounted for approximately 61% and 39% (nine months ended 31 December 2003: approximately 51% and 49%) of the total turnover respectively.

During the nine months ended 31 December 2004, the Group recorded an increase in retail sales by approximately 26%, but a decrease in wholesale sales by approximately 16% compared to the corresponding period in previous year. The Group also recorded an increase in retail sales of approximately 41% in the three months ended 31 December 2004 from the corresponding period in previous year and a decrease of wholesale sales of approximately 47% in the same periods. The increase in retail sales was mainly attributed to the Group having more retail outlets as compared to the corresponding periods in previous years. The decrease in wholesale sales was due to lower orders from existing customers.

The gross profit margin decreased to approximately 43% from approximately 46% in the corresponding period in previous year. The decrease was mainly attributable to intense competition in the retail and wholesale sectors which resulted in lower gross profit margin.

The net loss attributable to shareholders for the nine months ended 31 December 2004 amounted to approximately HK\$5.6 million (nine months ended 31 December 2003: net profit of approximately HK\$1 million). The decrease was attributable to the decrease in gross profit margin and increase in the selling and distribution costs and administrative expenses. Selling and distribution costs increased by approximately 25% from corresponding period in previous year due mainly to the increase in rental as the Group has more retail shops, advertising expenses and sales staff's salaries and commissions due to increase in manpower. Administrative expenses increased by approximately 44% from corresponding period in previous year due mainly to the increase in depreciation costs for additional fixed assets and loss on disposal of fixed assets during the three months ended 31 December 2004.

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**, **Anvnu** and **Astro Boy**.

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

Business Review

During the three months ended 31 December 2004, the Group has four new retail outlets, two in Hong Kong and two in Taiwan.

The Group continued to identify potential new agents in new areas but none was identified in the three months ended 31 December 2004.

During the three months ended 31 December 2004, the Group recorded an increase in turnover which has not increased in line with the increase in the various operating expenses and as a result of that, net losses were recorded. The Group will implement various costs control measures in order to achieve a profitable business.

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 is optimistic of the prospects of its business and will continue to capture the spending from the increased number of tourists in Hong Kong by broadening its product base in introducing more new innovative designs and products with various promotion strategies, and at the meantime, implement various costs control measures.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 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 31 December 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 SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 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 31 December 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 31 December 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 31 December 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 31 December 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 nine months ended 31 December 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 system 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 three months and nine months ended 31 December 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, 3 February 2005

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.