

CREATIONS

INTERIM REPORT 2005/06

FX



FX CREATIONS

FX CREATIONS INTERNATIONAL HOLDINGS LIMITED

豐盛創意國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

* For identification purposes only

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This report, for which the directors of FX Creations International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors (the "Board") of FX Creations International Holdings Limited (the "Company") herein presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 September 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

	Notes	Six months ended 30 September 2005		Three months ended 30 September 2005	
		(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000	(Unaudited) HK\$'000	(Unaudited) 2004 HK\$'000
TURNOVER	2	35,780	33,956	18,406	17,764
Cost of goods sold		(18,400)	(17,466)	(9,908)	(8,826)
Gross profit		17,380	16,490	8,498	8,938
Other revenue		1,187	383	928	-
Selling and distribution costs		(12,227)	(10,401)	(6,027)	(5,700)
Administrative expenses		(6,106)	(7,306)	(3,307)	(4,592)
PROFIT/(LOSS) FROM OPERATIONS		234	(834)	92	(1,354)
Finance costs		(291)	(280)	(149)	(140)
LOSS BEFORE TAX	3	(57)	(1,114)	(57)	(1,494)
Taxation	4	-	(8)	-	23
LOSS BEFORE MINORITY INTERESTS		(57)	(1,122)	(57)	(1,471)
Minority interests		-	(95)	-	-
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(57)	(1,217)	(57)	(1,471)
DIVIDEND	6	-	-	-	-
LOSS PER SHARE	5				
Basic		HK(0.01) cent	HK(0.30) cent	HK(0.01) cent	HK(0.37) cent
Diluted		N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		5,360	6,166
Long-term investments		830	830
Rental and sundry deposits		2,392	1,723
		8,582	8,719
CURRENT ASSETS			
Short-term investments	9	934	1,434
Inventories		3,339	3,023
Accounts receivable	7	7,874	6,591
Prepayments, deposits and other receivables		1,152	2,144
Due from a minority shareholder		360	360
Taxes refundable		28	28
Pledged bank deposits		2,770	2,742
Cash and bank balances		532	1,527
		16,989	17,849
CURRENT LIABILITIES			
Accounts payable	8	4,509	3,418
Accrued expenses and other payables		1,253	1,317
Amount due to ultimate holding company		88	–
Taxes payable		167	167
Bill payable – secured		2,394	4,381
Bank overdrafts – secured		3,679	3,810
Short-term bank loans – secured		600	600
Current portion of long-term bank loans – secured		177	947
Current portion of other loans		500	–
		13,367	14,640
NET CURRENT ASSETS		3,622	3,209
TOTAL ASSETS LESS CURRENT LIABILITIES		12,204	11,928
NON-CURRENT LIABILITIES			
Long-term other loans		333	–
MINORITY INTERESTS		11,871 (121)	11,928 (121)
		11,750	11,807
CAPITAL AND RESERVES			
Share capital		4,000	4,000
Reserves		7,750	7,807
		11,750	11,807

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2005 (Unaudited) HK\$'000	Six months ended 30 September 2004 (Unaudited) HK\$'000
Net cash (outflow)/inflow from operating activities	(393)	558
Net cash outflow from investing activities	(534)	(3,548)
Net cash inflow from financing activities	63	12
DECREASE IN CASH AND CASH EQUIVALENTS	(864)	(2,978)
Cash and cash equivalents at beginning of period	(2,283)	3,121
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(3,147)	143
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	532	3,912
Bank overdrafts	(3,679)	(3,769)
	(3,147)	143

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Retained earnings/ (Accumulated losses) (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
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>
At 1 April 2005	4,000	13,703	(5,896)	11,807
Net loss for the period	—	—	(57)	(57)
At 30 September 2005	<u>4,000</u>	<u>13,703</u>	<u>(5,953)</u>	<u>11,750</u>

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated interim accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong, comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 2005.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs in the preparation of accounts for the period from 1 April 2005 onwards. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

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	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	<u>21,490</u>	19,858	<u>14,290</u>	14,098	-	-	<u>35,780</u>	33,956
Segment results	<u>3,421</u>	2,487	<u>1,649</u>	964	<u>(4,836)</u>	(4,285)	<u>234</u>	(834)
Finance costs							<u>(291)</u>	(280)
Loss before tax							<u>(57)</u>	(1,114)
Taxation							<u>-</u>	(8)
Loss before minority interests							<u>(57)</u>	(1,122)
Minority interests							<u>-</u>	(95)
Net loss from ordinary activities attributable to shareholders							<u>(57)</u>	(1,217)
BALANCE SHEET								
ASSETS								
Segment assets	<u>7,381</u>	7,277	<u>12,785</u>	17,659	<u>5,405</u>	12,543	<u>25,571</u>	37,479
LIABILITIES								
Segment liabilities	<u>2,578</u>	3,270	<u>1,451</u>	2,028	<u>9,671</u>	11,424	<u>13,700</u>	16,722
Other segment information:								
Depreciation	<u>325</u>	284	<u>481</u>	359	<u>76</u>	111	<u>882</u>	754
Capital expenditure	<u>6</u>	535	<u>-</u>	2,606	<u>71</u>	428	<u>77</u>	3,569

(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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Segment revenue:														
Sales to external customers	26,211	25,268	2,409	1,411	5,922	5,873	1,026	950	212	454	35,780	33,956		
Other segment information:														
Segment assets	16,329	20,896	5,290	13,110	3,918	3,244	34	229	-	-	25,571	37,479		
Capital expenditure	72	719	-	2,606	5	244	-	-	-	-	77	3,569		

3. LOSS BEFORE TAX

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

	Six months ended 30 September 2005 (Unaudited) HK\$'000		Three months ended 30 September 2005 (Unaudited) HK\$'000	
	2005	2004	2005	2004
Interest on overdrafts and bank loans	291	280	149	140
Depreciation	882	754	456	357

4. TAXATION

No provision for taxation has been made (three and six months ended 30 September 2004: 17.5%) as the Group has an estimated loss for Hong Kong profits tax purposes in the current 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 PER SHARE

The calculations of basic loss per share for the three and six months ended 30 September 2005 are based on the unaudited consolidated net loss attributable to shareholders for the three and six months ended 30 September 2005 of approximately HK\$57,000 and HK\$57,000 respectively (three and six months ended 30 September 2004: net loss attributable to shareholders of approximately HK\$1,471,000 and HK\$1,217,000 respectively) and on 400,000,000 shares in issue during the three and six months ended 30 September 2005 (three and six months ended 30 September 2004: 400,000,000 shares).

Diluted loss per share for the three and six months ended 30 September 2005 and the corresponding periods in 2004 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 2005 (six months ended 30 September 2004: 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 2004: 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 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Within 90 days	6,460	5,570
91-180 days	1,394	1,013
181-365 days	14	4
Over 1 year	6	4
	7,874	6,591

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 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Within 90 days	2,137	2,748
91-180 days	1,892	190
181-365 days	-	-
Over 1 year	480	480
	4,509	3,418

9. SHORT-TERM INVESTMENTS

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Equity securities – listed in Hong Kong	-	500
Unit trusts, unlisted	934	934
	934	1,434

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 **ASTROBOY**.

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.

FINANCIAL REVIEW

Results

During the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$35.8 million (six months ended 30 September 2004: approximately HK\$34.0 million), an increase of approximately 5.4% compared to the corresponding period in previous year. The turnover for the six months ended 30 September 2005 comprised retail sales and wholesale sales which accounted for approximately 60% and 40% (six months ended 30 September 2004: approximately 58% and 42%) of the total turnover respectively. As at 30 September 2005, the Group had 17 (31 March 2005: 18) retail outlets in Hong Kong which consisted of 8 (31 March 2005: 7) retail shops and 9 (31 March 2005: 11) department store counters and 10 (31 March 2005: 11) department store counters in Taiwan.

The increase in turnover was attributable to the increase in both retail and wholesale sales. The Group recorded increases in retail sales, both in Hong Kong and Taiwan, in the six months ended 30 September 2005 compared to the corresponding period in previous year. Retail sales in Hong Kong increased by approximately 11.3% whereas retail sales in Taiwan increased by approximately 0.8% during the period under review compared to previous corresponding period. Wholesale sales increased by approximately 1.4% in the six months ended 30 September 2005 compared to the corresponding period in previous year.

The gross profit margin remained relatively stable at approximately 49% for the six months ended 30 September 2005 and 2004.

Selling and distribution costs increased by approximately 17.6% in the period under review due to increase in various expenses, e.g. sales staff salaries and rentals, as more retail outlets were opened. Administrative expenses decreased by approximately 16.4% in the period under review as there was a provision for deficit in revaluation of investment of HK\$1 million for the six months ended 30 September 2004 and there was no such provision for the current period. However, a loss on disposal of investment of approximately HK\$260,000 was recorded in the current period following the disposal of the investment in the listed equity securities and higher level of staff salaries and rentals were also recorded in the current period.

The Group managed to improve its financial position in the current period and a net loss of approximately HK\$57,000 was recorded compared to a net loss of approximately HK\$1.2 million in the previous corresponding period.

Liquidity, financial resources and capital structure

For the period under review, the Group financed its operations by its own working capital and bank borrowings which was of approximately HK\$6.9 million as at 30 September 2005 (31 March 2005: approximately HK\$9.7 million).

As at 30 September 2005, the Group had net current assets of approximately HK\$3.6 million (31 March 2005: approximately HK\$3.2 million) including cash and bank balances of approximately HK\$0.5 million (31 March 2005: approximately HK\$1.5 million) and pledged bank deposits of approximately HK\$2.8 million (31 March 2005: approximately HK\$2.7 million).

As at 30 September 2005, the Group had total available banking facilities of approximately HK\$12.1 million (31 March 2005: approximately HK\$14.9 million) which were supported by the following:

- (i) the pledge of bank deposits of approximately HK\$2.8 million (31 March 2005: approximately HK\$2.7 million);
- (ii) personal guarantees executed by a director and two senior management of the Company; and
- (iii) the pledge of certain assets of a subsidiary of the Company amounting to approximately HK\$1.8 million (31 March 2005: approximately HK\$1.8 million).

As at 30 September 2005, the gearing ratio (defined as the ratio between total borrowings and total assets) was approximately 0.30 (31 March 2005: approximately 0.37). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 30 September 2005, the Group has outstanding bank borrowings of approximately HK\$6.9 million (31 March 2005: approximately HK\$9.7 million). The bank borrowings comprised secured bank overdrafts of approximately HK\$3.7 million (31 March 2005: approximately HK\$3.8 million), secured bills payable of approximately HK\$2.4 million (31 March 2005: approximately HK\$4.4 million) and secured bank loans of approximately HK\$0.8 million (31 March 2005: approximately HK\$1.5 million). As at 30 September 2005, the whole bank borrowings of approximately HK\$6.9 million (31 March 2005: approximately HK\$9.7 million) was repayable within one year and none (31 March, 2005: Nil) was repayable in the second year.

The shares of the Company have been listed on GEM since 21 May 2002. There has been no change in the capital structure of the Company since that date.

Significant investment

During the six months ended 30 September 2005, the Group had disposed of the investment in a company listed in Hong Kong and a loss of approximately HK\$260,000 was recorded. 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 2005.

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2005.

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 2005, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	5,936	8,498
In the second to fifth years, inclusive	2,053	3,582
	7,989	12,080

Save for the above commitment, as at 30 September 2005, neither the Group nor the Company had other significant commitments.

Foreign exchange exposure

The Group's income and expenditure during the six months ended 30 September 2005 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 2005 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 8%, as compared to the corresponding period in previous year, to approximately HK\$21.5 million (six months ended 30 September 2004: approximately HK\$19.9 million). The increase was mainly attributed to the increase in the level of sales in the retail outlets in Hong Kong.

Wholesale sales

Wholesale sales comprised sales to agents and sales to distributors.

Wholesale sales increased by approximately 1.4%, as compared to the corresponding period in previous year, to approximately HK\$14.3 million (six months ended 30 September 2004: approximately HK\$14.1 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 2005, sales in Hong Kong increased by approximately 3.7% 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 2005, sales in the PRC increased by approximately 70.7% compared to the corresponding period in previous year. The increase was mainly attributed to the increase in quantity sold to the Group's agents in the PRC.

For the six months ended 30 September 2005, sales to Taiwan increased by approximately 0.8% 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 2005, sales to Singapore increased by approximately 8.0% 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 2005, sales to other countries decreased by approximately 53.3% compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in orders from Japan and the 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

As at 30 September 2005, 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 2005, the Group had 134 (31 March 2005: 137) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$6.4 million in the six months ended 30 September 2005 as compared to approximately HK\$5.7 million in the six months ended 30 September 2004. 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.

BUSINESS REVIEW AND PROSPECTS

During the six months ended 30 September 2005, the Group recorded an increase in turnover of approximately 5.4% as compared to the corresponding period in previous year. The increase was attributed to the increase in both retail and wholesale sales.

The Group continues to be optimistic about its business prospects especially with the continued increase in tourists in Hong Kong. In addition to introducing new innovative designs and products regularly to keep up with the corporate image and to maintain consumers' interests in the products of the Group, the Group will also continue to implement various marketing and promotion activities, such as event sponsorship, and strategies to promote the Group's brandnames and to boost sales. As at 30 September 2005, the Group targeted to introduce a new brandname before the end of the calendar year 2005 and was finalizing on the arrangement with business partner to issue credit cards. The Group will also continue with its cost control measures and to improve efficiency of the Group's operations. On the wholesale side, the Group will continue to identify agents and distributors to target local and overseas markets.

The Group is also looking for opportunities to diversify its business in order to increase its source of revenue and it is assessing the economic efficiency of its assets and may reallocate its assets where appropriate. In addition, the Group will also look for investment opportunities to enhance shareholders' value.

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 September 2005, 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 set out in Rules 5.48 to 5.67 of the GEM Listing Rules, were as follows:

		Type of interest	Number of issued ordinary shares held
Mr. Ng Pak To, Petto	(Note)	Corporate	204,000,000

Note: These shares represent a 51% 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.

On 20 June 2005, these shares were pledged in favour of Corkwood Enterprises Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Lau Kim Hung, Jack, who accordingly, had a security interest in these shares. Under the SFO, Mr. Ng Pak To, Petto is deemed to have a short position in these shares.

Save as disclosed above, as at 30 September 2005, 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 the required standard of dealings by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SHARES

As at 30 September 2005, 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 1)</i>	204,000,000	51%
Cashtram Associates Limited	<i>(Note 1)</i>	204,000,000	51%
Top Accurate Limited	<i>(Note 2)</i>	76,000,000	19%
Mr. Ma She Shing, Albert	<i>(Note 2)</i>	76,000,000	19%
Mr. Lau Kim Hung, Jack	<i>(Note 3)</i>	204,000,000	51%
Corkwood Enterprises Limited	<i>(Note 3)</i>	204,000,000	51%

Notes:

1. The details are disclosed under the note in the section headed "Directors' interests in shares" above.
2. These shares represent a 19% equity interest in the Company and are held by Top Accurate Limited. The ultimate beneficial owner of Top Accurate Limited is Mr. Ma She Shing, Albert.
3. On 20 June 2005, 204,000,000 shares held by WNML were pledged in favour of Corkwood Enterprises Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Lau Kim Hung, Jack, who accordingly, had a security interest in these 204,000,000 shares. Under the SFO, each of Corkwood Enterprises Limited and Mr. Lau Kim Hung, Jack is deemed to be interested in these 204,000,000 shares.

Save as disclosed above, as at 30 September 2005, 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 2005, no share options have been granted under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR SECURITIES

Apart from as disclosed under the section headed "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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the six months ended 30 September 2005.

COMPETING INTERESTS

As at 30 September 2005, 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code"). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules for the six months ended 30 September 2005, except that the Company has not set up the remuneration committee and the roles of chairman and managing director (equivalent to the position of chief executive director) are performed by Mr. Ng Pak To, Petto. The Company is searching for suitable candidates for the formation of the remuneration committee and is assessing the necessity and the benefits of separating the roles of the chairman and managing director.

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. Lee Kun Hung, Mr. Wong Hou Yan, Norman and Mr. Cheung Chi Hwa, Justin. The unaudited consolidated results of the Group for the six months ended 30 September 2005 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 2005

As at the date of this report, the Company's executive directors are Mr. Ng Pak To, Petto, Mr. Ong Chor Wei and Mr. Chan Man Yin, and the Company's independent non-executive directors are Mr. Lee Kun Hung, Mr. Wong Hou Yan, Norman and Mr. Cheung Chi Hwa, Justin.