

CREATIONS

THIRD QUARTERLY 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

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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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 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 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

	Notes	Nine months ended 31 December 2005		Three months ended 31 December 2005	
		2004 HK\$'000	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000
TURNOVER	2	54,154	52,875	18,374	18,919
Cost of goods sold		(28,968)	(29,982)	(10,568)	(12,516)
Gross profit		25,186	22,893	7,806	6,403
Other revenue		1,432	476	245	93
Selling and distribution costs		(17,754)	(16,577)	(5,527)	(6,175)
Administrative expenses		(8,710)	(11,773)	(2,604)	(4,468)
PROFIT/(LOSS) FROM OPERATIONS		154	(4,981)	(80)	(4,147)
Finance costs		(435)	(444)	(144)	(164)
LOSS BEFORE TAXATION		(281)	(5,425)	(224)	(4,311)
Taxation	3	(4)	(42)	(4)	(34)
LOSS BEFORE MINORITY INTERESTS		(285)	(5,467)	(228)	(4,345)
Minority interests		-	(95)	-	-
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(285)	(5,562)	(228)	(4,345)
DIVIDEND	5	-	-	-	-
LOSS PER SHARE	4				
Basic		HK(0.07) cent	HK(1.39) cent	HK(0.06) cent	HK(1.09) cent
Diluted		N/A	N/A	N/A	N/A

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated results 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.

The HKICPA has 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

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts.

	Nine months ended 31 December		Three months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Retail	29,638	32,358	8,148	12,500
Wholesale	24,516	20,517	10,226	6,419
	54,154	52,875	18,374	18,919

3. TAXATION

Hong Kong Profits Tax for the three months and nine months ended 31 December 2005 has been provided at the rate of 17.5% (three months and nine months ended 31 December 2004: 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. LOSS PER SHARE

The calculations of basic loss per share for the three months and nine months ended 31 December 2005 are based on the unaudited consolidated net loss attributable to shareholders for the three months and nine months ended 31 December 2005 of approximately HK\$228,000 and HK\$285,000 respectively (three months and nine months ended 31 December 2004: unaudited consolidated net loss attributable to shareholders of approximately HK\$4,345,000 and HK\$5,562,000 respectively) and the weighted average of 401,265,084 and 405,060,335 shares respectively in issue during the three months and nine months ended 31 December 2005 (three months and nine months ended 31 December 2004: 400,000,000 shares in issue).

Diluted loss per share for the three months and nine months ended 31 December 2004 and 2005 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 2005 (three months and nine months ended 31 December 2004: Nil).

6. RESERVES

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
At 1 April 2005	13,703	(5,896)	7,807
Net loss for the period	<u>–</u>	<u>(57)</u>	<u>(57)</u>
At 30 September 2005	13,703	(5,953)	7,750
Placing of new shares	1,215	–	1,215
Net loss for the period	<u>–</u>	<u>(228)</u>	<u>(228)</u>
At 31 December 2005	<u>14,918</u>	<u>(6,181)</u>	<u>8,737</u>

FINANCIAL REVIEW

During the nine months ended 31 December 2005, the Group recorded a turnover of approximately HK\$54.2 million (nine months ended 31 December 2004: approximately HK\$52.9 million), an increase of approximately 2.5% as compared to the corresponding period in previous year. The turnover for the nine months ended 31 December 2005 comprised retail sales and wholesale sales which accounted for approximately 55% and 45% (nine months ended 31 December 2004: approximately 61% and 39%) of the total turnover respectively.

During the nine months ended 31 December 2005, the Group recorded a decrease in retail sales by approximately 8.4%, but an increase in wholesale sales by approximately 19.5% compared to the corresponding period in previous year. The Group also recorded a decrease in retail sales of approximately 34.8% in the three months ended 31 December 2005 from the corresponding period in previous year and an increase of wholesale sales of approximately 59.3% in the same period. The decrease in retail sales was mainly due to the Group's appointment of an agent in Taiwan to streamline its operations and resources. As a result of this, the Group reduced its retail outlets and retail sales in Taiwan. The increase in wholesale sales was mainly attributable to increased orders from existing customers and the appointment of agent in Taiwan.

Gross profit for the nine months ended 31 December 2005 increased by approximately 10.0% as compared to the corresponding period in previous year due to increase in turnover and gross profit margin. The gross profit margin increased to approximately 46.5% from approximately 43.3% in the corresponding period in previous year. The increase was mainly attributable to lower cost of goods sold due to stricter cost control.

The net loss attributable to shareholders for the nine months ended 31 December 2005 amounted to approximately HK\$285,000 (nine months ended 31 December 2004: net loss of approximately HK\$5.6 million). The improvement was mainly attributable to the increase in gross profit and gross profit margin and decrease in the administrative expenses. Administrative expenses decreased by approximately 26.0% from the corresponding period in previous year as there were a provision for deficit in revaluation of investment of HK\$1 million and a loss on disposal of fixed assets of approximately HK\$1 million for the nine month ended 31 December 2004 and there was no such provision and loss for the current period. Moreover, the Group's salaries and related expenses reduced during the current period compared to the corresponding period in previous year due to cost control measures. During the nine months ended 31 December 2005, selling and distribution costs increased by approximately 7.1% from the corresponding period in previous year due mainly to the increase in rental as the Group has more retail shops and sales staff's salaries and commissions due to increase in manpower.

During the three months ended 31 December 2005, the Group recorded a decrease in turnover but increase in gross profit and gross profit margin compared to the corresponding period in previous year. This was attributable to lower cost of goods sold due to stricter cost control. Net loss reduced to approximately HK\$228,000 in the current period from approximately HK\$4.3 million in the corresponding period in previous year due to increase in gross profit and gross profit margin and because the Group has implemented various cost control measures to reduce costs and a loss on disposal of fixed assets of approximately HK\$1 million was recorded in administrative expenses during the three months ended 31 December 2004 but no such loss was recorded in the current period.

BUSINESS REVIEW AND PROSPECTS

General

The Group is principally engaged in retail and wholesale 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 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 2005, the Group has one new retail outlet in Hong Kong. During the period, the Group appointed an agent in Taiwan to streamline its operations and resources. As a result of this, the Group reduced its retail outlets and retail sales in Taiwan. As at 31 December 2005, the Group has only two retail outlets in Taiwan.

To expand its sales network as well as to streamline its business operations and resources, the Group appointed a franchisee during the nine months ended 31 December 2005 for its retail operation in Hong Kong.

The Group continued to identify potential new agents in new areas but none was identified in the three months ended 31 December 2005.

The Group also 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 views the prospects of its business as challenging as the Group is experiencing rental and costs increases in Hong Kong while sales have not increased at the same percentage due to a more competitive business environment. Nevertheless, the Group is continuing to introduce new designs and products while maintaining cost control measures to remain competitive. To expand its sales network and to streamline its operations and resources, the Group is looking for new franchisees to operate the Group's retail network in Hong Kong. On the wholesale side, the Group is continuing to look for new agents in new countries as well as working more closely with the existing agents.

While looking at ways to improve its business further, the Group is looking for business opportunities elsewhere to improve its financial performance and improve shareholders returns.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 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 44.3% 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 31 December 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 corporations (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 SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 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	44.3%
Cashtram Associates Limited	<i>(Note 1)</i>	204,000,000	44.3%
Top Accurate Limited	<i>(Note 2)</i>	76,000,000	16.5%
Mr. Ma She Shing, Albert	<i>(Note 2)</i>	76,000,000	16.5%
Mr. Lau Kim Hung, Jack	<i>(Note 3)</i>	204,000,000	44.3%
Corkwood Enterprises Limited	<i>(Note 3)</i>	204,000,000	44.3%

Notes:

- The details are disclosed under the note in the section headed "Directors' interests in shares" above.
- These shares represent a 16.5% 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.
- 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 31 December 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 31 December 2005, 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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the nine months ended 31 December 2005.

COMPETING INTERESTS

As at 31 December 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 OF 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 nine months ended 31 December 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 nine months ended 31 December 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, 9 February 2006

As at the date of this report, the Company's executive directors are Mr. Ng Pak To, Petto, Mr. Ong Chor Wei, Mr. Chan Francis Ping Kuen 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.