

CREATIONS

FIRST QUARTERLY REPORT 2006/07

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

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of FX Creations International Holdings Limited (the "Company") herein presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2006 together with the comparative unaudited figures for the corresponding period in 2005 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2006

		Three months ended 30 June	
	<i>Notes</i>	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
TURNOVER	3	11,973	17,374
Cost of sales		(5,999)	(8,492)
Gross profit		5,974	8,882
Other revenue		158	259
Selling and distribution costs		(4,350)	(6,200)
Administrative expenses		(2,705)	(2,799)
(LOSS)/PROFIT FROM OPERATIONS		(923)	142
Finance costs		(22)	(142)
LOSS BEFORE INCOME TAX		(945)	-
Income tax	4	-	-
NET LOSS FOR THE PERIOD		(945)	-
Attributable to			
Equity holders of the Company		(801)	-
Minority interests		(144)	-
		(945)	-
DIVIDEND	5	-	-
LOSS PER SHARE	6		
Basic		HK0.17 cents	-
Diluted		N/A	N/A

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2006

	Issued share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
2005						
At 1 April 2005	4,000	13,703	(5,896)	11,807	121	11,928
Net loss for the period	-	-	-	-	-	-
At 30 June 2005	<u>4,000</u>	<u>13,703</u>	<u>(5,896)</u>	<u>11,807</u>	<u>121</u>	<u>11,928</u>
	Issued share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
2006						
At 1 April 2006	4,605	14,918	(11,255)	8,268	80	8,348
Exercise of share options	381	5,829	-	6,210	-	6,210
Net loss for the period	-	-	(801)	(801)	(144)	(945)
At 30 June 2006	<u>4,986</u>	<u>20,747</u>	<u>(12,056)</u>	<u>13,677</u>	<u>(64)</u>	<u>13,613</u>

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 10 January 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the retail and wholesale of bags and accessories. 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. There were no significant changes in the nature of the Group's principal activities during the period.

2. BASIS OF PRESENTATION

The unaudited consolidated results have been prepared under the historical convention and in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The accounting policies adopted in the preparation of the unaudited consolidated results are consistent with those used in the annual financial statements of the Group for the year ended 31 March 2006.

All significant transactions and balances within the Group have been eliminated on consolidation.

3. TURNOVER

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

	Three months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Retail	6,510	10,124
Wholesale	5,463	7,250
	11,973	17,374

4. INCOME TAX

No provision for taxation has been made (three months ended 30 June 2005: Nil) as the Group has an estimated loss for Hong Kong profits tax purposes in the current period. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the balance sheet date (30 June 2005: Nil).

5. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 30 June 2006 is based on the unaudited net loss attributable to equity holders of the Company for the three months ended 30 June 2006 of approximately HK\$801,000 (three months ended 30 June 2005: HK\$Nil) and on the weighted average number of 464,503,448 shares (three months ended 30 June 2005: 400,000,000).

Diluted earnings per share for the three months ended 30 June 2006 and 2005 have not been disclosed as no diluting events existed during those periods.

FINANCIAL REVIEW

During the three months ended 30 June 2006, the Group recorded a turnover of approximately HK\$11,973,000 (three months ended 30 June 2005: approximately HK\$17,374,000), a decrease of approximately 31% as compared to the previous corresponding period. The turnover for the three months ended 30 June 2006 comprised retail sales and wholesale sales which accounted for approximately 54% and 46% (three months ended 30 June 2005: approximately 58% and 42%) of the total turnover respectively.

The decrease in turnover was attributable to the decrease in retail sales by approximately 36% due to the close down of some of the retail outlets and department stores in Hong Kong and Taiwan. Wholesale sales decreased by approximately 25% in the period under review due to keen competition from the competitors.

The gross profit margin slightly decreased by approximately 1% to approximately 50% from the previous corresponding period. The decrease was mainly due to a lower level of retail sales which have a higher gross profit margin.

The Group recorded a loss for the three months ended 30 June 2006. The loss was mainly attributable to the decrease in turnover. The decrease in selling and distribution costs was mainly due to decrease in rent and salary expenses as a result of the decrease in the number of retail outlets, department stores and staff following the close down of the retail outlets and department stores.

BUSINESS REVIEW

Sales and marketing

One department store was closed in Hong Kong during the review period.

The Group continued to conduct various advertising campaigns such as bill boards, road shows and brochures to promote the Group's profile and the **FX CREATIONS** members club. The Group also participated in promotion activities with credit card issuers, retail chain stores and television programme to promote and strengthen its brand loyalty.

Design and product development

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, sport bags, backpacks, handbags and wallets. The accessories sold by the Group include belts, watches, spectacles and umbrellas. Other brandnames of the Group include **USU** and **Annvu**.

Geographical expansion

The Group currently has agents or distributors in the PRC, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Australia, New Zealand, Korea, Japan and European markets.

The Group continued to identify potential agents in Thailand and Korea. To date, no agreement has been concluded.

Production

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

CAPITAL STRUCTURE

On 26 May 2006, the Company announced and proposed to raise approximately HK\$14.96 million before expenses, by way of an open offer of the new shares of not less than 232,552,000 and not more than 249,302,000 offer shares at a price of HK\$0.06 per offer share on the basis of one offer share for every two existing shares.

On 26 May 2006, 38,100,000 options were exercised and were issued and allotted on 12 June 2006. As at 30 June 2006, the total issued share capital has been enlarged to 498,604,000 shares.

Following the completion of the open offer on 12 July 2006, the total issued share capital has been enlarged to 747,906,000 shares.

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.

The Group continued to conduct various marketing and promotion activities including advertising campaigns such as billboards, brochures and road shows to promote the Group's profile and the **FX CREATIONS** members club. The Group also participated in promotion activities with credit card issuers, retail chain stores and television programme to promote and strengthen its brand loyalty.

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.

PROPOSED INVESTMENT

On 2 June 2006, the Company announced that the Company entered into the memorandum of understanding ("MOU") with Richport Assets Limited ("Richport Assets") and Mr. Lui Shu Kwan ("Mr. Lui"), the ultimate beneficial owner of the Richport Assets in relation to the proposed acquisition of the whole or part of the equity interests held by Mr. Lui and Richport Assets by the Company.

Richport Assets has secured an exclusive distribution rights in relation to the sale and distribution of funeral products and services on a world-wide basis.

An amount of HK\$6,000,000 was paid by the Company to Richport Assets as earnest money. If no legally binding formal agreement has been entered into on or before 30 September 2006, the sum will be refundable to the Company in full without interest within three business days.

Details of the MOU have been set out in the announcement of the Company dated 2 June 2006.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, 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 shares held	Percentage of shareholding in the Company (%) (Note 3)
Mr. Wong Wing Cheung, Peter	Corporate (Note 1)	306,000,000	40.91
	Personal (Note 2)	6,900,000	0.92
Mr. Chan Man Yin	Personal	4,600,000	0.92
Mr. Chan Francis Ping Kuen	Personal	4,600,000	0.92

Notes:

- Of the 306,000,000 shares, 204,000,000 shares are held by Flyrich Resources Limited, a company wholly and beneficially owned by Mr. Wong Wing Cheung, Peter. 102,000,000 shares represent the number of offer shares Mr. Wong Wing Cheung, Peter has undertaken to procure to be subscribed by Flyrich Resources Limited and/or any of its associates pursuant to the underwriting agreement. As such, Flyrich Resources Limited is deemed to be interested in 102,000,000 Shares under the SFO.
- Of the 6,900,000 Shares, 4,600,000 Shares are beneficially held by Mr. Wong Wing Cheung, Peter. 2,300,000 shares represent the number of offer shares Mr. Wong Wing Cheung, Peter has undertaken to subscribe pursuant to the underwriting agreement. As such, Mr. Wong Wing Cheung, Peter is deemed to be interested in 2,300,000 shares under the SFO.
- Percentage of shareholding in the Company was calculated based on the assumption of the completion of the open offer.

Save as disclosed above, as at 30 June 2006, 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 30 June 2006, 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 follows:

	Number of shares held	Percentage of shareholding in the Company (%) <i>(Note 4)</i>
Flyrich Resources Limited	306,000,000 <i>(Note 1)</i>	40.91
Mr. Wong Wing Cheung, Peter	312,900,000 <i>(Note 1)</i>	41.84
Kingston Securities Limited	95,002,000 <i>(Note 2)</i>	12.70
Mrs. Chu Yuet Wah	95,002,000 <i>(Note 2)</i>	12.70
Ms. Ma Siu Fong	95,002,000 <i>(Note 2)</i>	12.70
Quam Securities Company Limited	50,000,000 <i>(Note 3)</i>	6.69

Notes:

1. The details are disclosed under the note in the section headed "Directors' interest in shares" above.
2. These shares represent the maximum number of offer shares Kingston Securities as underwriter is required to subscribe or procure to subscribe for pursuant to the underwriting agreement of the open offer. As such, Kingston Securities Limited is deemed to be interested in these shares under the SFO. Kingston Securities Limited is controlled by Mrs. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively who are therefore also deemed to be interested in these shares under the SFO.
3. These shares represent the maximum number of offer shares Quam Securities Company Limited as underwriter is required to subscribe or procure to subscribe for pursuant to the underwriting agreement. As such, Quam Securities Company Limited is deemed to be interested in these shares under the SFO.
4. Percentage of shareholding in the Company was calculated based on the assumption of the completion of the open offer.

Save as disclosed above, as at 30 June 2006, 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 adopted a share option scheme (the "Scheme") on 21 May 2002 pursuant to a written resolution of the Company. On 20 April 2006, options to subscribe for an aggregate of 38,100,000 shares at HK\$0.163 per share had been granted by the Company under the Scheme. On 26 May 2006, all the outstanding 38,100,000 share options were exercised. As at 30 June 2006, no share options granted under the Scheme were outstanding. Particulars and movements of the share options granted under the Scheme were as follows:

Categories of grantees	Date of grant	Exercisable Period	Exercise price per share <i>HK\$</i>	Outstanding as at 01/04/2006	Granted during the period	Exercised during the period	Outstanding as at 30/06/2006
Directors							
Mr. Wong Wing Cheung, Peter	20/4/2006	20/04/2006-21/04/2016	0.163	-	4,600,000	(4,600,000)	-
Mr. Chan Man Yin	20/4/2006	20/04/2006-21/04/2016	0.163	-	4,600,000	(4,600,000)	-
Mr. Chan Francis Ping Kuen	20/4/2006	20/04/2006-21/04/2016	0.163	-	4,600,000	(4,600,000)	-
Employees	20/4/2006	20/04/2006-21/04/2016	0.163	-	8,100,000	(8,100,000)	-
Consultants	20/4/2006	20/04/2006-21/04/2016	0.163	-	16,200,000	(16,200,000)	-

The directors consider that it is inappropriate to state the value of the options granted under the Scheme on the ground that certain crucial factors for such valuation are variables such as the expected volatility and interest rate, which cannot be reasonably determined at this stage. Any valuation of the share options based on speculation assumptions in respect of these variables would not be meaningful and would be misleading to the shareholders of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above, at no time since the incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE 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 three months ended 30 June 2006.

COMPETING INTERESTS

As at 30 June 2006, 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.

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 three months ended 30 June 2006 have been reviewed by the Committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding 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 Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 June 2006.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2006 except that: (i) the roles of chairman and chief executive officer are not separate and are performed by the same individual, and (ii) no nomination committee of the Board is established.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

By order of the Board
Wong Wing Cheung, Peter
Chairman

Hong Kong, 15 August 2006

As at the date of this report, the Company’s executive directors are Wong Wing Cheung, Peter, Chan Francis Ping Kuen and Chan Man Yin and the Company’s independent non-executive directors are Lee Kun Hung, Wong Hou Yan, Norman and Cheung Chi Hwa, Justin.