

# CREATIONS

INTERIM REPORT 2006/07  
(Stock code: 8136)

# 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.*

## INTERIM 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 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 September 2006

		Six months ended 30 September 2006 (Unaudited) HK\$'000		Three months ended 30 September 2006 (Unaudited) HK\$'000	
	Notes	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
TURNOVER	4	25,193	35,780	13,220	18,406
Cost of sales		(13,209)	(18,400)	(7,210)	(9,908)
Gross profit		11,984	17,380	6,010	8,498
Other revenue		991	1,187	833	928
Selling and distribution costs		(8,851)	(12,227)	(4,501)	(6,027)
Administrative expenses		(5,633)	(6,106)	(2,928)	(3,307)
PROFIT/(LOSS) FROM OPERATIONS		(1,509)	234	(586)	92
Finance costs		(38)	(291)	(16)	(149)
LOSS BEFORE INCOME TAX	5	(1,547)	(57)	(602)	(57)
Income tax	6	-	-	-	-
LOSS FOR THE PERIOD		(1,547)	(57)	(602)	(57)
Attributable to:					
Equity holders of the Company		(1,467)	(57)	(522)	(57)
Minority interests		(80)	-	(80)	-
		(1,547)	(57)	(602)	(57)
DIVIDEND	8	-	-	-	-
LOSS PER SHARE	7				
Basic		HK0.25 cent	HK0.01 cent	HK0.07 cent	HK0.01 cent
Diluted		N/A	N/A	N/A	N/A

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 September 2006*

	<b>As at 30 September 2006 (Unaudited) HK\$'000</b>	As at 31 March 2006 (Audited) HK\$'000
	<i>Notes</i>	
<b>NON-CURRENT ASSETS</b>		
Fixed assets	<b>597</b>	1,210
Available-for-sale investments	<b>195</b>	–
Rental and sundry deposits	<b>1,225</b>	2,132
	<b>2,017</b>	3,342
<b>CURRENT ASSETS</b>		
Inventories	<b>1,914</b>	1,788
Accounts receivable	<b>3,676</b>	3,521
Prepayments, deposits and other receivables	<b>13,505</b>	1,876
Due from a minority shareholder	–	360
Taxes refundable	<b>2</b>	2
Bank deposits	<b>13,000</b>	–
Cash and bank balances	<b>1,260</b>	3,962
	<b>33,357</b>	11,509
<b>CURRENT LIABILITIES</b>		
Accounts payable	<b>6,023</b>	3,680
Accrued expenses and other payables	<b>1,497</b>	1,279
Taxes payable	<b>98</b>	131
Amount due to a shareholder	<b>453</b>	453
Short-term bank loans – secured	<b>154</b>	377
Current portion of other long-term loans – secured	<b>333</b>	500
	<b>8,558</b>	6,420
<b>NET CURRENT ASSETS</b>	<b>24,799</b>	5,089
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>26,816</b>	8,431

	<i>Notes</i>	<b>As at 30 September 2006 (Unaudited) HK\$'000</b>	As at 31 March 2006 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Other long-term loans – secured		–	83
		<b>26,816</b>	8,348
FINANCED BY			
Share capital	11	<b>7,479</b>	4,605
Reserves		<b>19,337</b>	3,663
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
MINORITY INTERESTS		–	80
TOTAL EQUITY		<b>26,816</b>	8,348

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 September 2006 (Unaudited) HK\$'000</b>	Six months ended 30 September 2005 (Unaudited) HK\$'000
Net cash outflow from operating activities	<b>(8,787)</b>	(393)
Net cash outflow from investing activities	<b>(457)</b>	(534)
Net cash inflow from financing activities	<b>19,542</b>	63
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>10,298</b>	(864)
Cash and cash equivalents at beginning of period	<b>3,962</b>	(2,283)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>14,260</b>	(3,147)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>14,260</b>	532
Bank overdrafts	-	(3,679)
	<b>14,260</b>	(3,147)

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 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
At 1 April 2005	4,000	13,703	(5,896)	11,807	-	11,807
Net loss for the period	-	-	(57)	(57)	-	(57)
At 30 September 2005	<u>4,000</u>	<u>13,703</u>	<u>(5,953)</u>	<u>11,750</u>	<u>-</u>	<u>11,750</u>
	Issued share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interest (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2006	4,605	14,918	(11,255)	8,268	80	8,348
Issue of new shares	2,493	12,465	-	14,958	-	14,958
Issuing costs	-	(1,153)	-	(1,153)	-	(1,153)
Exercise of share options	381	5,829	-	6,210	-	6,210
Net loss for the period	-	-	(1,467)	(1,467)	(80)	(1,547)
At 30 September 2006	<u>7,479</u>	<u>32,059</u>	<u>(12,722)</u>	<u>26,816</u>	<u>-</u>	<u>26,816</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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY 1-1111, Cayman Islands.

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 PREPARATION

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with the Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the accounting principles generally accepted in Hong Kong, 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 preparation of the unaudited 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments which are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's audited annual financial statements for the year ended 31 March 2006.

In the current interim period, the Company has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning either on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company has not early applied the following new standards, amendments and interpretations that have been issued. The Group has commenced considering the potential impact of the new HKFRS but is not yet in a position to determine whether these HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

#### 4. 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	
	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:								
Sales to external customers	<u>15,348</u>	21,490	<u>9,845</u>	14,290	-	-	<u>25,193</u>	35,780
Segment results	<u>1,161</u>	3,421	<u>1,486</u>	1,649	<u>(4,156)</u>	(4,836)	<u>(1,509)</u>	234
Finance costs							<u>(38)</u>	(291)
Loss before income tax							<u>(1,547)</u>	(57)
Income tax							-	-
Loss for the period							<u>(1,547)</u>	<u>(57)</u>
BALANCE SHEET								
ASSETS								
Segment assets	<u>735</u>	7,381	<u>6,253</u>	12,785	<u>28,386</u>	5,405	<u>35,374</u>	25,571
Unallocated assets	-	-	-	-	-	-	-	-
Total assets							<u>35,374</u>	<u>25,571</u>
LIABILITIES								
Segment liabilities	-	2,578	<u>6,023</u>	1,451	<u>2,535</u>	9,671	<u>8,558</u>	13,700
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities							<u>8,558</u>	<u>13,700</u>
Other segment information:								
Depreciation	<u>280</u>	325	<u>240</u>	481	<u>2</u>	76	<u>522</u>	882
Capital expenditure	<u>329</u>	6	-	-	-	71	<u>329</u>	77

## (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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	19,600	26,211	3,113	2,409	1,062	5,922	1,231	1,026	187	212	25,193	35,780
Other segment information:												
Segment assets	34,365	16,329	-	5,290	1,009	3,918	-	34	-	-	35,374	25,571
Capital expenditure	329	72	-	-	-	5	-	-	-	-	329	77

## 5. LOSS BEFORE INCOME TAX

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

	Six months ended 30 September 2006		Three months ended 30 September 2006	
	(Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	(Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on overdrafts and bank loans	38	291	16	149
Depreciation	522	882	132	456

## 6. INCOME TAX

No provision for income tax has been made (three and six months ended 30 September 2005: Nil) as the Group has an estimated loss for Hong Kong income 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.

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

## 7. LOSS PER SHARE

The calculations of basic loss per share for the three and six months ended 30 September 2006 are based on the unaudited consolidated net loss attributable to equity holders for the three and six months ended 30 September 2006 of approximately HK\$522,000 and HK\$1,467,000 respectively (three and six months ended 30 September 2005: net loss attributable to equity holders of approximately HK\$57,000 and HK\$57,000 respectively) and on the weighted average number of 718,098,152 and 597,499,967 shares during the three and six months ended 30 September 2006 (three and six months ended 30 September 2005: 400,000,000 shares).

Diluted loss per share for the three and six months ended 30 September 2006 and the corresponding periods in 2005 have not been disclosed as no dilutive events existed during those periods.

## 8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

## 9. 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 2005: 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:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Within 90 days	<b>2,401</b>	3,485
91-180 days	<b>1,254</b>	-
181-365 days	-	-
Over 1 year	<b>21</b>	36
	<b><u>3,676</u></b>	<u>3,521</u>

## 10. 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:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Within 90 days	<b>3,981</b>	3,229
91-180 days	<b>2,042</b>	400
181-365 days	-	-
Over 1 year	-	51
	<b><u>6,023</u></b>	<u>3,680</u>

## 11. SHARE CAPITAL

	<b>Number of shares</b>	<b>Value 30 September 2006 (Unaudited) HK'000</b>
<b>Authorised</b>		
10,000,000,000 ordinary shares of HK\$0.01 each	10,000,000,000	100,000
<b>Issued and fully paid</b>		
At 1 April 2006	460,504,000	4,605
Issue of new shares on exercise of the share options	38,100,000	381
Issue of new shares on the open offer	249,302,000	2,493
	<b><u>747,906,000</u></b>	<u>7,479</u>

The Company has a share option scheme for Directors and eligible employees and consultants of the Group. There were no outstanding share options at the beginning and end of the period.

During the period, 38,100,000 share options were granted and exercised.

As a result of the exercise of the Company's share options and the open offer of new shares on the basis of one offer share for every two existing shares, additional 287,402,000 new ordinary shares were allotted and issued by the Company during six months ended 30 September 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

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**, **Annvu** and **dodi**.

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.

## FINANCIAL REVIEW

### Results

During the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$25.2 million (six months ended 30 September 2005: approximately HK\$35.8 million), a decrease of approximately 29.6% compared to the corresponding period in previous year. The turnover for the six months ended 30 September 2006 comprised retail sales and wholesale sales which accounted for approximately 61% and 39% (six months ended 30 September 2005: approximately 60% and 40%) of the total turnover respectively. As at 30 September 2006, the Group had 16 (31 March 2006: 12) retail outlets in Hong Kong which consisted of 10 (31 March 2006: 9) retail shops and 6 (31 March 2006: 3) department store counters.

The decrease in turnover was attributable to the decrease in both retail and wholesale sales. The Group recorded decrease in retail sales, both in Hong Kong and Taiwan, in the six months ended 30 September 2006 compared to the corresponding period in previous year. Retail sales in Hong Kong decreased by approximately 25% whereas retail sales in PRC increased by approximately 29% during the period under review compared to previous corresponding period. Wholesale sales decreased by approximately 31% in the six months ended 30 September 2006 compared to the corresponding period in previous period.

The gross profit margin remained relatively stable at approximately 47%–49% for the six months ended 30 September 2006 and 2005.

Selling and distribution costs decreased by approximately 27.6% in the period under review due to decrease in various expenses, e.g. sales staff salaries and rentals, as less retail outlets were opened. Administrative expenses decreased by approximately 7.8% in the period under review due to the strict control on the overhead expenses.

## **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 amounted to approximately HK\$0.5 million as at 30 September 2006 (31 March 2006: approximately HK\$1.0 million).

As at 30 September 2006, the Group had net current assets of approximately HK\$24.8 million (31 March 2006: approximately HK\$5.1 million) including cash and bank balances of approximately HK\$1.3 million (31 March 2006: approximately HK\$4.0 million) and bank deposits of approximately HK\$13 million (31 March 2006: Nil).

As at 30 September 2006, the gearing ratio (defined as the ratio between total borrowings and total assets) was approximately 0.01 (31 March 2006: approximately 0.03). The Group has no fixed interest bank borrowing. All the bank borrowings were denominated in HK Dollars.

As at 30 September 2006, the Group has outstanding bank borrowings of approximately HK\$0.5 million (31 March 2006: approximately HK\$1.0 million). The bank borrowings comprised secured bank loans of approximately HK\$0.5 million (31 March 2006: secured bank loans of approximately HK\$0.5 million and tax loan of approximately HK\$0.5 million).

### **Capital structure**

The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 21 May 2002.

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

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

## **Proposed acquisition**

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 ("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 31 December 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 announcements of the Company dated 2 June 2006 and 29 September 2006.

## **Events after the balance sheet date**

On 23 October 2006, the Group entered into the Acquisition Agreement ("Acquisition Agreement") with Ms. Leung Sui Ping, Heidi, Mr. Yip Yung Kan and Mr. Yip Yuk Tong (together the "Vendors"), pursuant to which the Vendors agreed to sell, and the Group had conditionally agreed to acquire 100% interest in Maxitech System Company Limited which is principally engaged in the trading and distribution of recycled computers and related accessories and the provision of information technology consultancy and related maintenance services in Hong Kong and the People Republic of China.

The total consideration of HK\$8,500,000 is to be satisfied (i) as to HK\$2,754,000 by the issue of the consideration shares by the Group to the Vendors; and (ii) as to the remaining balance of HK\$5,746,000 in cash by the Group to the Vendors. Further details of the transactions have been set out in the announcement dated 24 October 2006.

## **Material acquisition or disposal of subsidiaries and affiliated companies**

There was no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 September 2006.

## **Contingent liabilities**

The Group had no material contingent liabilities as at 30 September 2006.

## 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 2006, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	<b>6,505</b>	6,165
In the second to fifth years, inclusive	<b>4,532</b>	3,905
	<b>11,037</b>	10,070

Save for the above commitment, as at 30 September 2006, neither the Group nor the Company had any other significant commitments.

## Foreign exchange exposure

The Group's income and expenditure during the six months ended 30 September 2006 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 2006 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 decreased by approximately 28.6%, as compared to the corresponding period in previous year, to approximately HK\$15.3 million (six months ended 30 September 2005: approximately HK\$21.5 million). The decrease was mainly attributed to the decrease 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 decreased by approximately 31.1%, as compared to the corresponding period in previous year, to approximately HK\$9.8 million (six months ended 30 September 2005: approximately HK\$14.3 million). The decrease was mainly attributed to the decrease in quantity sold to new and existing agents and distributors.

### *Geographical segments*

For the six months ended 30 September 2006, sales in Hong Kong decreased by approximately 25.2% compared to the corresponding period in previous year. The decrease was attributed to the decrease in both retail and wholesale sales in Hong Kong.

For the six months ended 30 September 2006, sales in the PRC increased by approximately 29.2% 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 2006, sales to Taiwan decreased by approximately 82.1% compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in the level of sales and close-down of the retail outlets in Taiwan.

For the six months ended 30 September 2006, sales to Singapore increased by approximately 20.0% 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 2006, sales to other countries decreased by approximately 11.8% 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 4 to the unaudited results of this report for details of business and geographical segments.

## **Employees and remuneration policies**

As at 30 September 2006, the Group had 87 (31 March 2006: 80) employees, including directors. Total staff costs (including directors' emoluments) were approximately HK\$4.6 million in the six months ended 30 September 2006 as compared to approximately HK\$6.4 million in the six months ended 30 September 2005. 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 and share option scheme.

## **BUSINESS REVIEW AND PROSPECTS**

During the six months ended 30 September 2006, the Group recorded an decrease in turnover of approximately 29.6% as compared to the corresponding period in previous year. The decrease was attributed to the decrease in both retail and wholesale sales.

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 store and television programme to promote and strengthen its brand loyalty.

To seek more business opportunities and to maximize return to the Group in the long run, the Group entered into a memorandum of understanding with independent third parties on 2 June 2006 in respect of an acquisition of the whole or part of the equity interests of a company which has secured an exclusive distribution rights in relation to the sale and distribution of funeral related products and services on a worldwide basis.

Furthermore, on 23 October 2006, the Group entered into the acquisition agreement with independent third parties in respect of an acquisition of the entire equity interest of a company which is principally engaged in the trading and distribution of recycled computers and related accessories and the provision of information technology consultancy and related maintenance services in Hong Kong and the People's Republic of China.

Except for the above proposed investment and the acquisition, to improve its business further, the Group is looking for other business opportunities elsewhere to improve its financial performance and improve shareholders' returns.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 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:

	<b>Type of interest</b>	<b>Number of shares held</b>	<b>Percentage of shareholding in the Company (%)</b>
Mr. Wong Wing Cheung, Peter	Corporate (Note 1)	306,000,000	40.91
Mr. Chan Man Yin	Personal	6,900,000	0.92
Mr. Chan Francis Ping Kuen	Personal	6,900,000	0.92

Note:

1. These shares are beneficially owned by Flyrich Resources Limited, a company wholly owned by Mr. Wong Wing Cheung, Peter.

Save as disclosed above, as at 30 September 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 September 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 follow:

<b>Name</b>		<b>Number of shares held</b>	<b>Percentage of shareholding in the Company (%)</b>
Flyrich Resources Limited	<i>(Note 1)</i>	306,000,000	40.91
Mr. Wong Wing Cheung, Peter	<i>(Note 1)</i>	306,000,000	40.91
Sunny Wonders Limited	<i>(Note 2)</i>	204,000,000	27.28
Mr. Chan Poon Yau, Adrian	<i>(Note 2)</i>	204,000,000	27.28

*Notes:*

1. These shares are beneficially owned by Flyrich Resources Limited, a company wholly owned by Mr. Wong Wing Cheung, Peter.
2. Sunny Wonders Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Chan Poon Yau, Adrian, had a security interest in shares of the Company. Under the SFO, Mr. Chan Poon Yau, Adrian is deemed to be interested in such security shares.

Save as disclosed above, as at 30 September 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 September 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 HK\$	Close price at the date of grant HK\$	Outstanding as at 01/04/2006	Granted during the period	Exercised during the period	Outstanding as at 30/09/2006
<b>Directors</b>								
Mr. Wong Wing Cheung, Peter	20/4/2006	20/04/2006-21/04/2016	0.163	0.26	-	4,600,000	(4,600,000)	-
Mr. Chan Man Yin	20/4/2006	20/04/2006-21/04/2016	0.163	0.26	-	4,600,000	(4,600,000)	-
Mr. Chan Francis Ping Kuen	20/4/2006	20/04/2006-21/04/2016	0.163	0.26	-	4,600,000	(4,600,000)	-
<b>Employees</b>	20/4/2006	20/04/2006-21/04/2016	0.163	0.26	-	8,100,000	(8,100,000)	-
<b>Consultants</b>	20/4/2006	20/04/2006-21/04/2016	0.163	0.26	-	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 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 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 six months ended 30 September 2006.

## **COMPETING INTERESTS**

As at 30 September 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.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has 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 September 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 September 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.

## **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 2006 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  
**Mr. Wong Wing Cheung, Peter**  
Chairman

Hong Kong, 13 November 2006

*As at the date of this report, the Company's executive directors are Mr. Wong Wing Cheung, Peter, 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.*