

# Third Quarterly Report 2002



**FX CREATIONS INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors of FX Creations International Holdings Limited 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.*

**RESULTS**

The board of directors (the “Directors”) 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 nine months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	<i>Notes</i>	Nine months ended 31st December,		Three months ended 31st December,	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TURNOVER	2	<b>42,893</b>	35,857	<b>15,779</b>	11,955
Cost of goods sold		<b>(18,452)</b>	(12,513)	<b>(6,795)</b>	(4,360)
Gross profit		<b>24,441</b>	23,344	<b>8,984</b>	7,595
Other revenue		<b>484</b>	138	<b>2</b>	7
Selling and distribution costs		<b>(13,608)</b>	(12,549)	<b>(4,813)</b>	(3,168)
Administrative expenses		<b>(9,504)</b>	(9,279)	<b>(3,585)</b>	(3,550)
PROFIT FROM OPERATING ACTIVITIES		<b>1,813</b>	1,654	<b>588</b>	884
Finance costs		<b>(515)</b>	(263)	<b>(163)</b>	(69)
PROFIT BEFORE TAX		<b>1,298</b>	1,391	<b>425</b>	815
Tax	3	<b>(208)</b>	(223)	<b>(66)</b>	(138)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>1,090</b>	1,168	<b>359</b>	677
DIVIDEND	5	<b>-</b>	-	<b>-</b>	-
EARNINGS PER SHARE	4				
Basic		<b>HK0.30 cent</b>	HK0.42 cent	<b>HK0.09 cent</b>	HK0.24 cent
Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

Notes:

**1. GROUP REORGANISATION AND BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands on 10th January, 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on GEM, the Company acquired the entire issued share capital of Resource Base Enterprises Limited and became the holding company of the subsidiaries comprising the Group on 2nd May, 2002. Details of the Group Reorganisation are set out in the Company's prospectus dated 8th May, 2002. The Shares of the Company (the "Shares") were listed on GEM on 21st May, 2002.

The unaudited consolidated results and the comparative unaudited pro forma combined results have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation rather than from the date of their acquisition pursuant to the Group Reorganisation. Accordingly the unaudited consolidated/ combined results of the Group for the three months and nine months ended 31st December, 2001 and 2002 included the results of the Company and its subsidiaries with effect from 1st April, 2001 and 2002 respectively as if the current Group structure has been in existence throughout the periods.

In the opinion of the Directors, the unaudited consolidated/combined results prepared on the above basic present fairly the results of the Group as a whole.

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

**2. TURNOVER**

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

	Nine months ended		Three months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Retail	25,419	25,770	9,200	8,219
Wholesale	17,474	10,087	6,579	3,736
	42,893	35,857	15,779	11,955

**3. TAX**

Hong Kong profits tax for the three months and nine months ended 31st December, 2002 has been provided at the rate of 16% (three months and nine months ended 31st December, 2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profit assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

**4. EARNINGS PER SHARE**

The calculation of basic earnings per share for the three months and nine months ended 31st December, 2002 is based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and nine months ended 31st December, 2002 of approximately HK\$359,000 and HK\$1,090,000 respectively (three months and nine months ended 31st December, 2001: HK\$677,000 and HK\$1,168,000 respectively) and the weighted average of 400,000,000 and 360,219,000 shares respectively in issue during the three months and nine months ended 31st December, 2002 (pro forma number of shares in issue for the three months and nine months ended 31st December, 2001: 280,000,000 shares).

Diluted earnings per share for the three months and nine months ended 31st December, 2001 and 2002 have not been disclosed as no diluting events existed during those periods.

**5. DIVIDENDS**

The Directors do not recommend the payment of an interim dividend for the three months and nine months ended 31st December, 2002 (three months and nine months ended 31st December, 2001: Nil).

**6. RESERVES**

	<b>Share premium HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
At 1st April, 2001	–	1,782	1,782
Net profit for the period	–	491	491
At 30th September, 2001	–	2,273	2,273
Net profit for the period	–	677	677
At 31st December, 2001	–	2,950	2,950
At 1st April, 2002	–	1,702	1,702
Issue of shares to public	20,250	–	20,250
Issue of shares to the pre-IPO Investors	4,867	–	4,867
Capitalisation on issue of shares	(3,126)	–	(3,126)
Share issue expenses	(8,289)	–	(8,289)
Net profit for the period	–	731	731
At 30th September, 2002	13,702	2,433	16,135
Net profit for the period	–	359	359
At 31st December, 2002	13,702	2,792	16,494

## FINANCIAL REVIEW

During the nine months ended 31st December, 2002, the Group recorded a turnover of approximately HK\$42.9 million (nine months ended 31st December, 2001: approximately HK\$35.9 million), an increase of approximately 20% as compared to the corresponding period in previous year. The turnover for the nine months ended 31st December, 2002 comprised retail sales and wholesale sales which accounted for approximately 59% and 41% (nine months ended 31st December, 2001: 72% and 28%) of the total turnover respectively.

The increase in turnover was mainly attributable to the increase in sales to wholesalers due to the increase in quantity sold to new and existing customers.

The gross profit margin decreased to approximately 57% from 65% in the corresponding period in previous year. The decrease was mainly attributable to an increase in the proportion of turnover from wholesalers which commanded a lower gross profit margin.

The net profit attributable to shareholders for the nine months ended 31st December, 2002 amounted to approximately HK\$1.1 million (nine months ended 31st December, 2001: approximately HK\$1.2 million), a decrease of approximately 6.7% as compared to the corresponding period in previous year. The decrease was mainly attributable to the decrease in gross profit margin due to increase in the proportion of turnover from wholesalers which commanded a lower gross profit margin and increase in selling and distribution costs due to increase in turnover.

## BUSINESS REVIEW AND PROSPECTS

### General

The Group is principally engaged in retail sales 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.

In addition to its own brandname, the Group also commenced to sell products designed by the Group and under the customer brandnames during the three months ended 31st December, 2002. The Group believes that such a strategy will diversify its customer base.

The Group also sells its products to Agents and Distributors for distribution and resale in the PRC, Singapore, Malaysia, Indonesia, Australia, New Zealand, Korea, Japan and Europe markets.

## Business Review

During the three months ended 31st December, 2002, the Group opened a new retail outlet in Hong Kong. At the same time, the lease of one of the Group's existing outlets expired and the Group did not renew the lease as it was not economically feasible. In Taiwan, the lease of one of the Group's existing outlets expired and the Group did not renew the lease as a new location was identified and set up during the previous quarter.

In addition, the Group also launched a new brand, USU, for bags such as casual bags, briefcase and waist bags. The Group believes such a strategy will broaden the Group's product range.

During the same period, the Group sold products to its Agent in the United Kingdom. The Agent intends to open three retail outlets in the United Kingdom during the year 2003.

## Prospects

The Group foresees that the retail environment in Hong Kong and Taiwan to be weak for the year 2003 due to weak domestic demand. To cope with such challenges, the Group will continue to broaden its product base and increase its resources to expand its sales to wholesalers which are based overseas. Nevertheless, the Group is confident of meeting such challenges and opportunities ahead.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out below:

		Type of interest	Number of issued ordinary shares held
Ng Pak To, Petto	<i>Note</i>	Corporate	280,000,000

*Note:* These shares represent a 70% equity interest in the Company and are held by Wise New Management Limited ("WNML"). The issued share capital of WNML is beneficially owned by Cashtram Associates Limited as to 45%, FX Creations (Holding) Inc. as to 30% and Forge Smart Investments Limited as to 25%. The issued share capital of Cashtram Associates Limited is owned as to 40%, 30%, 20% and 10% by Mr. Ng Pak To, Petto, Mr. Ho Kai Chung, David, Madam Ho Pui Lai and Mr. Tan Yu, Wally, respectively.

Save as disclosed above, as at 31st December, 2002, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities on GEM.

### **SUBSTANTIAL SHAREHOLDER**

As at 31st December, 2002, so far as the directors are aware, other than the interests of the directors as disclosed under the heading “Directors’ interests in securities” above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed no person as having an interest of more than 10% of the nominal value of the Company’s issued share capital.

### **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 21st May, 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 31st December, 2002, no share options have been granted under the Scheme.

### **DIRECTORS’ RIGHTS TO ACQUIRE SECURITIES**

Apart from as disclosed under the heading “Directors’ interests in securities” and the transactions relating to the Group Reorganisation as disclosed 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 director 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 arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

### **PURCHASE, REDEMPTION OR SALES OF THE LISTED SECURITIES OF THE COMPANY**

Since the listing of the Company on GEM on 21st May, 2002 and up to 31st December, 2002, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

**COMPETING INTERESTS**

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

**INTEREST OF SPONSOR**

As at 31st December, 2002, Kingston Corporate Finance Limited (the "Sponsor"), its directors, employees or associates did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to the sponsor agreement entered into between the Company and the Sponsor, the Sponsor received, and will receive, fees for acting as the Company's retained sponsor for the period up to 31st March, 2005.

**COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, since the listing of the Company's shares on GEM on 21st May, 2002.

**8****AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 2nd May, 2002, with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The Committee comprises the two independent non-executive directors of the Company, Mr. Christopher Leu and Ms. Kau Man Wai, Leslie. The consolidated results of the Group for the three months and nine months ended 31st December, 2002 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By Order of the Board  
**Ng Pak To, Petto**  
*Chairman*

Hong Kong, 24th January, 2003