

# CREATIONS

FIRST 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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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.*

## 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 ended 30 June 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

		<b>Three months ended 30 June</b>	
		<b>2005</b>	2004
	<i>Notes</i>	<b>(Unaudited)</b> <b>HK\$'000</b>	(Unaudited) HK\$'000
TURNOVER	2	<b>17,374</b>	16,193
Cost of goods sold		<b>(8,492)</b>	(8,640)
Gross profit		<b>8,882</b>	7,553
Other revenue		<b>259</b>	383
Selling and distribution costs		<b>(6,200)</b>	(4,701)
Administrative expenses		<b>(2,799)</b>	(2,714)
PROFIT FROM OPERATIONS		<b>142</b>	521
Finance costs		<b>(142)</b>	(140)
PROFIT BEFORE TAXATION		–	381
Taxation	3	–	(32)
PROFIT BEFORE MINORITY INTERESTS		–	349
Minority interests		–	(95)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		–	254
DIVIDEND	4	–	–
EARNINGS PER SHARE	5		
Basic		–	HK0.06 cent
Diluted		<b>N/A</b>	N/A

Notes:

### 1. BASIS OF PRESENTATION

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), generally accepted accounting principles in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2005.

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

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

### 2. TURNOVER

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

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover		
Retail	<b>10,124</b>	8,690
Wholesale	<b>7,250</b>	7,503
	<hr/>	<hr/>
	<b>17,374</b>	16,193
	<hr/>	<hr/>

### 3. TAXATION

No provision for taxation has been made (three months ended 30 June 2004: 17.5%) 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 2004: Nil).

### 4. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2005 (three months ended 30 June 2004: Nil).

## 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2005 is based on the unaudited net profit attributable to shareholders for the three months ended 30 June 2005 of HK\$Nil (three months ended 30 June 2004: approximately HK\$254,000) and 400,000,000 shares in issue during the three months ended 30 June 2005 (three months ended 30 June 2004: 400,000,000).

Diluted earnings per share for the three months ended 30 June 2004 and 2005 have not been disclosed as no diluting events existed during those periods.

## 6. RESERVES

	<b>Share premium</b> (Unaudited) <i>HK\$'000</i>	<b>Retained earnings/ (accumulated loss)</b> (Unaudited) <i>HK\$'000</i>	<b>Total</b> (Unaudited) <i>HK\$'000</i>
At 1 April 2004	13,703	4,149	17,852
Net profit for the period	—	254	254
At 30 June 2004	<u>13,703</u>	<u>4,403</u>	<u>18,106</u>
At 1 April 2005	13,703	(5,896)	7,807
Net profit for the period	—	—	—
At 30 June 2005	<u>13,703</u>	<u>(5,896)</u>	<u>7,807</u>

## FINANCIAL REVIEW

During the three months ended 30 June 2005, the Group recorded a turnover of approximately HK\$17,374,000 (three months ended 30 June 2004: approximately HK\$16,193,000), an increase of approximately 7% as compared to the previous corresponding period. The turnover for the three months ended 30 June 2005 comprised retail sales and wholesale sales which accounted for approximately 58% and 42% (three months ended 30 June 2004: approximately 54% and 46%) of the total turnover respectively.

The increase in turnover was attributable to the increase in retail sales by approximately 16%. Retail sales in Hong Kong and Taiwan increased by approximately 16% and 16% respectively compared to the previous corresponding period as a result of increased number of retail outlets. Wholesale sales experienced a slight decrease of approximately 3% in the period under review due to decrease in orders from customers.

The gross profit margin increased to approximately 51% from approximately 47% in the previous corresponding period. The increase was mainly due to higher level of retail sales which commanded a higher gross profit margin.

The Group achieved a break-even result for the three months ended 30 June 2005, hence, no profit was attributable to shareholders for the current period. Net profit attributable to shareholders for the three months ended 30 June 2004 amounted to approximately HK\$254,000. The decrease in net profit was mainly attributable to the increase in selling and distribution costs. The increase in selling and distribution costs was mainly due to increase in rent and salary paid due to increase in the number of retail outlets and staff to cope with the expansion of the Group's retail networks.

## BUSINESS REVIEW

During the three months ended 30 June 2005, the status of the Group's operations were as follows:

### Sales and marketing

Six retail outlets in Hong Kong and two retail outlets in Taiwan were opened in the period under review. One retail outlet in both Hong Kong and Taiwan were closed in the same 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 store and television programme to promote and strengthen its brand loyalty.

## **Design and product development**

The Group continued to develop new series and models for existing products including various types of bags such as business bags, sports bags, backpacks, handbags and wallets, and accessories such as belts, watches, spectacles and umbrellas for the new season. The brandnames of the Group include **FX CREATIONS, USU, Anvu** and **ASTROBOY**.

The Group continued to identify potential business partners for the development of apparel products and footwear under **FX CREATIONS** brandname. No suitable business partners have been identified.

## **Geographical expansion**

The Group currently has agents and/or distributors in Japan, United Kingdom, Thailand, Singapore and the People's Republic of China (the "PRC").

The Group continued to identify potential agents in the United States, Europe, Macau and Phillipines. 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.

## **PROSPECTS**

Tourism has been an important hub for driving the growth of Hong Kong economy in the past year and the Group believes it will continue to be so in the coming year, especially with the opening of the Hong Kong Disney Land. With the continued influx of visitors, especially from the PRC, which brings with it huge spending power, the Board believes the strategy forward for the retail market is to capture the spending from these PRC visitors. As well as keeping on introducing new innovative designs and products, with quality assurance, regularly to keep up with the corporate image and to maintain consumers' interests in the products of the Group, the Group will also continue to implement various attractive marketing and promotion activities, such as event sponsorship, and strategies to promote the Group's brandname and to boost sales. In the meantime, the Group will also implement various cost control measures and improve efficiency of the Group's operations. On the wholesale side, the Group will continue to identify agents and distributors to target overseas markets.

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

The Group will continue to work towards its objective of promoting **FX CREATIONS** to be a brandname for stylish and lifestyle consumer products in the world market and is confident of meeting any challenges ahead.

## **DIRECTORS' INTERESTS IN SHARES**

As at 30 June 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 as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

		<b>Type of interest</b>	<b>Number of issued ordinary shares held</b>
Mr. Ng Pak To, Petto	<i>Note</i>	Corporate	204,000,000

*Note:* These shares represent a 51% equity interest in the Company and are held by Wise New Management Limited ("WNML"). The issued share capital of WNML is beneficially owned by Cashtram Associates Limited as to 45%, FX Creations (Holding) Inc. as to 30% and Forge Smart Investments Limited as to 25%. The issued share capital of Cashtram Associates Limited is owned as to 40%, 30%, 20% and 10% by Mr. Ng Pak To, Petto, Mr. Ho Kai Chung, David, Madam Ho Pui Lai and Mr. Tan Yu, Wally, respectively. Madam Ho Pui Lai is the wife of Mr. Ng Pak To, Petto. The issued share capital of FX Creations (Holding) Inc. is wholly owned by Mr. Wong Wai Shan. The issued share capital of Forge Smart Investments Limited is wholly owned by Mr. Ng Pak To, Petto.

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

Save as disclosed above, as at 30 June 2005, none of the directors had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 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 follows:

		<b>Number of shares held</b>	<b>Percentage of holding</b>
WNML	<i>(Note 1)</i>	204,000,000	51%
Cashtram Associates Limited	<i>(Note 1)</i>	204,000,000	51%
Top Accurate Limited	<i>(Note 2)</i>	76,000,000	19%
Ma She Shing, Albert	<i>(Note 2)</i>	76,000,000	19%
Lau Kim Hung, Jack	<i>(Note 3)</i>	204,000,000	51%
Corkwood Enterprises Limited	<i>(Note 3)</i>	204,000,000	51%

*Notes:*

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

Save as disclosed above, as at 30 June 2005, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of recognising significant contributions of specified participants including the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. The Scheme became effective on 21 May 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 30 June 2005, no share options have been granted under the Scheme.

## **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 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 three months ended 30 June 2005.

## **COMPETING INTERESTS**

As at 30 June 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.

## **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 consolidated results of the Group for the three months ended 30 June 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.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is in the process of reviewing its corporate governance practices and will report in its half-year financial announcement on the compliance of the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules.

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

Hong Kong, 11 August 2005

*As at the date of this report, the Company's executive directors are Ng Pak To, Petto, Ong Chor Wei 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.*