



HUNG FUNG GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Report 2000-2001

Results

The Board of Directors (the "Board") of Hung Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2000 together with the unaudited comparative figures for the corresponding period in 1999. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the external auditors.

Condensed Consolidated Profit and Loss Account

Six months ended 30 September 2000

	Notes	Six months ended 30 September	
		2000 (Unaudited) HK\$'000	1999 (Unaudited) HK\$'000
TURNOVER	3	188,571	138,022
Cost of sales		(189,172)	(98,682)
Gross profit/(loss)		(601)	39,340
Other income		481	1,160
Selling and distribution costs		(938)	(700)
Administrative expenses		(15,486)	(18,058)
Other operating expenses		(203,579)	-
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(220,123)	21,742
Finance costs		(5,584)	(3,712)
PROFIT/(LOSS) BEFORE TAX		(225,707)	18,030
Tax	5	1,500	(1,302)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(224,207)	16,728
Interim dividend	6	-	-
PROFIT/(LOSS) FOR THE PERIOD		(224,207)	16,728
EARNINGS/(LOSS) PER SHARE			
Basic	7	HK(9.03 cents)	HK0.80 cents
Diluted		-	HK0.80 cents

Other than the net loss from ordinary activities attributable to shareholders for the period, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in this statement.

Condensed Consolidated Balance Sheet

30 September 2000

		30 September 2000 (Unaudited) HK\$'000	31 March 2000 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		169,623	204,948
CURRENT ASSETS			
Inventories		9,911	24,631
Accounts receivable	8	8,336	95,883
Prepayments, deposits and other receivables		1,779	3,628
Cash and bank balances		30,924	63,462
		<hr/>	<hr/>
		50,950	187,604
CURRENT LIABILITIES			
Interest-bearing bank loans and overdrafts		35,340	5,482
Trust receipt loans, unsecured		76,260	50,714
Current portion of finance lease payables		7,522	2,823
Accounts payable	9	49,070	47,615
Other payables and accruals		38,193	12,655
Tax payable		63	82
Due to a director		273	-
		<hr/>	<hr/>
		206,721	119,371
NET CURRENT ASSETS/(LIABILITIES)			
		<hr/>	<hr/>
		(155,771)	68,233
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		13,852	273,181
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		6,542	37,774
Finance lease payables		-	2,396
Deferred tax liabilities		2,800	4,300
		<hr/>	<hr/>
		9,342	44,470
		<hr/>	<hr/>
		4,510	228,711
CAPITAL AND RESERVES			
Share capital	10	24,839	24,833
Reserves	11	(20,329)	203,878
		<hr/>	<hr/>
		4,510	228,711
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Condensed Consolidated Cash Flow Statement

Six months ended 30 September 2000

	Six months ended 30 September 2000
	(Unaudited) HK\$'000
Net cash outflow from operating activities	(46,644)
Net cash outflow from returns on investments and servicing of finance	(5,526)
Total tax paid	(19)
Net cash outflow from investing activities	(11,304)
Net cash outflow from financing activities	(2,711)
Decrease in cash and cash equivalents	(66,204)
Cash and cash equivalents at beginning of the period	18,225
Cash and cash equivalents at end of period	<u>(47,979)</u>
Analysis of the balances of cash and cash equivalents:	
Cash and bank balances	30,924
Bank overdrafts	(2,643)
Trust receipt loans with original maturity within three months	(76,260)
	<u>(47,979)</u>

Notes to Interim Financial Statements

1. Accounting Policies

The condensed unaudited consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice No.25 "Interim Financial Reporting", except that the comparative figures of the condensed consolidated cash flow statement have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of presentation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the financial statements of the Group for the year ended 31 March 2000.

2. Basis of Presentation

The Group's interim financial statements for the six months ended 30 September 2000 have been prepared on the following bases:

(i) *Going concern*

At 30 September 2000, the Group had net current liabilities of approximately HK\$155,771,000. The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK\$224,207,000 and reported a significant cash outflow from operating activities of HK\$46,644,000 for the six months ended 30 September 2000.

Although the directors have been undertaking a number of measures with a view to improve the Group's liquidity and restore its operations to profitability, the Group continued to experience financial difficulties and currently has no unutilised banking facilities available to support its normal operational requirements. The Group also has had difficulty in repaying short term bank loans on time. As at the date of this report, certain suppliers and bankers of the Group have filed writs of summons to demand for the repayment of the amounts due by the Group and petition for the winding-up of certain of the Group companies. Accordingly, the amounts due to banks and their financial institutions have been reclassified as current liabilities.

Having regard to this background, in order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity, cash flows and profitability and otherwise to sustain the Group as a going concern, the directors have adopted the following measures:

- (a) the directors are considering various alternatives to strengthen the capital base of the Company through various fund-raising exercises, including, but not limited to, loans from directors, external borrowings and private placements. In this regard, the directors have been in active negotiations with potential investors for the purpose of seeking capital injections into the Group. Up to the date of this report, Mr Lo Ming Chi, a then independent third party and potential investor, had advanced approximately HK\$4,000,000 to the Group. On 7 December 2000, Mr. Lo Ming Chi was appointed as a director and the new chairman of the Group;
- (b) the directors are in active negotiations with the Group's bankers, the parties which have provided the Group with the loans, and other creditors, with a view to proposing a standstill arrangement and to reschedule the repayment terms of certain of the Group's outstanding borrowings and to seek their ongoing support; possibility of entering into a debt hair cut agreement is also under active discussion; and
- (c) the directors have taken actions to tighten cost controls over factory overheads and various administrative expenses and the activities of the Group have been significantly scaled down.

In the opinion of the directors, in light of the measures taken to date, together with the expected results, the Group will have sufficient working capital for its current operational requirements and it is expected that the Group will ultimately return to a commercially viable concern notwithstanding the Group's financial position and tight cash flows as at 30 September 2000 and the date these interim financial statements were approved. However, although the directors anticipate that it may take some considerable time to successfully implement their plans.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the interim financial statements.

2. Basis of Presentation (continued)

(ii) Available books and records

The interim financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to significant staff and management turnover during the year, especially that in the accounting and finance department, there have been significant breakdowns in internal controls particularly from October 2000 when an investigation of the Independent Commissioner Against Corruption (“ICAC”) into the conduct of the then chairman and major shareholder of the Company was revealed in the press. The directors understand that there is still an ongoing investigation into this case. However, due to the relocations of the Group’s accounting department from Hong Kong to the People’s Republic of China (the “PRC”) and a riot in the Group’s PRC factory in October 2000, certain underlying books and records of certain of the Company’s subsidiaries were either lost, or can no longer be located. In addition, as a result of the breakdown in internal accounting controls and the loss of certain books and records, the effects of certain transactions of the Group as reflected in the interim financial statements prior to January 2001 cannot be satisfactorily substantiated or otherwise supported, in particular:

- (a) Certain records substantiating a number of transactions via a bank saving account including cash receipts of approximately HK\$28,269,000 received from the Group’s customers during the year, which in addition to the balance of the saving account brought forward of approximately HK\$60,830,000, were subsequently utilised as to: cash payments to the Group’s suppliers and subcontractors of approximately HK\$46,827,000; cash payments of purchase deposits of approximately HK\$4,635,000; cash payments for purchases of fixed assets of approximately HK\$5,946,000; cash advances to a company of approximately HK\$1,323,000 and other expenses settled in cash of approximately HK\$728,000 in total. All documentation of these transactions conducted via the saving account prior to January 2001 were either lost, or could not otherwise be accounted for; and
- (b) Certain records substantiating the following items including the transactions summarised in (a) above were either lost, or could not otherwise be accounted for:
 - (i) purchases of approximately HK\$151,190,000 for the period from 1 April 2000 to 30 September 2000;
 - (ii) turnover of approximately HK\$188,571,000 and the corresponding accounts receivable of approximately HK\$118,288,000;
 - (iii) deposits made to certain suppliers of approximately HK\$4,635,000;
 - (iv) an advance made to a company of approximately HK\$3,515,000 which included a cash payment of approximately HK\$1,323,000 via the saving account as noted in (a) above;
 - (v) inventories held in custody by a company of approximately HK\$11,791,000.

As the directors consider that the probability of recovering the receivables and inventories stated in (ii) to (v) above is remote, a full provision has been made against the respective amounts as disclosed in note 4 to the interim financial statements.

2. Basis of Presentation *(continued)*

(ii) Available books and records *(continued)*

In addition to the above, the books and records in respect of the Group's turnover, costs of sales, certain expenses and related tax charges were incomplete and although the directors consider that based on their knowledge, they have made accruals and provisions for all liabilities based on such books and records as are available, they cannot be certain as to whether all the liabilities of the Group have been recorded.

All the existing directors were appointed in December 2000, except Mr. Chan Chun Hong, Thomas who was appointed in October 2000 and Mr. Yu Wai man who was appointed in April 2001. The interim financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, in view of the aforesaid breakdown in internal control of the Group, no representations as to the completeness of the books and records of the Group during the period from 1 April 2000 to 31 December 2000 could be given by the existing Directors although care has been taken in the preparation of the interim financial statements to mitigate the effects of the incomplete records. The Directors are unable to represent that all transaction entered into in the name of the Company and its subsidiaries during the period from 1 April 2000 to 31 December 2000 have been included in the interim financial statements. Notwithstanding the foregoing, the Directors have in the assessment of the Group's assets and liabilities taken such steps as they considered practicable to establish these assets and liabilities based on the information of which they were aware and have made provisions and adjustments as they considered appropriate in the preparation of the interim financial statements.

3. Segmental Information

Turnover represents the invoiced value of goods sold, net of discounts and returns.

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activities and geographical area of operations for the period is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	Six months ended 30 September		Six months ended 30 September	
	2000	1999	2000	1999
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

By principal activity:

Manufacture and sale of				
Ride-on cars	48,342	72,197	(28,784)	11,403
Bicycles and tricycles	54,540	33,044	(31,149)	5,266
Stuffed toys	9,415	15,497	(8,282)	2,462
Pre-school toys	9,322	17,284	(7,632)	2,611
Scooter	66,952	-	(81,501)	-
Other	-	-	(62,775)	-
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	188,571	138,022	(220,123)	21,742
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3. Segmental Information (continued)

Others represented a contribution to loss from operating activities attributable to provisions, which are not directly arising from different segments of the Group's principal activities, including certain provisions for other receivables, provisions for impairment of fixed assets, provisions against advances to a company, provisions against deposits made to certain suppliers, provisions for potential claim as detailed in note 4 below.

	Turnover		Contribution to profit/(loss) from operating activities	
	Six months ended 30 September		Six months ended 30 September	
	2000 (Unaudited) HK\$'000	1999 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	1999 (Unaudited) HK\$'000
By geographical area:				
North America –				
United States of America	50,356	62,764	(29,412)	9,865
Europe	31,430	32,957	(11,511)	5,204
Central & South America	22,883	20,096	(16,913)	3,185
The Asia Pacific Region	75,017	10,513	(154,442)	1,637
The Middle East	8,233	10,390	(7,129)	1,648
Others	652	1,302	(716)	203
	<u>188,571</u>	<u>138,022</u>	<u>(220,123)</u>	<u>21,742</u>

4. Profit/(Loss) from operating activities

The Group's profit/(loss) from operating activities for the period is arrived at after charging:

	Six months ended 30 September	
	2000 (Unaudited) HK\$'000	1999 (Unaudited) HK\$'000
Depreciation	9,631	5,989
Provision for bad and doubtful debts	121,072	–
Provision for impairment of fixed assets	38,935	–
Provision for advances to a company	3,515	–
Provision for deposits made to certain suppliers	4,635	–
Provision for unrecoverable inventories held by a company	11,791	–
Provisions for potential claim	18,000	–
Provisions for inventories	3,733	–
Loss on disposals of fixed assets	1,898	–

5. Tax

Hong Kong profits tax has not been provided as there was no assessable profits arising in Hong Kong during the period. For the period ended 30 September 1999, Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the period. No taxes on profits assessable elsewhere have arisen.

	Six months ended	
	30 September	
	2000	1999
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current period provision	-	1,302
Deferred tax	(1,500)	-
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Tax charge/(credit) for the period	<u>(1,500)</u>	<u>1,302</u>

6. Interim Dividend

The Board does not recommend to pay any interim dividend in respect of the six months ended 30 September 2000. (1999: Nil)

7. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated net loss from ordinary activities attributable to shareholders for the six months ended 30 September 2000 of HK\$224,207,000 (1999: profit of HK\$16,728,000) and the weighted average of 2,482,786,862 (1999: 2,079,166,670) ordinary shares of the Company in issue during the period, adjusted to reflect the Shares Subdivision (as hereinafter defined) during the period as details in note 10 to the interim financial statements.

The diluted loss per share for the current period has not been presented because any potential ordinary shares of the Company outstanding during the period had anti-dilutive effective on the basic loss per share for the period.

The diluted earnings per share for the six months ended 30 September 1999 was based on the weighted average number of shares in issue during the period plus 5,024,010 shares deemed to be issued at nil consideration if all outstanding share options and warrants had been exercised, adjusted to reflect the Shares Subdivision.

8. Accounts Receivable

	30 September 2000	31 March 2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The ages of the accounts receivable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	72,462	23,672
Between 31 to 60 days	20,175	17,797
Between 61 to 90 days	17,390	18,720
Between 91 to 180 days	13,096	27,104
Over 180 days	1,382	8,590
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	124,505	95,883
<i>Less: Provision for bad and doubtful debts</i>	<i>(116,169)</i>	<i>-</i>
	<hr/>	<hr/>
	8,336	95,883
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The Group allows an average credit period from 30 days to 90 days to its trade customers.

9. Accounts Payable

	30 September 2000	31 March 2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The ages of the accounts payable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	35,610	8,227
Between 31 to 60 days	425	13,532
Between 61 to 90 days	3,998	400
Between 91 to 180 days	5,366	15,011
Over 180 days	3,671	10,445
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	49,070	47,615
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10. Share Capital

	No. of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each		
At 1 April 2000	1,000,000	100,000
Increase in authorised share capital	9,000,000	-
	<hr/>	<hr/>
At 30 September 2000	10,000,000	100,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2000	248,333	24,833
Issue of new shares	2,235,600	-
Warrants exercised	4	6
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At 30 September 2000	2,483,937	24,839
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Pursuant to an ordinary resolution passed on 5 April 2000, each of the Company's issued and unissued ordinary shares on 6 April 2000 of HK\$0.10 each were subdivided into ten ordinary shares of HK\$0.01 each ("Subdivided Shares") ("Shares Subdivision"). The authorised share capital of the Company became HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each.

During the period ended 30 September 2000, 571,520 Warrants were exercised and 60,400 and 3,760 ordinary shares of HK\$0.10 and HK\$0.01 each were issued at HK\$0.47 and HK\$0.05 per share respectively.

11. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Group					
At 1 April 1999	18,385	10	11,130	96,298	125,823
Issued of shares	26,674	-	-	-	26,674
Share issue expenses	(662)	-	-	-	(662)
Net profit for the year	-	-	-	26,195	26,195
Revaluation surplus	-	-	25,848	-	25,848
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At 31 March and 1 April 2000	44,397	10	36,978	122,493	203,878
Issued of shares	22	-	-	-	22
Share issue expenses	(22)	-	-	-	(22)
Net loss for the period	-	-	-	(224,207)	(224,207)
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At 30 September 2000	44,397	10	36,978	(101,714)	(20,329)
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12. Commitments

At the balance sheet date, the Group had the following commitments:

	30 September 2000 (Unaudited) <i>HK\$ '000</i>	31 March 2000 (Audited) <i>HK\$ '000</i>
Capital commitments:		
Authorised, but not contracted for	3,150	3,150
Contracted, but not provided for	6,282	8,843
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	9,432	11,993
Annual commitments payable in the following year under non-cancellable operating lease in respect of land and buildings expiring:		
Within one year	409	102
In the second to fifth years, inclusive	224	2,693
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	633	2,795

13. Contingent Liabilities

(i) Potential claim

In December 2000, the Group received a claim from its processing agent for an amount of approximately HK\$18.7million. Since the documents in support of the aforesaid claim has not been properly approved by the board of the Company, the directors are seeking legal opinion on the said claim. For prudence, the directors have made a provision against the claim as at the balance sheet date.

(ii) Others

	30 September 2000 (Unaudited) <i>HK\$ '000</i>	31 March 2000 (Audited) <i>HK\$ '000</i>
Bills discounted with recourse	<hr/> <hr/>	<hr/> <hr/>
	-	302

14. Pending Litigation

As at the date of this report, writs of summons had been issued by several miscellaneous creditors aggregating approximately HK\$5.6 million and banks aggregating approximately HK\$16.6 million, together with claims for overall interest thereon in respect of overdue borrowings, rentals, purchases of goods and the provision of services (the "Indebtedness").

The directors are currently negotiating with the parties issuing the writs with a view to restructuring the Group's overall indebtedness. Full provision has been made in the accounts for all the Indebtedness, however, no provision has been made for any interest, penalties, damages and legal costs the Group may incur if it is unsuccessful either in defending the writs or in persuading the issuers to withdraw such pursuant to a debt restructuring.

On 12 May 2001 and 23 May 2001, winding-up petitions were filed by Sin Hua Bank Limited, Hong Kong Branch against (i) Hung Cheong Toys International Limited ("Hung Cheong"), a principal operating subsidiary within the Group and (ii) the Company, respectively. The hearing of the petition against Hung Cheong in the High Court of the Hong Kong Special Administrative Region was adjourned to 1 August 2001 while the hearing of the petition against the Company was adjourned to 22 August 2001.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HUNG FUNG GROUP HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the company to review the interim financial statements set out on pages 1 to 11.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial statement is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial statements.

1. Scope limitation - fundamental uncertainty - going concern of the Group

In performing our review, we have considered the adequacy of the disclosures made in note 2(i) to the interim financial statements which explain the circumstances giving rise to fundamental uncertainties relating to the Group's ability to continue as a going concern. Such disclosures also include details of the proposed standstill arrangement and debt restructuring between the financial creditors of the Group and the Group, the Group's funding plans and the various measures being undertaken or proposed to be undertaken by the directors to relieve the Group from its current profitability and liquidity problems. The interim financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the proposed standstill arrangement, debt restructuring, the funding plans and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The interim financial statements do not include any adjustments that would result from the failure of such measures. However, because of the condition of the Group's accounting records, the complexity of the Group's financial position and the inconclusive state of the Group's discussions and negotiations with its financial creditors, the directors have as yet been unable to provide us with a detailed plan or projection as to how the Group might remain a going concern thereby supporting the basis on which they have prepared the interim financial statements. Although we are aware that a significant amount of effort has been put into this aspect of the Group's affairs, we have been unable to determine that the directors' assessment is correct.

2. Scope limitation - completeness of books and records and maintenance of internal control

As further explained in note 2 (ii) to the interim financial statements, there was a significant breakdown in the Group's internal accounting controls. We have not been provided with adequate audit evidence to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosures in respect of the transactions undertaken by the Group during the period ended 30 September 2000 and the related balances as further detailed in note 2 (ii) to the interim financial statements, in particular, we have been unable to perform any satisfactory procedures to substantiate the sales transactions as set out in note 2 (ii) (b) (ii).

Any adjustments found to be necessary in respect of the matters set out in the above would have a consequential impact on the Group's net loss attributable to shareholders for the period ended 30 September 2000, the Group's net assets position as at 30 September 2000 and the classification and related disclosures in the interim financial statements.

3. Scope limited - physical existence of inventories

Included in the consolidated balance sheet are inventories HK\$9,911,000 for which we have not been able to verify the physical existence and condition thereof as at 30 September 2000. We did not attend a period end stocktake at the locations in which these inventories were held. There were no satisfactory procedures we could adopt to obtain sufficient evidence regarding the existence and condition of these inventories. Any adjustment to this amount would have a consequential effect on the Group's net loss attributable to shareholders for the six months ended 30 September 2000 and the Group's net assets position as at 30 September 2000.

4. Scope limitation - valuation of fixed assets

In view of the liquidity problems currently faced by the Group, the construction in progress of approximately HK\$32,259,000 was put on hold and a full provision has been made against the cost incurred as at 30 September 2000. We concur with this provision on the basis that the Group has no plans to complete the construction, nor does it currently have any business plans for such assets even if they were completed. However, in the current year, the Group has significantly scaled down its production operations in the PRC. Having regard to the gross operating loss incurred by the Group for the period ended 30 September 2000 and the uncertainties involved in the Group having sufficient working capital to restore operations in the foreseeable future to a commercially viable level, as explained more fully in note 2 to the interim financial statements, there is an uncertainty as to the carrying value of the Group's existing completed fixed assets and an impairment assessment needs to be performed to determine that recoverable amount either from utilisation in future profitable operations, or from the disposal. Apart from the leasehold land and buildings of approximately HK\$119,337,000, the valuation of which was performed by an independent firm of professional valuers as at 31 March 2000, the net book value of the fixed assets held by the Group were stated at cost less accumulated depreciation which included leasehold improvements of approximately HK\$11,438,000, moulds, plant and machinery of approximately HK\$36,400,000, and furniture, fixtures, equipment and motor vehicles of approximately HK\$2,448,000. In the absence of any information from the directors as to their assessment of the carrying value of the fixed assets as a result of the scaling down in production operations and in the absence of any valuation on an open market value basis, we are unable to assess whether the provision for impairment in the value of the fixed assets as at 30 September 2000 currently provided by the Group is adequate but not excessive. Any adjustments that might have been found necessary would have a consequential impact on the net assets of the Group at 30 September 2000 and its net loss attributable to shareholders for the period then ended.

5. Scope limitation - potential claim

As further explained in note 13 to the interim financial statements, the Group received a claim for an amount of approximately HK\$18,729,000. Although the ultimate settlement is still in the process of negotiation, the directors have made a substantial provision for the claim. As we have not been provided with sufficient information or explanations to satisfy ourselves if the basis of provision is appropriate, we are unable to assess whether the provision made by the Group is adequate, but not excessive. Any adjustments found to be necessary in respect of the matter set out in the above would have a consequential impact on the Group's net loss attributable to shareholders for the period ended 30 September 2000 and the Group's net assets position as at 30 September 2000.

6. Fundamental uncertainty - legal proceedings against the Group

As further detailed in note 14 to the interim financial statements, there are legal proceedings against the Group including the petitions for the liquidation of certain Group companies, principally initiated by various bankers and vendors, the future outcome of which could not be assessed with reasonable certainty at the date of these interim financial statements. Other than the amounts claimed as summarized in note 14, no reasonable estimate could be made with regard to any possible additional costs to the Group should the various defending companies be unsuccessful in defending the cases. Such additional costs might include interest, legal costs and consequential damages which the Group may sustain. Also, it is not possible to determine the outcome of the court proceedings to wind up certain Group companies. Details of the circumstances relating to this fundamental uncertainty are described in note 14 to the interim financial statements.

We have been unable to obtain from the directors all the information, explanations or other evidence we consider necessary to satisfy ourselves that appropriate disclosures have been made in respect of this issue.

In these circumstances we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

Inability to Reach a Review Conclusion

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial statements for the six months ended 30 September 2000.

Ernst & Young

Certified Public Accountants

Hong Kong
26 July 2001

Share Options and Warrants

Share Options

On 17 February 1998, under the terms of the Company's share option scheme adopted by the Company conditional upon the listing of the Company's shares on the Stock Exchange, the directors of the Company were authorised, on or before 16 February 2008, at their discretion to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The scheme subscription price is the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option or the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued shares of the Company from time to time which have been duly allotted and issued. The scheme became effective upon the listing of the Company's shares on 12 March 1998.

During the period, the number of shares options granted and the exercise price of the options have been adjusted for the effect of the Share Subdivision. Accordingly, the subscription price and the number of shares available for subscription in respect of share option granted on 20 July 1999 were adjusted from HK\$0.46 per share and 7,070,000 shares to HK\$0.046 per Subdivided Share and 70,700,000 Subdivided Shares respectively. The share options are exercisable at any time from 21 July 1999 to 16 February 2008.

On 18 September 2000, 65,000,000 share options were granted by the Company, pursuant to the above scheme, to the then chairman and certain full time employees of the Company which entitle them to subscribe for a total number of 65,000,000 ordinary shares. The share options are exercisable at HK\$0.03472 per share, subject to adjustment, at any time from 20 September, 2000 to 16 February 2008.

During the year, 11,000,000 share options granted on 20 July 1999 and 15,000,000 share options granted on 18 September 2000 lapsed.

The exercise in full of the remaining outstanding subscription rights attaching to the 109,700,000 share options would, under the present capital structure of the Company, resulting in the issue of 109,700,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of approximately HK\$4,482,000.

Warrants

At the beginning of the year, the total number of warrants granted on 28 September 1999 (the "Warrants") and remained outstanding were 37,597,100 Warrants. Each of the Warrants entitled the holder thereof to subscribe for one share at an initial subscription price of HK\$0.47 per share, subject to adjustment, from the date of issue to 28 September 2001 (both dates inclusive).

Pursuant to the Shares Subdivision, the subscription price of the ordinary shares under the Warrants was adjusted from HK\$0.47 per share to HK\$0.05 per Subdivided Share. The exercise in full of such Warrants would, after adjusting to reflect the Shares Subdivision, result in the issue of 353,412,740 Subdivided Shares of HK\$0.01 each. 571,520 Warrants were exercised and 60,400 ordinary shares of HK\$0.10 each and 3,760 ordinary shares of HK\$0.01 each were issued at HK\$0.47 and HK\$0.05 per share respectively. At the balance sheet date, the Company had 352,841,220 Warrants outstanding.

The exercise in full of the Warrants would result in the issue of 352,841,220 ordinary shares of HK\$0.01 each and the receipt by the Company of approximately HK\$17,642,000, before any related expenses.

Directors' Interests In Share Capital

The Company

As at 30 September 2000, the interests of the directors, and their associates, in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") are set out below:

Name of Directors	<i>Note</i>	Number of Ordinary Shares Corporate interest	Amount of Warrants (in HK\$) Corporate interest
Chan Chun Hung	1	1,559,820,000	3,384,000
Wong Kin Ching	1	1,567,520,000	3,384,000

Note 1: These shares and warrants are registered in the name of Baxter Resources S.A. ("Baxter"), a company incorporated in the British Virgin Islands, which beneficially owned as to 75% by Chan Chun Hung and as to the remaining 25% by Wong Kin Ching. Chan Chun Hung and Wong Kin Ching are directors of Baxter.

On 24 November 2000, Baxter pledged 1,565,140,000 Ordinary Shares of HK\$0.01 each in the Company to E-Bigger Investment Limited ("E-Bigger"), an independent third party to secure loan facilities granted by E-Bigger for its own financial use. Baxter is beneficially owned as to 75% by Chan Chun Hung and as to the remaining 25% by Wong Kin Ching. They were the former directors of the Company.

Associated corporations

As at 30 September 2000, each of Chan Chun Hung and Wong Kin Ching beneficially owned the following non-voting deferred shares in the following subsidiaries of the Company.

Subsidiary

	Chan Chun Hung	Wong Kin Ching
Hung Cheong Toys International Limited (“HCTI”)	150,000	50,000
Huang Chiang Chen Hung Cheong Plastics Factory Company Limited (“HCCHC”)	9,000	1,000

Under option agreements dated 16 December 1997, the holders of the deferred shares of the above- named subsidiaries granted options to Hung Cheong Holdings Limited, a subsidiary of the Company, to acquire all the non-voting deferred shares at an aggregate consideration of HK\$2 for each of HCTI and HCCHC. At 30 September 1999, the options had not yet been exercised.

Save as disclosed above, none of the directors, or their associates, had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or is otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors’ Rights to Acquire Shares

On 20 July 1999, the following share options were granted to certain directors, which remain outstanding as at the date of this report.

Director	Number of share options granted	Exercise period	Exercise price per share*
Chan Chun Hung	80,000,000	21.7.1999 – 16.2.2008	0.046
Wong Kin Chung	16,000,000	21.7.1999 – 16.2.2008	0.046
Wong Wan Kuen	11,000,000	21.7.1999 – 16.2.2008	0.046

* The exercise price per share was adjusted from \$0.46 to \$0.046 per share as a result of subdivision of one ordinary share of HK\$0.1 each into 10 ordinary shares of HK\$0.01 each with effect from 6 April 2000.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiary as a party to any arrangement to enable the Company’s directors, their respective spouse, or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 30 September 2000, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	Percentage of issued shares
Baxter	1,559,892,000	62.80

Save for the shareholding disclosed above, which is also included in the section "Directors' interests in share capital", the directors were not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 30 September 2000 that was required to be recorded under Section 16(1) of the SDI Ordinance.

Purchase, Sale or Redemption of Listed Securities

Neither the Company, its holding company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Code of Best Practice

Save as disclosed herein, in the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd throughout the period under review. The independent non-executive directors are not appointed for a specific term because all of the directors excluding the executive Chairman, and without limitation to the non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the company.

On behalf of the Board
Lo Ming Chi
Chairman

Hong Kong, 26 July 2001