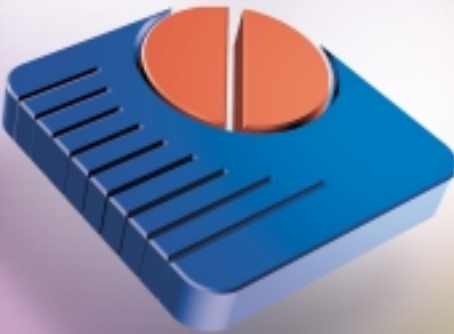


ROCKAPETTA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

interim report 2001



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MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors (the "Board") of Rockapetta Holdings Limited (the "Company"), I would like to present the unaudited interim report together with the unaudited condensed consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2001. The unaudited consolidated results and the unaudited consolidated cash flow statement for the Group for the six months ended 30 June 2001, and the unaudited consolidated balance sheet as at 30 June 2001 of the Group, all of which are condensed, along with selected explanatory notes, are set out on pages 9 to 15 of this report.

BUSINESS OVERVIEW

For the six months ended 30 June 2001, the Group recorded a turnover of approximately HK\$25.4 million, representing a decline of approximately 51% compared with the previous corresponding period. Such decline was mainly attributable to the slow down in the US economy with a substantial amount of sales orders being deferred to second half year. Loss attributable to shareholders increased from approximately HK\$9.4 million to approximately HK\$29.6 million.

The net loss for the six months ended 30 June 2001 included a deficit arising on revaluation of the Group's property of HK\$2.5 million, a stock provision of HK\$6 million and a provision of doubtful debts of HK\$3.1 million.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 30 June 2001, the Group had outstanding short-term bank borrowings of approximately HK\$24 million. The main purpose of the bank borrowings was to finance working capital of the Group.

The bank borrowings are mainly made in Hong Kong Dollars, United States Dollars and Renminbi. The Group did not enter into any hedging transactions. Foreign exchange exposure does not pose a significant risk to the Group given that the level of foreign currency exposure is small relative to its total asset base.

As at 30 June 2001, the gearing ratio of the Group, calculated as total debts divided by total assets was approximately 42.7%.

Net current liabilities and working capital

As at 30 June 2001, the Group's total current assets and current liabilities were approximately HK\$94 million and HK\$123 million respectively. The Group serviced its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds and the Group's effort to reduce inventory held by the Group, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable debt repayment requirements.

POST BALANCE SHEET EVENTS

In July 2001, convertible notes holders converted an aggregate face value of HK\$6.6 million convertible notes to 30 million ordinary shares at \$0.22 per share. In August 2001, the Company placed 111 million new shares at \$0.15 per share for net proceeds of approximately HK\$16,650,000.

STAFF COST, DIRECTOR BONUS AND SHARE OPTION SCHEME

Staff costs for the six months ended 30 June 2001 were HK\$8.7 millions, representing an increase of 15% compared with the previous corresponding period. The Group had a workforce of approximately 1,900 employees, all employees stationed in Shenzhen, PRC except for eight employees stationed in Hong Kong. Salaries are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Director of the Company may, at their discretion, granted options to the Executive Directors and full-time employees of the Group to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

PROSPECTS AND FUTURE PLAN

As discussed earlier, the unsatisfactory results of the six months ended 30 June 2001 were mainly attributable to the slow down in US economy with a substantial amount of sales orders being deferred to second half year.

The Group has made substantial efforts to improve the business prospects. In 2001, the Group is prepared to launch 15 new light and sound OEM items, five new series of motorized ride-on and scooter OEM items and five new musical movement OEM toy items. The diversity of new items to be launched in 2001 is unprecedented in recent years.

In addition, utilizing the Group's extensive experiences in the manufacturing of musical movements, the Group endeavors to strengthen its musical movement manufacturing division in a bid to capture larger market segment.

The business operations in second half of 2001 demonstrate a significant improvement compared to the first half year. It is, however, uncertain at this stage for the Group the effect on the Group's performance in the future as affected by the tragedy happened in the US on 11 September 2001. The Directors will take all appropriate actions necessary to improve the prospects of the Group in the circumstances.

By order of the Board
CHAN SHEUNG WAI
Chairman

Hong Kong, 24 September 2001

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
	<i>Notes</i>	30/06/01	30/06/00
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	25,417	51,515
Cost of sales		<u>(36,688)</u>	<u>(49,372)</u>
Gross (loss)/profit		(11,271)	2,143
Other revenue		2,174	1,778
Provision for impairment loss of property, plant and equipment		(2,500)	—
Distribution costs		(848)	(811)
Administration expenses		<u>(13,482)</u>	<u>(11,070)</u>
Loss from operations	4	(25,927)	(7,960)
Finance costs		(3,754)	(1,826)
Investment income		109	407
Share of loss of associates		<u>—</u>	<u>(3)</u>
Net loss for the period		<u><u>(29,572)</u></u>	<u><u>(9,382)</u></u>
Loss per share — basic	7	<u><u>(5.28 cents)</u></u>	<u><u>(2.85 cents)</u></u>

There were no recognised gains or losses other than the net loss for the period.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30/06/01	31/12/00
		HK\$'000	HK\$'000
		(unaudited)	(audited)
Non current assets			
Property, plant and equipment	8	92,115	106,085
Development costs		3,176	3,660
Interests in associates		1,540	1,540
		96,831	111,285
Current assets			
Inventories		58,089	60,260
Debtors, prepayments and deposits	9	26,483	28,532
Amount due from an associate		1,569	1,569
Tax recoverable		5	5
Pledged bank deposits		–	8,267
Bank balances and cash		7,575	7,199
		93,721	105,832
Current liabilities			
Creditors and accrued charges	10	47,888	36,513
Amount due to directors /shareholders		51,021	47,442
Secured bank borrowings			
– due within one year		23,552	30,527
Obligations under finance leases and hire purchase contracts			
– due within one year	11	67	494
		122,528	114,976
Net current liabilities		(28,807)	(9,144)
Total assets less current liabilities		68,024	102,141

	<i>Notes</i>	30/06/01 HK\$'000 (unaudited)	31/12/00 <i>HK\$'000</i> (audited)
Capital and reserves			
Share capital	12	55,976	55,976
Reserves	13	1,481	31,053
		57,457	87,029
Non-current liabilities			
Amount due to an associate		2,168	2,168
Other payable		1,682	6,344
Obligations under finance leases and hire purchase contracts	11	117	—
Convertible notes		6,600	6,600
		10,567	15,112
		68,024	102,141

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30/06/01	30/06/00
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(10,644)	(14,541)
Net cash outflow from returns on investments and servicing of finance	(1,428)	(1,398)
Tax paid	—	—
Net cash inflow from investing activities	16,153	3,609
Net cash inflow/(outflow) before financing	4,081	(12,330)
Net cash inflow from financing	468	42,605
Increase in cash and cash equivalents	4,549	30,275
Cash and cash equivalents at 1 January	3,026	(9,620)
Cash and cash equivalents at 30 June	7,575	20,655
Analysis of the balances of cash and cash equivalents		
Bank balance and cash	7,575	28,633
Bank overdrafts	—	(7,978)
	7,575	20,655

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting.

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2000.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new/revised accounting policies.

Leases

The adoption of SSAP 14 (Revised) Leases, the Group does not have any impact on these Interim Accounts except that disclosures set out in note 11 have been extended or restated.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the six months ended 30 June 2000 have been amended so that they are presented on a consistent basis.

3. Segment Information

The Group has one business segment only. The Group turnover analysed by geographical market is as follows:

2001 (unaudited)	North				Total
	America	Asia	Europe	Others	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>14,975</u>	<u>6,744</u>	<u>2,422</u>	<u>1,276</u>	<u>25,417</u>
Segment result	<u>(18,337)</u>	<u>(6,106)</u>	<u>(2,415)</u>	<u>(1,243)</u>	(28,101)
Unallocated other revenue					<u>2,174</u>
Loss from operations					<u>(25,927)</u>
2000 (unaudited)	North				Total
	America	Asia	Europe	Others	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>37,935</u>	<u>7,760</u>	<u>2,323</u>	<u>3,497</u>	<u>51,515</u>
Segment result	<u>(7,171)</u>	<u>(1,267)</u>	<u>(589)</u>	<u>(711)</u>	(9,738)
Unallocated other revenue					<u>1,778</u>
Loss from operations					<u>(7,960)</u>

4. Loss From Operations

Loss from operations has been arrived at after charging/(crediting)

	Six months ended	
	30/06/01	30/06/00
	HK\$'000	HK\$'000
Depreciation	<u>4,408</u>	<u>4,869</u>
Profit on sale of motor vehicle	<u>(82)</u>	<u>—</u>

5. Taxation

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the period.

6. Interim Dividends

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend.

7. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the period of HK\$29,572,000 (six months ended 30 June 2000: HK\$9,382,000) and on the weighed average number of 559,760,000 shares (six months ended 30 June 2000: 329,594,000) in issue during the period.

No diluted loss per share figures have been presented as the exercise of the potential shares is anti-dilutive for the six months ended 30 June 2001, and six months ended 30 June 2000.

8. Movements in Property, Plant and Equipment

	<i>HK\$'000</i>
NET BOOK VALUE	
At 1 January 2001	106,085
Additions	2,965
Disposals	(10,027)
Provision for impairment	(2,500)
Depreciation	<u>(4,408)</u>
At 30 June 2001	<u><u>92,115</u></u>

9. Trade and Other Receivables

In addition to cash on delivery and letters of credit terms, the Group also allows a credit period range from 14 days to 90 days to its trade customers.

The following is an aged analysis of accounts receivable at the reporting date:

	30/06/01	31/12/00
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-60 days	7,297	3,658
61-90 days	1,304	3,774
> 90 days	4,949	6,690
	<u>13,550</u>	<u>14,122</u>

10. Trade and Other Payables

The following is an aged analysis of accounts payable at the reporting date:

	30/06/01	30/12/00
	HK\$'000	HK\$'000
0-60 days	26,648	7,415
61-90 days	2,981	6,678
> 90 days	13,076	6,673
	<u>42,705</u>	<u>20,766</u>

11. Finance Leases

The total minimum lease payments under finance leases, and their present values are as follows:

	Present value of the minimum lease payments 2001 HK\$'000	Interest expense relating to future periods 2001 HK\$'000	Total minimum lease payments 2001 HK\$'000	Present value of the minimum lease payments 2000 HK\$'000	Interest expense relating to future periods 2000 HK\$'000	Total minimum lease payments 2000 HK\$'000
Accounts payable:						
Within one year	67	14	81	494	75	569
After one year but within five years	117	25	142	—	—	—
	<u>184</u>	<u>39</u>	<u>223</u>	<u>494</u>	<u>75</u>	<u>569</u>

* this is the amount that will be accrued as a liability on the balance sheet.

No accrual is made for the interest expense relating to future periods.

12. Share Capital

Ordinary shares of HK\$0.10 each	Number of shares	Share capital
	'000	HK\$'000
Authorised		
At 1 January 2001 and 30 June 2001	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid		
At 1 January 2001 and 30 June 2001	<u>559,760</u>	<u>55,976</u>

13. Share Premium and Reserves

	Share Premium	Capital Reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
At 1 January 2000	42,247	2,099	(14,155)	30,191
Premium arising from exercise of options	365	—	—	365
Shares issue expenses	(1,627)	—	—	(1,627)
Premium arising from issue of shares upon subscription	43,399	—	—	43,399
Premium arising from exercising convertible notes	3,600	—	—	3,600
Net loss for the year	<u>—</u>	<u>—</u>	<u>(44,875)</u>	<u>(44,875)</u>
At 31 December 2000	87,984	2,099	(59,030)	31,053
Net loss for the period	<u>—</u>	<u>—</u>	<u>(29,572)</u>	<u>(29,572)</u>
At 30 June 2001	<u>87,984</u>	<u>2,099</u>	<u>(88,602)</u>	<u>1,481</u>

The capital reserve arising from the group reorganisation represents the difference between the difference between the nominal value of the share capital issued by the Company in exchange for the aggregate nominal values of the share capital of the subsidiaries.

14. Commitments

The Group did not have any significant capital commitments at the balance sheet date.

15. Post Balance Sheet Events

In July 2001, convertible notes holders converted an aggregate face value of HK\$6.6 million convertible notes to 30 million ordinary shares at a price of \$0.22 per share. In August 2001, the Company placed 111 million new shares at \$0.15 per share for net proceeds of approximately HK\$16,650,000.

16. Audit Committee

The unaudited interim report has been reviewed by the Group's audit committee.

OTHER INFORMATION REQUIRED BY THE LISTING RULES

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, WARRANTS AND OPTIONS

(i) Shares

At 30 June 2001, the interests of the directors and the chief executive of the Group in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) were as follows:

Number of ordinary shares held

Name of directors	Personal interests	Family interests
Chan Sheung Wai	—	60,000,000 (Note 1)
Yiu Kui Leung	376,000	—
Ma Tak Lun (Note 2)	1,204,000	—
Kwok Chin Wing (Note 3)	1,360,000	40,438,000 (Note 4)

Note 1: The shares of the Company are held by MCC814 (Holdings) Limited, a company which is beneficially owned by Mr. Chan Sheung Wai.

Note 2: Mr. Ma Tak Lun has been appointed as the director of the Company on 23 April 2001.

Note 3: Mr. Kwok Chin Wing has been resigned as the director and chairman of the Company on 11 April 2001.

Note 4: The shares of the Company are held by Victory Wall Enterprises Limited, a company which is indirectly held by a trustee of a trust in which Mr. Kwok Chin Wing's spouse and children under the age of 18 are beneficiaries. Accordingly, Mr. Kwok Chin Wing is deemed under the SDI Ordinance to be interested in such shares.

(ii) Options

As at 30 June 2001, certain directors held share options granted to them under the share option scheme of the Company entitling them to subscribe for shares in the Company as follows:

Name of director	Number of share Options held	Exercise price per share <i>HK\$</i>	Exercisable period (both days inclusive)	Consideration paid for the option granted <i>HK\$</i>
Yiu Kui Leung	600,000	0.61	05.09.1995 - 04.09.2001	1.00
	2,000,000	0.17	26.01.2003 - 27.01.2004	1.00
	* 1,500,000	0.17	26.01.2003 - 27.01.2004	1.00

* the 1,500,000 options are granted to Ms. Tang Yuk King (Spouse of Mr. Yiu Kui Leung).

Other than the foregoing and certain nominee shares in subsidiaries held by directors in trust for the Company, at 30 June 2001, none of the directors, chief executives, or their associates had any other interests in any securities of the Company or any of its subsidiaries and associated corporations as defined in the SDI Ordinance, and no right had been granted to any director or chief executive of the Company or to their spouses or children under the age of 18, to subscribe for equity or debt securities of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of shares held	Percentage of total issued shares
MCC814 (Holdings) Limited	60,000,000	10.70%

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issue share capital as at 30 June 2001.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company has been established in December 1999 and is answerable to the Board. The principal duties of the Committee include the review and supervision of the Company's financial reporting process and internal control.