HUNG FUNG GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Report 2001

The Board of Directors (the "Board") of Hung Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2001 together with the unaudited comparative figures for the corresponding period in 2000. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditors, Ernst & Young, in accordance with the Hong Kong Statements of Auditing Standards 700 "Engagements to Review Interim Financial Reports" and by the Company's Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30 September 2001

		Six months ended 30 September	
		2001	2000
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**29,008**	188,571
Cost of sales		**(34,254)**	(189,172)
Gross loss		**(5,246)**	(601)
Other income		**1,194**	481
Selling and distribution costs		**(1,251)**	(938)
Administrative expenses		**(10,842)**	(15,486)
Other operating expenses		**(2,274)**	(203,579)
LOSS FROM OPERATING ACTIVITIES	*4*	**(18,419)**	(220,123)
Finance costs		**(6,660)**	(5,584)
LOSS BEFORE TAX		**(25,079)**	(225,707)
Tax	*5*	**–**	1,500
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(25,079)**	(224,207)
DIVIDEND	*6*	–	–
LOSS PER SHARE	*7*		
Basic		**(HK cents 1.01)**	(HK cents 9.03)
Diluted		**N/A**	N/A

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 the interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2001

	Notes	30 September 2001 (Unaudited) HK$'000	31 March 2001 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets	8	115,541	122,802
CURRENT ASSETS			
Inventories		7,953	11,569
Accounts receivable	9	8,317	4,107
Prepayments, deposits and other receivables		2,734	1,744
Cash and bank balances		1,794	782
		20,798	18,202
CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	10	62,673	38,968
Trust receipt loans, unsecured		72,578	72,896
Finance lease payables		5,427	6,614
Accounts payable	11	27,997	26,224
Other payables and accruals		55,310	47,327
Tax payable		5	5
Loan from a director	12	4,000	9,000
		227,990	201,034
NET CURRENT LIABILITIES		(207,192)	(182,832)
TOTAL ASSETS LESS CURRENT LIABILITIES		(91,651)	(60,030)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		–	6,542
Convertible note	13	3,000	3,000
		3,000	9,542
		(94,651)	(69,572)
CAPITAL AND RESERVES			
Issued share capital		24,839	24,839
Reserves	14	(119,490)	(94,411)
		(94,651)	(69,572)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2001

	Six months ended 30 September 2001 (Unaudited) *HK$'000*	Six months ended 30 September 2000 (Unaudited) *HK$'000*
Net cash outflow from operating activities	**(6,971)**	(46,644)
Net cash outflow from returns on investments and servicing of finance	**(2,398)**	(5,526)
Total tax paid	**–**	(19)
Net cash outflow from investing activities	**(277)**	(11,304)
Net cash inflow/(outflow) from financing activities	**9,813**	(2,711)
Increase/(decrease) in cash and cash equivalents	**167**	(66,204)
Cash and cash equivalents at beginning of period	**(78,385)**	18,225
Cash and cash equivalents at end of period	**(78,218)**	(47,979)
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**1,794**	30,924
Bank overdrafts	**(7,434)**	(2,643)
Trust receipt loans with original maturity within three months	**(72,578)**	(76,260)
	(78,218)	(47,979)

NOTES

1. Accounting Policies

The unaudited condensed consolidated interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with the Statements of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of the unaudited condensed consolidated interim financial report are consistent with those adopted in the financial statements of the Group for the year ended 31 March 2001.

2. Basis of Presentation

The Group's interim financial report for the six months ended 30 September 2001 has been prepared on a going concern basis.

As at 30 September 2001, the Group had net current liabilities of approximately HK$207,192,000. The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK$25,079,000 and reported a net cash outflow from operating activities of approximately HK$6,971,000 for the six months ended 30 September 2001.

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 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. The directors are currently negotiating with certain parties issuing the writs with a view to restructuring the Group's overall indebtedness. Except for those disclosed in note 17 to the interim financial report, no other legal actions have been taken against the Group. In view of the above, the amounts due to banks and other financial institutions have been classified 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 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, a short term loan of HK$19.4 million has been raised from an independent third party and HK$4 million from Mr. Lo Ming Chi, Charles, the Chairman of the Company;

(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, especially with those parties who have filed writs against the Group, with a view to entering into a formal standstill arrangement, to rescheduling the repayment terms of certain of the Group's outstanding borrowings and to seeking their ongoing support; the possibility of entering into a debt hair cut agreement is also under active discussion;

(c) the directors have taken actions to tighten cost controls over factory overheads and various administrative expenses; and

(d) the directors have taken measures to scale down the production activities in view of the shrinkage of the Group's turnover.

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 2001 and the date this interim report was approved. However, 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 report.

3. Turnover and 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 loss from operating activities by principal activity and geographical area of operations for the period is as follows:

	Turnover Six months ended 30 September		**Contribution to loss from operating activities Six months ended 30 September**	
	2001	2000	**2001**	2000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity:				
Manufacture and sale of				
Ride-on cars	**9,211**	48,342	**(4,283)**	(28,784)
Bicycles and tricycles	**9,326**	54,540	**(5,778)**	(31,149)
Stuffed toys	**–**	9,415	**–**	(8,282)
Pre-school toys	**9,247**	9,322	**(6,090)**	(7,632)
Scooters	**–**	66,952	**–**	(81,501)
Plastic utensils	**1,224**	–	**(249)**	–
Others*	**–**	–	**(2,019)**	(62,775)
	29,008	188,571	**(18,419)**	(220,123)

* *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 Six months ended 30 September		**Contribution to loss from operating activities Six months ended 30 September**	
	2001 (Unaudited) *HK$'000*	2000 (Unaudited) *HK$'000*	**2001 (Unaudited) *HK$'000***	2000 (Unaudited) *HK$'000*
By geographical area:				
North America – United States of America	**6,442**	50,356	**(4,885)**	(29,412)
Europe	**8,267**	31,430	**(4,001)**	(11,511)
Central & South America	**9,017**	22,883	**(4,837)**	(16,913)
The Asia Pacific Region	**3,782**	75,017	**(3,922)**	(154,442)
The Middle East	**1,260**	8,233	**(628)**	(7,129)
Others	**240**	652	**(146)**	(716)
	29,008	188,571	**(18,419)**	(220,123)

4. Loss from Operating Activities

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

	Six months ended 30 September	
	2001 (Unaudited) *HK$'000*	2000 (Unaudited) *HK$'000*
Depreciation:		
Owned fixed assets	**6,647**	8,532
Leased fixed assets	**891**	1,099
Provision for bad and doubtful debts	**255**	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
Provision for potential claim	**2,019**	18,000
Provision for inventories	–	3,733
Loss on disposals of fixed assets	–	1,898

5. Tax

Hong Kong profits tax has not been provided because there were no assessable profits arising in Hong Kong during the period. No taxes on profits assessable elsewhere have arisen.

	Six months ended 30 September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current period provision	**–**	–
Deferred tax	**–**	(1,500)
Tax credit for the period	**–**	(1,500)

6. Dividend

The Board does not recommend to pay any interim dividend in respect of the six months ended 30 September 2001 (2000: Nil).

7. Loss per Share

The calculation of basic loss per share is based on the unaudited consolidated net loss from ordinary activities attributable to shareholders for the six months ended 30 September 2001 of HK$25,079,000 (2000: HK$224,207,000) and the weighted average of 2,483,936,760 (2000: 2,482,786,862) ordinary shares of the Company in issue during the period.

The diluted loss per share for the period ended 30 September 2001 has not been calculated as no diluting events existed during the period. The diluted loss per share for the period ended 30 September 2000 has not been presented because any potential ordinary shares of the Company outstanding during that period had an anti-dilutive effect on the basic loss per share.

8. Fixed Assets

As at 30 September 2001, the following fixed assets of the Group were pledged to secure the Group's bank borrowings:

(i) certain leasehold land and buildings in the PRC with an aggregate carrying value of approximately HK$39,842,000 (31 March 2001: HK$40,724,000); and

(ii) certain plant and machinery and equipment with an aggregate carrying value of approximately HK$758,000 (31 March 2001: HK$1,326,000).

As further disclosed in note 17 to the interim financial report, as at the date of this report, writs of summon were issued by certain banks in respect of overdue borrowings.

As at 30 September 2001, the Group was in the process of obtaining the land use rights certificate for leasehold land in the People's Republic of China (the "PRC") with carrying value amounting to approximately HK$24,230,000 (31 March 2001: HK$28,851,000). The directors are of the opinion that, subject to the payment of a land premium of approximately HK$4.2 million, the relevant procedures for obtaining the land use rights certificate will be duly completed without any obstacle.

9. Accounts Receivable

	30 September 2001 (Unaudited)	31 March 2001 (Audited)
	HK$'000	*HK$'000*
The ages of the accounts receivable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	**5,519**	3,010
Between 31 to 60 days	**1,438**	154
Between 61 to 90 days	**493**	71
Between 91 to 180 days	**867**	48,923
Over 180 days	**–**	69,730
	8,317	121,888
Less: Provision for bad and doubtful debts	**–**	(117,781)
	8,317	4,107

10. Interest Bearing Bank Loans and Other Borrowings

Included in the interest-bearing bank loans and other borrowings is an amount of HK$16,000,000 due to Speed Up Developments Limited ("Speed Up"), an independent third party not connected with the Group. The amount due to Speed Up is unsecured, bears interest at the prime lending rate in Hong Kong plus 3% per annum and is repayable on demand.

11. Accounts Payable

	30 September 2001 (Unaudited) *HK$'000*	31 March 2001 (Audited) *HK$'000*
The ages of the accounts payable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	**1,925**	1,455
Between 31 to 60 days	**2,390**	305
Between 61 to 90 days	**1,684**	299
Between 91 to 180 days	**1,726**	9,152
Over 180 days	**20,272**	15,013
	27,997	26,224

12. Loan from a Director

Loan from a director is unsecured, bears interest at the prime lending rate in Hong Kong plus 3% per annum and is repayable on demand.

13. Convertible Note

On 30 October 2000, the Company entered into a conditional subscription agreement (the "Agreement") with Join Asia Enterprises Limited ("Join Asia"). Join Asia is beneficially owned by Speed Up and is an independent third party not connected with the Group. Pursuant to the Agreement, the Company issued a HK$3 million convertible note (the "Convertible Note") to Join Asia. The Convertible Note was issued at 100% of its principal amount and bears interest at the rate of 5% per annum payable on 16 November 2002 (the "Maturity Date").

Pursuant to the Agreement, Join Asia has the right to convert the whole or any part of the principal amount of the Convertible Note into fully paid ordinary shares of HK$0.01 each of the Company at a conversion price of HK$0.015 per share (the "Conversion Price") at anytime before the Maturity Date. A total of 200,000,000 shares will be issued, representing approximately 8.05% and 7.45% of the existing and enlarged issued share capital of the Company, respectively. If not converted by the Maturity Date, the Company will repay such principal monies outstanding under the Convertible Note to Join Asia together with all interest accrued thereon up to and including the Maturity Date.

14. Reserves

	Share premium (unaudited) HK$'000	Contributed surplus (unaudited) HK$'000	Asset revaluation reserve (unaudited) HK$'000	Accumulated losses (unaudited) HK$'000	Total (unaudited) HK$'000
At 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 year	–	–	–	(279,335)	(279,335)
Revaluation deficit	–	–	(18,954)	–	(18,954)
At 31 March and 1 April 2001	44,397	10	18,024	(156,842)	(94,411)
Net loss for the period	–	–	–	(25,079)	(25,079)
At 30 September 2001	44,397	10	18,024	(181,921)	(119,490)

15. Commitments

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

	30 September 2001 (Unaudited) *HK$'000*	31 March 2001 (Audited) *HK$'000*
Capital commitments:		
Authorised, but not contracted for	**3,150**	3,150
Contracted, but not provided for	**6,251**	6,251
	9,401	9,401
The total of future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:		
Within one year	**353**	345
In the second to fifth year, inclusive	**442**	–
	795	345

16. Contingent Liabilities

In December 2000, the Group received a claim from its processing agent for an amount of approximately HK$18.7 million. Since the documents in support of the aforesaid claim have not been properly approved by the board of the Company, the directors are seeking legal opinion on the said claim. For prudence, the directors made a provision against the claim of HK$18 million as at 31 March 2001. During the six months ended 30 September 2001, the Group continued to provide for the contingency which might arise with reference to the basis of the claim and an additional provision of approximately HK$2,019,000 was further accrued for accordingly. As at 30 September 2001, accumulated provisions made in respect of the potential claim amounted to approximately HK$20 million.

17. Pending Litigation

During the period under review, certain banks which had previously filed writs of summons against the Group to demand for the repayment of overdue borrowings aggregating to approximately HK$16.6 million had joined an informal standstill agreement together with other principal bankers of the Group in Hong Kong. As at the date of this report, there are writs of summons issued by miscellaneous creditors of the Group aggregating approximately HK$4.3 million, together with claims for 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 interim financial report 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 .

The winding up petitions filed by Sin Hua Bank Limited, Hong Kong Branch against the Company and one of its subsidiaries, Hung Cheong Toys International Limited, were withdrawn on 18 September 2001 and 6 September 2001 respectively.

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 report 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 report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The interim financial report 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 report 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 report.

The information and explanations available to us was limited as follows:

Scope limitations arising from the prior year's audit scope limitations affecting opening balances

1. Our audit opinion on the financial statements of the Group for the year ended 31 March 2001 was disclaimed for reasons which included the significance of the possible effects of several limitations on the scope of our audit which are further detailed in our report dated 26 July 2001.

   In summary those scope limitations included:

   (i) Incomplete books and records and a breakdown in the internal controls of the Group; and

(ii) Matters which prevented us from satisfying ourselves concerning accounts receivable at 31 March 2001 aggregating HK$117,781,000, inventories of HK$11,791,000, deposits of HK$4,635,000, an advance made to a company of HK$5,177,000, a provision for impairment in the value of the Group's fixed assets of HK$54,981,000 and a provision for a claim of HK$18,000,000.

Accordingly, we were then unable to form an opinion as to whether the 2001 financial statements gave a true and fair view of the state of affairs of the Group as at 31 March 2001 and of the loss and cash flows of the Group for the year then ended. Any adjustment found to be necessary to the opening net liabilities of the Group would have a consequential effect on the loss of the Group for the six months ended 30 September 2001.

Scope limitations arising from current period review

2. Fundamental uncertainty – going concern of the Group

In performing our review, we have considered the adequacy of the disclosures made in note 2 to the interim financial report which explains 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 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 report has been prepared on a going concern basis, the validity of which depends upon the successful outcome of the proposed standstill arrangement, debt restructuring and 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 report does not include any adjustments that would result from the failure of such measures. However, because of 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 with supporting documents as to how the Group might remain a going concern thereby supporting the basis on which they have prepared the interim financial report. 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 have a reasonable basis for their assessment.

Because the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we are unable to reach a review conclusion.

3. Scope limitation – valuation of fixed assets

In view of the liquidity problems currently faced by the Group, the construction in progress being undertaken in the Mainland of the People's Republic of China (the "PRC") with a carrying value of approximately HK$ 32,288,000 was put on hold and a full provision has been made against the cost incurred up to 30 September 2001. We concur with this provision on the basis that the Group neither has any 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 period, 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 six months ended 30 September 2001, 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 report, there is also 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 their disposal. Apart from the leasehold land and buildings with carrying value of approximately HK$77,732,000, the valuation of which was performed by an independent firm of professional valuers on a depreciated replacement cost basis at approximately HK$95,260,000 as at 31 March 2001, the net book value of the fixed assets held by the Group was stated at cost less accumulated depreciation and impairments. 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 2001 currently provided by the Group amounted to HK$54,981,000 in aggregate is adequate but not excessive. Any adjustments that might have been found necessary would have a consequential impact on the net liabilities of the Group as at 30 September 2001 and its net loss attributable to shareholders for the six months ended 30 September 2001.

4. Scope limitation – potential claim

As further explained in note 16 to the interim financial report, the Group received a claim for an amount of approximately HK$18,729,000 in December 2000. Although the ultimate settlement is still in the process of negotiation, the directors have made a provision for the claim of HK$18,000,000 as at 31 March 2001. During the six months ended 30 September 2001, the Group continued to provide for the contingency which might arise with reference to the basis of the claim and an additional provision of approximately HK$2,019,000 was further accrued for accordingly. 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 provisions 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 six months ended 30 September 2001 and the Group's net liabilities position as at 30 September 2001.

5. Fundamental uncertainty – legal proceedings against the Group

As further detailed in note 17 to the interim financial report, there are legal proceedings against the Group, 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 report. Other than the amounts claimed as summarized in note 17 to the interim financial report, no reasonable estimation 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. Although we consider the disclosures made in respect of these matters is adequate, we consider them to be so significant that we are unable to reach a review conclusion in this respect.

Inability to reach a review conclusion

Because of the significance of each of (i) the fundamental uncertainty relating to the appropriateness of the going concern basis; and (ii) the possible effects of the limitations in evidence available to us as set out in the review work performed section of this report, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 September 2001.

Without modifying our inability to reach a review conclusion above, we draw attention to the fact that because our audit opinion dated 26 July 2001 on the financial statements in respect of the Group for the year ended 31 March 2001 was disclaimed for the scope limitation reasons summarized in paragraph 1 above, and our review report dated 26 July 2001 on the interim financial report in respect of the Group for the six months ended 30 September 2000 was unable to reach a review conclusion for similar scope limitation reasons, the comparative amounts shown in the comparative condensed consolidated profit and loss account and condensed consolidated cash flow statement for the six months ended 30 September 2000 and the comparative condensed consolidated balance sheet as at 31 March 2001 may not be comparable with the amounts for the current period.

Ernst & Young
Certified Public Accountants
Hong Kong
21 December 2001

Business Review and Prospects

Results

The first half year of the financial year 2001/2002 continued to be difficult for the Group. Net loss from ordinary activities attributable to shareholders for the period was HK$25,079,000. The loss was mainly due to the shrinkage of the Group's turnover from which the overall contribution of toys products was unable to cover its fixed operating cost.

Business Overview

During the period, the Group devoted all its effort towards the designing, manufacturing and selling of toys. Turnover was dropped by 85% to HK$29,008,000 as compared with the same period last year. The decrease in turnover was mainly resulted from the imposition of stringent control by the Group on credit sales. Simultaneously, in order to enhance the competitiveness of toys products and to speed up its turnover, the Group established a R&D department in Shenzhen, PRC and strived to adopt several measures in achieving its goals. These measures included modifying the product features to lengthen their life cycles, developing new products, diversifying the product range and widening market penetration into new regions over the world.

The introduction of battery-operated tricycles and ride-on cars has gained widespread support from our clients. In addition to toys, the Group has been diversifying its product range to house-ware products. Acting as a new side production line from the toys products, introduction of the house-ware products was to smoothen out the seasonality of toys sale, which is not unusual in the toys industry.

Taking advantage of experience and the strong capabilities in developing moulds for different varieties of products, the Group is now in the course of enhancing the development of OEM business, as it is now becoming one of the major sources of revenue for the Group.

In view of the keen competition of the developed markets faced by the Group together with the occurrence of the 911 incident, the Group starts to develop its business in other new markets which are perceived as having higher potential growth, including Korea, Singapore, Indonesia, Philippines & etc.

The Group also imposed strict cost control on its production process. These cost reduction measures included sourcing suppliers with lower cost, enhancing its production efficiency and exporting goods directly from PRC port rather than through Hong Kong.

Contingent Liabilities

In December 2000, the Group received a claim from its processing agent for an amount of approximately HK$18.7 million. Since the documents in support of the aforesaid claim have not been properly approved by the board of the Company, the directors are seeking legal opinion on the said claim. For prudence, the directors made a provision against the claim of HK$18 million as at 31 March 2001. During the six months ended 30 September 2001 under review, the Group continued to provide for the contingency which might arise with reference to the basis of the claim and an additional provision of approximately HK$2,019,000 was further accrued for accordingly. As at 30 September 2001, accumulated provisions made in respect of the potential claim amounted to approximately HK$20 million.

Pending Litigation

During the period under review, certain banks which had previously filed writs of summons against the Group to demand for the repayment of overdue borrowings aggregating approximately HK$16.6 million had joined an informal standstill agreement together with other principal bankers of the Group in Hong Kong. As at the date of this report, there were writs of summons issued by miscellaneous creditors of the Group aggregating approximately HK$4.3 million, together with claims for interest thereon in respect of overdue borrowings, rentals, purchases of goods and the provision of services (the "Indebtedness").

The directors are currently negotiating with parties issuing the writs with a view to restructuring the Group's overall Indebtedness. Full provision has been made in the interim financial report 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 .

The winding up petitions filed by Sin Hua Bank Limited, Hong Kong Branch against the Company and one of its subsidiaries, Hung Cheong Toys International Limited, were withdrawn on 18 September 2001 and 6 September 2001 respectively.

Liquidity and Financial Position

As at 30 September 2001, the Group had net current liabilities of approximately HK$207,192,000 and cash on hand was approximately HK$1,794,000. In order to strengthen the capital base of the Group and to improve the Group's financial position, the directors have been taking various measures to raise funds through including, but not limited to, loans from directors, external borrowings and private placements. As at 30 September 2001, the Group's certain banking facilities and accounts payable as well as obligation under finance leases were either secured by (i) certain leasehold land and buildings in the PRC with an aggregate carrying value of approximately HK$39,842,000; or (ii) certain plant and machinery and equipment with an aggregate carrying value of approximately HK$758,000; or (iii) corporate guarantees executed by the Company and its subsidiary; or (iv) personal guarantees of approximately HK$31,167,000 from Mr. Chan Chun Hung and Ms. Wong Kin Ching, the former directors of the Company. The directors have negotiated with the Group's bankers, trade creditors as well as other creditors to reschedule the repayment terms of certain outstanding debts of the Group. All of the winding-up petitions against the Company and one of its subsidiaries as well as most of the writs of summons demanding repayment of the outstanding debts have been set aside. The draft debt restructuring agreement with the Group's bankers is under review and is proceeded with promising progress.

Human Resources

As at 30 September 2001, the Group's total number of full-time employees was about 1,260. Among of these, about 1,240 staffs were based in the PRC and about 20 staffs in Hong Kong. In addition to competitive remuneration package offered to the employees, share option of the Company may be granted by the Group to attract and retain talented employees. During the six month ended 30 September 2001, no option has yet been granted.

Prospects

The global economic recession will continue to exert downward pressure on retail business in the foreseeable future. However, it is anticipated that there will be an explosive growth in demand within the PRC with the entry of the WTO. To fully exploit these opportunities, the Group is planning to market its products directly in the PRC by way of setting up a foreign enterprise with the right to sell domestically in the Mainland China. The Group will continue to innovate new products to cater for the needs of various customers. Cost control will remain as one of the most important goals for the Group in the coming years and it is believed that successful cost control will bring about significant turnaround in the ensuing years .

Directors' Interest in Share Capital

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 Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or is otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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.

As at 30 September 2001, the Company had 59,700,000 share options at exercise price of HK$0.046 each and 50,000,000 share options at exercise price of HK$0.03472 each remaining outstanding, respectively. The exercise in full of the subscription rights attached to these share options, under the present capital structure of the Company, would result in the issue of 109,700,000 shares of HK$0.01 each in aggregate, for a total cash consideration, before expenses, of approximately HK$4,482,000. No share options was exercised during the period under review.

Warrants

At the beginning of the year, the Company had outstanding warrants of HK$17,642,061 at the adjusted exercise price of HK$0.05 each. During the period, no warrants were exercised and such warrants were lapsed on 28 September 2001.

Directors' Rights to Acquire Shares

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 2001, 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 Resources S.A.	1,595,140,000	64%

Pursuant to a share charge deed dated on 24 November 2000, 1,565,140,000 ordinary shares of HK$0.01 each in the Company held by Baxter Resources S.A. was pledged to E-Bigger Investments Limited, an independent third party.

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 Limited throughout the period under review except that 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.

PUBLICATION OF INTERIM RESULTS ON WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The detailed results containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Lo Ming Chi, Charles
Chairman

Hong Kong, 21 December 2001