MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors (the "Board") of Rockapetta Holdings Limited (the "Company"), I would like 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 2002. The consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity of the Group for the six months ended 30 June 2002 and the consolidated balance sheet as at 30 June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 10 to 17 of this report.

BUSINESS OVERVIEW

For the six months ended 30 June 2002, the Group recorded a turnover of approximately HK$37.5 million, representing an increment of approximately 47% compared with the previous corresponding period. Loss attributable to shareholders decreased from approximately HK$29.6 million to approximately HK$6.5 million.

Toy manufacturing business

An improvement in the toy manufacturing business was mainly attributable to the graduate economic recovery in global market in the first half of the year, the increased operating efficiency and effective reduction in overhead expenses. During the period, the Group has successfully tightened its control over the stock level as well as the consumption of aged stock, resulting a reasonable written back of stock provision of HK$5 million.

Food and beverages business

As mentioned in our last annual report, in light of the growing difficulty in the trading conditions of the toy manufacturing business, the Group expressed its intention to continue its focus on identifying opportunities for the diversification of the Group's business. Food and beverages business with established branding has been identified as one of the core business of the Group.

On 31 May 2002, the Group completed the acquisition of 80% interest in Masindo International Limited ("Masindo"), an investment company which solely owns 51% interest in Brewerkz Singapore Pte Ltd. ("Brewerkz") for a total cash consideration of approximately HK$7.4 million.

Brewerkz operates the Brewerkz microbrewery and restaurant and Café Iguana restaurant and bar at the Riverside Point in Singapore. Brewerkz, a premier brewery restaurant with a brewpub concept by combining the unique elements of working brewery with a full service dining establishment, is renowned as one of the top theme restaurants in Singapore. Its winning awards include the Singapore Tourism Board's Tourism Award for "Best Dining Experience" in 1999. Its wholly owned subsidiary Café Iguana is a restaurant and bar which serves contemporary, authentic Mexican cuisine. Both outlets have proven to be very popular among the locals and the expatriates. The Group believes that with established branding, stringent cost control measures and retained customer loyalty, we will be able to develop and expand the successful Brewerkz brand elsewhere in the region, particularly China.

Going forward, Brewerkz's will make substantial contribution to the Group's performance. However, contribution for the six months ended 30 June 2002 has been positive but minimal as the acquisition was only completed on 31 May 2002.

Trading and investment in securities

During the period under review, the Group has commenced the investment holding and trading in investment securities which are under-appreciated, in short to medium-term. Given the volatility in the capital market, the Group will exploit opportunities conservatively to take advantage of the price recovery of some under-valued securities which are overlooked by the market.

At the period end, the Group held a portfolio of securities, including shares listed locally and in the region. The losses contributed from this business during the period under review were mainly preliminary expense written off.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 30 June 2002, the Group had outstanding short-term bank borrowings of approximately HK$47.5 million. The main purpose of the bank borrowings was to finance working capital of the Group.

As at 30 June 2002, the Group's bank deposits was HK$2.5 million of which of HK$1.9 million were pledged to banks to secure banking facilities granted to a subsidiary, and the Group's leasehold land and buildings in PRC with an aggregate net book value of HK$88 million were pledged to banks to secure bank loans granted to a subsidiary.

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

As at 30 June 2002, the gearing ratio of the Group, calculated as total debts divided by total assets was approximately 41.75%.

Net current liabilities and working capital

As at 30 June 2002, the Group's total current assets and current liabilities were approximately HK$121 million and HK$152 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 unutilised banking facilities, 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

On 8 July 2002, a winding up petition was presented by Mr. Kwok Chin Wing, the former chairman, to Rockapetta Industrial Company Limited, a subsidiary of Rockapetta Investment Limited, to claim for a repayment of an approximate amount of HK$52 million including interest. Pursuant to a disposal agreement dated 23 September 2002 (see below), this subsidiary would be entirely disposed of, thus resulting in no material adverse impact of the litigation on the financial position and the operation of the Group. No other member of the Group is involved in the proceeding. The hearing is scheduled on 9 October 2002 in the High Court of Hong Kong.

On 28 August 2002, a writ of summons was issued out of the High Court against Mr. Kwok Chin Wing and Mr. Yiu Kui Leung, respectively the former chairman and managing director, by the Company in respect of their causing payments HK$25 million to be made to Mr. Kwok Chin Wing personally in March 2000 in breach of their duties as executive directors. The directors are of the view that the outcome of this action will not have material adverse impact on the financial position and the operation of the Group.

Pursuant to a disposal agreement dated 6 September 2002, the Group disposed 35% interest in Rockapetta Investment Limited, which through its subsidiaries carries on business such as the toy manufacturing business which is the principal business of the Group, for an aggregate cash consideration of HK$8.75 million. The transaction was completed on 10 September 2002.

Furthermore, pursuant to a disposal agreement dated 23 September 2002, the Group has agreed to dispose the remaining 65% interest in Rockapetta Investment Ltd., which through its subsidiaries carries on business such as the toy manufacturing business which is the principal business of the Group, for an aggregate cash consideration of HK$16.25 million. The transaction is expected to complete on or about 7 October 2002.

The consideration of above disposals represents a premium of about HK$5 million over the consolidated net tangible assets of Rockapetta Investment Limited, its subsidiaries and associates (as defined in the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) being disposed of.

On 18 September 2002, the Group made an acquisition of the entire issued and paid-up capital of Crystal Wines & Spirits Pte Ltd ("CWS") for a total cash consideration of S$500,000 (or approximately HK$2.22 million).

CWS is an international sourcing and distribution house for wines and spirits and is also a retailer of wines. It has a wide spectrum of customers ranges from on-premises areas like hotels, restaurants, pubs, discos, night clubs, bars, KTV lounges to off premises areas like individual retailers, supermarkets, duty free outlets to private consumers through the retail operations. Furthermore, the Company also creates and owns its own brand of Whisky, Vodka, Gin and Rum under the "Crystal Club" brand and wine under the "Crystal Reserve" label for exports into the regional countries, CWS has an established management team comprised of key executive officers with total more than 35 years of excellent track record in the industry.

Going forward, CWS will make substantial contribution to the Group's performance. However, contribution for the year ending 31 December 2002 will be minimal due to the consolidation of 3 months result only.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff costs for the six months ended 30 June 2002 were HK$9.3 millions, representing an increase of 7% compared with the previous corresponding period. The Group had a workforce of approximately 1,536 employees, all employees stationed in Shenzhen, PRC except for 18 employees stationed in Hong Kong and 131 employees worked in Singapore. 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.

BUSINESS OUTLOOK

In general, business operating environments for the past six months have been difficult and are expected to continue to be difficult, with investors' and consumers' confidence remaining weak. However, the Group will continue to focus on stringent cost control measures, retain customer loyalty, reinvigorate current business portfolio, stay ahead of competitions, institute effective and efficient management with appropriate incentives, to achieve profitable growth.

With the divestment of the toy manufacturing business, the financial resources of the Group will also be improved with significant reduction in bank borrowings and increase in liquidity. The Group's ability to make timely strategic investments, as and when such opportunities arise, has been greatly enhanced. Going forward, the Group will continue to focus its efforts in enhancing shareholders' value by identifying and making appropriate strategic investments, including continue to identify other potential food and beverage related investments projects with established branding and potential synergies values with other undertakings of the Group.

By Order of the Board
Chan Sheung Wai
Chairman

Hong Kong, 23rd September, 2002