

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended December 31, 2000

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Company and the Group. The Group incurred a loss of approximately HK\$20 million for the six months ended December 31, 2000 and had net current liabilities and net liabilities of approximately HK\$391 million and HK\$ 278 million respectively at that date.

Pam & Frank Industrial Company Limited ("PFIL"), a wholly owned subsidiary of the Company at the balance sheet date, was under winding-up petition at the balance sheet date and subsequently wound up by Court order on February 5, 2001. Accordingly the financial statements of PFIL have been consolidated into the Group on realisation basis. The directors believe the winding up of PFIL would not materially affect the operation of the Group.

Subsequent to the balance sheet date, the Company has entered into placing agreements with various subscribers for the placement of 306,000,000 new shares of the Company of HK\$0.15 each for cash (the "Placing"). The completion of the Placing is subject to the approval of the Stock Exchange. The net proceed of the Placing, estimated to be approximately HK\$45.9 million, is to repay certain indebtedness of the Company and to provide working capital to the Group.

The directors are currently in discussion with potential investors so as to obtain an injection of new equity finance into the Company. The directors are confident that additional equity finance can be obtained and the directors consider that the Group will be able to meet in full its financial obligations, save for those of PFIL, as they fall due for the foreseeable future. According, the financial statements have been prepared on the going concern basis except for PFIL as described above.

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25) "Interim Reporting" issued by the Hong Kong Society of Accountants, and the requirement in the Main Board Listing Rules of the Stock Exchange, except that comparative amounts are not presented for the condensed consolidated cash flow statement as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules of the Stock Exchange. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended June 30, 2000, except as described in note 1 to the condensed financial statements.

3. SEGMENT INFORMATION

By principal activity:

	Six months ended December 31, 2000	
	Revenue HK\$'000	Contribution HK\$'000
Manufacture and trade of cut and sew products, plastic items and porcelain products	27,981	3,893
Sales of trading securities	2,590	477
	<u>30,571</u>	<u>4,370</u>

By geographical market:

	Six months ended December 31, 2000	
	Revenue HK\$'000	Contribution HK\$'000
United States	12,318	2,254
Hong Kong	17,947	2,013
Other countries	306	103
	<u>30,571</u>	<u>4,370</u>

4. DEPRECIATION

During the period, depreciation of HK\$2 million (1999: HK\$7 million) was charged in respect of the Group's property, plant and equipment.

5. TAXATION

Taxation represents provision for Hong Kong Profits Tax on the estimated assessable profits arising in Hong Kong during the period.

6. LOSS PER SHARE

The calculation of loss per share is based on the loss for the period of HK\$20 million (1999: HK\$28 million) and on 1,424,194,349 (1999: 1,051,886,686) weighted average number of ordinary shares in issue during the period.

No diluted loss per share has been presented for both periods because the conversion of Company's outstanding convertible bond and share options would not result in a dilution in loss per share.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$0.2 million (1999: nil) in respect of property, plant and equipment.

8. DEBTORS AND BILLS RECEIVABLE

The Group allows an average credit period of 90 days to its trade customers.

The following is an aged analysis of debtors and bills receivable of the Group at the reporting date:

	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
0-60 days	9,517	4,757
61-90 days	1,308	578
Over 90 days	-	472
	<u>10,825</u>	<u>5,807</u>

9. CREDITORS, BILLS PAYABLE AND ACCRUED CHARGES

The following is an aged analysis of creditors, bills payable and accrued charges of the Group at the reporting date:

	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
0-60 days	13,104	19,790
61-90 days	3,017	5,531
Over 90 days	232,044	202,804
	<u>248,165</u>	<u>228,125</u>

10. CONVERTIBLE BOND

The Group and the Company

	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
Convertible bond repayable within one year	<u>11,500</u>	<u>20,000</u>

The convertible bond (the "Bond") bears interest at an annual rate of 10% per annum, payable in arrears, and is repayable at its principal amount on March 31, 2001. The Bond is transferable and unsecured. At the option of the bondholder, the Bond can be converted into ordinary shares of the Company of HK\$0.1 each at the following conversion prices prior to March 31, 2001:

Period	Conversion price per share
March 31, 1998 to September 30, 1999	HK\$0.10
October 1, 1999 to June 30, 2000	HK\$0.12
July 1, 2000 to March 31, 2001	HK\$0.15

As the Group has not paid the interest of the Bond since the issuing of the Bond, the Bond is in default and became wholly repayable on demand at the request of the bondholder. An principal amount of HK\$8.5 million together with all outstanding interest have been repaid during the period to the bondholder. Standstill agreement has been reached with the bondholder on the remaining balance.

11. SHARE CAPITAL

The Group and the Company

	Number of shares '000	Nominal amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At December 31, 2000 and June 30, 2000	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid		
At June 30, 2000	1,051,887	105,189
Exercise of share options	30,000	3,000
Placing during the period	<u>756,370</u>	<u>75,637</u>
At December 31, 2000	<u>1,838,257</u>	<u>183,826</u>

During the period, placing of 450,000,000 and 306,370,000 ordinary shares at HK\$0.10 each at par were made in mid September 15, 2000 and early November 2000 respectively.

At December 31, 2000, the outstanding share options under the share option scheme effective on August 24, 1992 were as follows:

Exercisable period	Exercise price per share	Number of share options outstanding at December 31, 2000
July 25, 2000 – July 24, 2002	HK\$0.10	<u>27,000,000</u>

12. RESERVES

The Group

	Share Premium HK\$'000	Capital Reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At June 30, 2000	284,096	293	(725,347)	(440,958)
Share issue expenses	(1,463)	–	–	(1,463)
Loss for the period	–	–	(19,874)	(19,874)
	<u>282,633</u>	<u>293</u>	<u>(745,221)</u>	<u>(462,295)</u>
At December 31, 2000	<u>282,633</u>	<u>293</u>	<u>(745,221)</u>	<u>(462,295)</u>

The Company

	Share Premium HK\$'000	Contributed Surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
At June 30, 2000	284,096	64,379	(504,904)	(156,429)
Share issue expenses	(1,463)	–	–	(1,463)
Loss for the period	–	–	(42,016)	(42,016)
	<u>282,633</u>	<u>64,379</u>	<u>(546,920)</u>	<u>(199,908)</u>
At December 31, 2000	<u>282,633</u>	<u>64,379</u>	<u>(546,920)</u>	<u>(199,908)</u>

13. CONTINGENT LIABILITIES

	The Group		The Company	
	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
Guaranteed profit payments to PRC joint venture partners of the Group	24,400	24,400	-	-
Guarantee to a third party for loans granted to a subsidiary	-	-	28,517	69,867
Guarantee for the settlement of rental payable by a subsidiary	-	-	2,000	4,000
	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>4,000</u>

14. CAPITAL COMMITMENTS

	The Group	
	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the financial statements	<u>2,755</u>	<u>2,755</u>
Capital contribution to a long term investment	<u>6,348</u>	<u>6,348</u>

15. OPERATING LEASE COMMITMENTS

At December 31, 2000, the Group had outstanding commitments under non-cancellable operating leases payable in the following year in respect of rented premises as follows:

	The Group	
	December 31, 2000 HK\$'000	June 30, 2000 HK\$'000
Operating leases which expire:		
- within one year	41	-
- in the second to fifth year inclusive	-	1,354
	<u>41</u>	<u>1,354</u>

16. POST BALANCE SHEET EVENTS

- a. On February 5, 2001, the Court ordered that PFIL be wound up. The directors believe the winding up of PFIL would not materially affect the operation of the Group.
- b. On February 8, 2001, an independent secured creditor had exercised its power of sale over all shares of Pam & Frank International Company Limited ("PFIC"), a wholly owned subsidiary of the Company and the immediate holding company of PFIL. The shares were sold to an independent third party purchaser for a consideration of HK\$0.3 million.
- c. Subsequent to the balance sheet date, the Company has entered into placing agreements with various subscribers for the placement of 306,000,000 new shares of the Company of HK\$0.15 each for cash (the "Placing"), the completion of the Placing is subject to the approval of the Stock Exchange. The net proceed of the Placing, estimated to be approximately HK\$45.9 million, is to repay certain indebtedness of the Company and to provide working capital to the Group.