
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Hung Fung Group Holdings Limited, you should at once hand this prospectus to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser.

A copy of this prospectus, together with a copy of the Application Form (as defined herein) and having attached thereto the written consent given by Ernst & Young, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance in Hong Kong and filed with the Registrar of Companies in Bermuda as required by Section 26 of the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Securities and Futures Commission in Hong Kong, the Registrar of Companies in Bermuda and the Bermuda Monetary Authority take no responsibility as to the contents of any of these documents.

Dealings in the shares in Hung Fung Group Holdings Limited may be settled through the Central Clearing and Settlement System and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



HUNG FUNG GROUP HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

**OPEN OFFER OF 4,025,905,140 NEW SHARES
OF HK\$0.01 EACH AT HK\$0.01 PER OFFER SHARE
ON THE BASIS OF THREE OFFER SHARES FOR
EVERY TWO SHARES HELD
PAYABLE IN FULL ON APPLICATION**

Financial Adviser to Hung Fung Group Holdings Limited



SOMERLEY LIMITED

Underwriter

Vision Century Group Limited

The latest time for application and payment for the Offer Shares is 4:00 p.m. on Monday, 27th May, 2002. The procedure for application is set out on pages 14 to 15 of this prospectus.

It should be noted that the Shares have become ex-entitlement on the Stock Exchange from 10:00 a.m. on Wednesday, 8th May, 2002. Any shareholder or other person dealing in the shares of the Company up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Wednesday, 29th May, 2002) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Shareholders or investors are advised to exercise caution when dealing in the shares of the Company during such period. Any shareholder or other person contemplating selling or purchasing shares of the Company during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

13th May, 2002

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EXPECTED TIMETABLE

2002

Record Date for entitlement to the Open Offer	Monday, 13th May
Prospectus Documents posted to Qualifying Shareholders	Monday, 13th May
Latest time for application for Offer	
Shares and payment therefor	4:00 p.m. on Monday, 27th May
Underwriting Agreement becomes unconditional	Wednesday, 29th May
Announcement of the results of the Open Offer	Wednesday, 29th May
Certificates for Offer Shares posted on or before	Monday, 3rd June
Dealings in the Offer Shares commence	Wednesday, 5th June

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Announcement”	the announcement dated 22nd February, 2002 made jointly by the Company and the Investor regarding the Restructuring Proposal
“Application Form(s)”	the application form(s) for Offer Shares being sent to the Qualifying Shareholders as mentioned herein
“associates”	the meaning ascribed to it under the Listing Rules
“BMA”	the Bermuda Monetary Authority
“Bank Compromise”	the discharge of the Total Compromised Debt and the release of all security, receivables and rights given by the Group therefor or incidental thereto by the Bank Group in consideration for a cash settlement in an amount of approximately HK\$20.0 million and the issuance to the Bank Group of the Convertible Bonds pursuant to the Compromise Agreement
“Bank Group”	the banks and financial institutions that are creditors of the Group and are parties to the Compromise Agreement, including Dao Heng Bank Limited, DBS Kwong On Bank Limited, Citic Ka Wah Bank Limited, Equitable PCI Bank, Inc., HSBC, Jian Sing Bank Limited, Bank of China (HK) Limited and Chiyu Banking Corporation Limited
“Baxter”	Baxter Resources S.A. which is the current controlling shareholder of the Company and is beneficially owned by Mr. Chan Chun Hung and Ms. Wong Kin Ching
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CN Settlement”	the proposed settlement pursuant to the CN Settlement Agreement of debts amounting in aggregate to RMB24,650,877 owed by HCTF to HZIC by payment in cash of RMB2,200,000 and issuance of the New Convertible Note

DEFINITIONS

“CN Settlement Agreement”	a settlement agreement dated 27th March, 2002 entered into between HCTF and HZIC in relation to the CN Settlement
“Company”	Hung Fung Group Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Compromise Agreement and the Subscription Agreement
“Compromise Agreement”	the agreement dated 1st February, 2002 entered into between the Group, the Investor, the Bank Group, the Coordinating Agent, Mr. Huang Cheow Leng and Huang Worldwide Holding Limited in relation to, inter alia, the restructuring of the Total Compromised Debt
“Conversion Shares”	a total of 650,000,000 new Shares which may be issued upon full conversion of 100% of the original principal amount of the Convertible Bonds at an initial issue price of HK\$0.01 per Share (subject to adjustment)
“Conversion Shares (HZIC)”	the Shares which may fall to be issued upon conversion of the New Convertible Note
“Convertible Bonds”	the 3-year, 5% interest bearing convertible bonds in the principal amount of HK\$6.5 million to be issued to the Bank Group as part of the Bank Compromise
“Coordinating Agent” or “HSBC”	The Hongkong and Shanghai Banking Corporation Limited in its capacity as coordinating agent under the Compromise Agreement, or such other entity as may be appointed under the Compromise Agreement as coordinating agent
“Directors”	directors of the Company
“Former Convertible Note”	the HK\$3.0 million convertible note of the Company bearing interest at the rate of 5% per annum which was converted into 200,000,000 Shares at a conversion price of HK\$0.015 per Share on 6th May, 2002 and has been satisfied in full

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“HCTF”	Dongguan Shi Huangjiang Zhen Hung Cheong Toys Factory, a processing factory established in the PRC under a processing contract dated 23rd March, 1996 between Hung Cheong Industrial Company and HZIC. In March 1996, the business of Hung Cheong Industrial Company was acquired by a member of the Group
“HZIC”	Dongguan Shi Huangjiang Zhen Importing Company
“Independent Shareholders”	Shareholders other than the controlling shareholder of the Company, which currently is Baxter, and their respective associates and concert parties and who are not involved in, or interested in the Subscription and the underwriting of the Open Offer
“Investor”	Vision Century Group Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Huang Group (BVI) Limited
“Kingston”	Kingston Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a sub-underwriter of the Open Offer
“Knight Frank”	Knight Frank, a firm of independent professional valuers
“Latest Practicable Date”	9th May, 2002, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information for inclusion in this prospectus
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“New Convertible Note”	the HK\$16.0 million convertible note of the Company proposed to be issued and carrying interest at the rate of 3% per annum, as partial settlement pursuant to the CN Settlement
“New Shares”	1,070,280,000 new Shares to be issued pursuant to the Share Settlement to certain creditors of the Group as partial settlement of debts of about HK\$11.3 million owed to them
“Offer Shares”	the 4,025,905,140 Shares being offered to the Qualifying Shareholders pursuant to the Open Offer
“Open Offer”	the offer of the Offer Shares, with assured allotments of three Offer Shares for every two Shares held on the Record Date, to the Qualifying Shareholders and subject to the terms of this prospectus and the Application Form
“Options”	existing share options in respect of 13,700,000 Shares granted under the Share Option Scheme, exercisable on or before 16th February, 2008 at an exercise price of HK\$0.046 per Share
“Other Settlement Debts”	approximately HK\$34.3 million of debts of the Group to be settled under the CN Settlement and the Share Settlement
“Overseas Shareholders”	Shareholders whose addresses as shown in the branch register of members of the Company in Hong Kong on the Record Date were outside Hong Kong
“PRC”	the People’s Republic of China
“Prospectus Documents”	this prospectus and the Application Form
“Qualifying Shareholders”	Shareholders, other than Overseas Shareholders, whose names appeared on the branch register of members of the Company in Hong Kong on the Record Date
“Record Date”	13th May, 2002, being the date by reference to which entitlements to assured allotments under the Open Offer were determined

DEFINITIONS

“Registrar”	Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, the Hong Kong branch share registrar of the Company
“Restructuring Proposal”	the proposed restructuring of Hong Kong bank loans of the Group pursuant to the Compromise Agreement, the placing of new Shares pursuant to the Subscription and the Open Offer
“RMB”	Renminbi, the official currency of the PRC
“Settlements”	the Share Settlement and the CN Settlement
“Share Settlement”	the settlement of an aggregate amount of RMB12,063,092 owed by HCTF to certain creditors of the Group pursuant to the Share Settlement Agreements by payment in cash of RMB19,011 and issuance of 1,070,280,000 New Shares
“Share Settlement Agreements”	an aggregate of 30 share settlement agreements all dated 27th March, 2002, entered into between HCTF and certain creditors of the Group in relation to the settlement of an aggregate amount of RMB12,063,092 owed by HCTF
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share Option Scheme”	the share option scheme adopted by the Company on 17th February, 1998
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Somerley”	Somerley Limited, an investment adviser and an exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the financial adviser to the Company and a sub-underwriter of the Open Offer

DEFINITIONS

“Special General Meeting”	the special general meeting of the Company held on 13th May, 2002, at which resolutions were duly passed to approve, among other things, the Open Offer and the Restructuring Proposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the proposed subscription of the Subscription Shares by the Investor pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 1st February, 2002 entered into between the Investor and the Company with respect to the subscription of the Subscription Shares
“Subscription Shares”	3,000,000,000 new Shares to be subscribed by the Investor pursuant to the Subscription Agreement
“subsidiaries”	the meaning ascribed thereto in Section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Total Compromised Debt”	all claims and other monies (including principal, interest and expenses) owed by the Group to the Bank Group and their related companies as at Completion
“Underwriting Agreement”	the underwriting agreement dated 1st February, 2002 entered into between the Company and the Investor in relation to the Open Offer

The exchange rate of HK\$1.00 = RMB1.07 is used for translation between those two currencies throughout this prospectus save as otherwise specified herein

LETTER FROM THE BOARD



HUNG FUNG GROUP HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Directors:

Mr. Lo Ming Chi, Charles (*Chairman*)
Mr. Yu Wai Man
Mr. Wu Wing Kit*
Mr. Wong Kwok Tai*

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business:

Room 3A03-06, 3/F
New Mandarin Plaza
14 Science Museum Road
Tsimshatsui East
Hong Kong

13th May, 2002

* *independent non-executive Directors*

*To the Qualifying Shareholders and, for information only,
the Overseas Shareholders and holders of Options*

Dear Sir or Madam,

**OPEN OFFER OF 4,025,905,140 NEW SHARES
OF HK\$0.01 EACH AT HK\$0.01 PER OFFER SHARE
ON THE BASIS OF THREE OFFER SHARES FOR
EVERY TWO SHARES HELD
PAYABLE IN FULL ON APPLICATION**

INTRODUCTION

On 22nd February, 2002, the Company and the Investor jointly announced that on 1st February, 2002 the Compromise Agreement, the Subscription Agreement and the Underwriting Agreement had been entered into to give effect to the Restructuring Proposal. The Restructuring Proposal involves, among other things, (i) the Open Offer; (ii) the Subscription; and (iii) the Bank Compromise.

LETTER FROM THE BOARD

On 26th April, 2002, a circular containing details regarding, among other things, the Open Offer, the Restructuring Proposal and a notice of the Special General Meeting was despatched to the Shareholders. A copy of such circular is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix II to this prospectus.

At the Special General Meeting, resolutions were duly passed by the Shareholders or Independent Shareholders (as the case may be) approving, among others, the Restructuring Proposal and the Open Offer.

The purpose of this prospectus is to set out further details of the Open Offer, including information on dealings in and application of Offer Shares, and financial and other information in respect of the Group.

THE OPEN OFFER

I. Issue statistics

Basis of Open Offer	: Assured allotment of three Offer Shares for every two Shares held by the Qualifying Shareholders on the Record Date
Existing number of issued Shares	: 2,683,936,760 Shares
Subscription price	: HK\$0.01 per Offer Share
Number of Offer Shares	: 4,025,905,140 Offer Shares
Gross proceeds	: HK\$40,259,051

II. Status of the Offer Shares

The Offer Shares when issued will rank *pari passu* in all respects with the then issued Shares. Holders of the Offer Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Offer Shares.

III. Application for listing

Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

LETTER FROM THE BOARD

IV. The Underwriting Agreement

a. Parties

The parties to the Underwriting Agreement are:

- (i) Issuer : the Company; and
- (ii) Underwriter : the Investor

b. The Underwriting Arrangement

Pursuant to the Underwriting Agreement, the Investor will underwrite the entire Open Offer of 4,025,905,140 Offer Shares. The businesses of the Investor do not include the underwriting of securities. The Underwriting Agreement is not subject to any right of termination, including force majeure.

c. Sub-underwriting Arrangements

The Investor has entered into two sub-underwriting agreements with Somerley and Kingston whereby they have agreed to sub-underwrite 1 billion Offer Shares in the case of Somerley and 400 million Offer Shares in the case of Kingston. The sub-underwriting arrangements are subject to rights of termination. In the event that rights of termination are exercised by the sub-underwriters, the Investor will under the Underwriting Agreement take up all Offer Shares not taken up pursuant to the Open Offer.

d. Commission

3.5% of the subscription price of HK\$0.01 per Offer Share of the total number of Offer Shares underwritten by the Investor. Sub-underwriting commission is calculated on the same basis.

e. Conditions of the Underwriting Agreement:

Completion of the Underwriting Agreement is conditional on, inter alia, the following conditions:

- (i) completion of the Compromise Agreement;
- (ii) the passing at a special general meeting of the Company of an ordinary resolution to approve the Open Offer on which only Independent Shareholders vote;

LETTER FROM THE BOARD

- (iii) the Listing Committee of the Stock Exchange agreeing to grant listing of, and permission to deal in, the Offer Shares either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the date on which the prospectus regarding the Open Offer are posted and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the second business day following the final application day of the Offer Shares; and
- (iv) the Company obtaining all relevant consents and approvals to the Open Offer, including approval by Shareholders and approval by the BMA (if required).

BUSINESS OVERVIEW AND FUTURE PROSPECTS OF THE GROUP

Business Review and Prospects

Results

The first half year of the financial year ended 31st March, 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 six months period ended 30th September, 2001, the Group devoted all its effort towards the designing, manufacturing and selling of toys. Turnover dropped by 85% to HK\$29,008,000 as compared with the corresponding period in the previous 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 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 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.

LETTER FROM THE BOARD

Taking advantage of the experience and the strong capabilities in developing moulds for different variety of products, the Group is now in the course of enhancing the development of its OEM business, which 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, the Group starts to develop its business in other new markets which are perceived as having higher potential growth, including Korea, Singapore, Indonesia, and the Philippines.

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

Human Resources

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

Prospects

The Directors believe that global economic recession will continue to exert downward pressure on retail business in the foreseeable future. However, it is anticipated by the Directors that there will be an explosive growth in demand within the PRC with its entry of the World Trade Organisation. To 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 controls will bring about a significant turnaround in the ensuing years.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Open Offer forms part of the Restructuring Proposal. It is estimated that the net proceeds raised for the Company from the Open Offer will be approximately HK\$36.8 million, So that together with the Subscription, the Restructuring Proposal will raise net proceeds of approximately HK\$63.3 million for the Company. The Company intends to apply the net proceeds of the Restructuring Proposal as to approximately HK\$20.0 million to repay the Bank Group pursuant to the Compromise Agreement, and as to the remainder as working capital and/or to repay outstanding liabilities of the Group (including HK\$2.1 million that is payable under the Settlements).

LETTER FROM THE BOARD

LISTING AND DEALINGS

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as may be determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

It should be noted that the Shares have become ex-entitlement on the Stock Exchange from 10:00 a.m. on Wednesday, 8th May, 2002. Any shareholder or other person dealing in the shares of the Company up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Wednesday, 29th May, 2002) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Shareholders or investors are advised to exercise caution when dealing in the shares of the Company during such period. Any shareholder or other person contemplating selling or purchasing shares of the Company during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

The Offer Shares will be traded in board lots of 20,000 Shares each. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong.

Subject to the Open Offer becoming unconditional, share certificates for all Offer Shares are expected to be posted on or before Monday, 3rd June, 2002 by ordinary post to those entitled thereto at their own risk.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been received from the BMA in respect of the issue of the Offer Shares to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Offer Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus Documents for filing, neither the BMA nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Prospectus Documents.

OVERSEAS SHAREHOLDERS

No action has been taken in any territory other than Hong Kong and Bermuda to permit the offering of the Offer Shares or the distribution of the Prospectus Documents in any territory other than Hong Kong. As the Directors are of the view that the offer of Offer Shares to Overseas Shareholders would or might, in the absence of compliance with registration or other special formalities in other jurisdictions, be unlawful or impracticable, the Company will send this prospectus to Overseas Shareholders for their information only but no Application

LETTER FROM THE BOARD

Form has been sent or will be sent to the Overseas Shareholders. Accordingly, no person receiving an Application Form in any territory outside Hong Kong may treat it as an offer or invitation to apply for Offer Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. Subject as referred to above, it is the responsibility of anyone outside Hong Kong wishing to make an application for the Offer Shares to satisfy himself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Offer Shares will be accepted from any person whose registered address is outside Hong Kong. The Company reserves the right to refuse to accept any application for Offer Shares where it believes that doing so would or may violate the applicable securities or other laws or regulations of the territory of residence of the applicant.

PROCEDURE FOR APPLICATION

An Application Form is enclosed with this prospectus which entitles you to apply for any number of Offer Shares up to your assured entitlements. Qualifying Shareholders should note that they may apply for any number of Offer Shares but are assured of an allotment only up to the number set out in the Application Form. If you are a Qualifying Shareholder and you wish to apply for all or any of the Offer Shares to which you are entitled as specified in the enclosed Application Form in respect of the assured entitlements, you must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with a remittance for the full amount payable on application, with the Company's branch registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong by no later than 4:00 p.m. on Monday, 27th May, 2002. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong dollars and made payable to "Hung Fung Group Holdings Limited – Open Offer Account" and crossed "Account Payee Only".

No application will be valid unless the Application Form, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Monday, 27th May, 2002.

If the conditions of the Open Offer are not fulfilled, the application monies will be refunded, without interest, by sending a cheque made out to the applicant (or in the case of joint applicants, to the first named applicant) and cross "Account Payee Only", through ordinary post at the risk of the applicant(s) to the address specified in the register of members of the Company on or before Monday, 3rd June, 2002.

LETTER FROM THE BOARD

The Application Form contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any application in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any application monies received.

SHARE CERTIFICATES

Share certificates in respect of the Offer Shares which are successfully applied for by Qualifying Shareholders will be sent through ordinary post to the applicants (or, in the case of joint applicants, to the first named applicant), at their own risk, to the address specified in the register of members of the Company. On the assumption that the Open Offer becomes unconditional on or about Wednesday, 29th May, 2002, share certificates are expected to be posted on or before Monday, 3rd June, 2002. Dealings in the Shares issued under the Open Offer are expected to commence on Wednesday, 5th June, 2002 .

GENERAL

Your attention is drawn to the information set out in the appendices to this prospectus.

Yours faithfully,
For and on behalf of the Board
Lo Ming Chi, Charles
Chairman

1. SHARE CAPITAL

The authorised and issued ordinary share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Restructuring Proposal and the Settlements are expected to be, as follows:

<i>Authorised:</i>		<i>HK\$</i>
10,000,000,000	Shares as at the Latest Practicable Date	100,000,000.00
20,000,000,000	new Shares to be created	200,000,000.00
<u>30,000,000,000</u>		<u>300,000,000.00</u>
<i>Issued and fully paid:</i>		
2,683,936,760	Shares in issue as at the Latest Practicable Date	26,839,367.60
3,000,000,000	Subscription Shares to be issued upon completion of the Subscription Agreement	30,000,000.00
650,000,000	Conversion Shares to be issued upon conversion of Convertible Bonds	6,500,000.00
4,025,905,140	Number of Offer Shares to be issued pursuant to the Open Offer	40,259,051.40
1,070,280,000	New Shares to be issued upon completion of Share Settlement Agreements	10,702,800.00
1,600,000,000	Conversion Shares (HZIC) to be issued upon conversion of New Convertible Note	16,000,000.00
<u>13,030,121,900</u>	Shares in issue upon completion of the Restructuring Proposal and the Settlements	<u>130,301,219.00</u>

All the Shares rank pari passu in all respects including as to dividends, voting rights and capital. All the Shares in issue immediately following completion of the Restructuring Proposal and Settlements will rank pari passu in all respects with each other including as to dividends, voting rights and capital. On 6th May, 2002, the Former Convertible Note in the principal amount of HK\$3,000,000, which was issued at 100% of its principal amount and carried interest at the rate of 5% per annum with maturity on 16th November, 2002, was converted into 200,000,000 Shares at a conversion price of HK\$0.015 per Share. Save as above, there have been no changes to the authorised and issued share capital of the Company since 31st March, 2001 (being the end of the last financial year of the Company) up to the Latest Practicable Date.

Under the Share Option Scheme, the Directors may at their discretion, invite employees of the Group, including Directors, to take up options to subscribe for Shares, subject to the terms and conditions stipulated therein, which in aggregate may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued, excluding for this purpose, Shares issued pursuant to exercise of options granted under the Share Option Scheme. The independent non-executive Directors are not eligible for participation in the Share Option Scheme.

As at the Latest Practicable Date, the Company had outstanding 13,700,000 Options the holders of which are entitled to subscribe for Shares at an exercise price of HK\$0.046 per Share at any time until 16th February, 2008. Exercise in full of such Options would, under the present capital structure of the Company, result in the issue of 13,700,000 additional Shares. The figures above take no account of Shares that may be issued under these Options.

Save for the Conversion Shares, Conversion Shares (HZIC) and Shares to be issued upon exercise of Options, no other share or loan capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Save for the Options, Convertible Bonds and New Convertible Note, the Company has no other options, warrants and conversion rights convertible into Shares. Save for the Subscription Shares, Offer Shares and the New Shares, no other share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the Stock Exchange. No securities of the Company are listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. UNAUDITED INTERIM RESULTS

The Group's unaudited interim report for the six months ended 30th September, 2001 is reproduced below.

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 30th 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 30th September, 2001

		Six months ended 30th September,	
		2001	2000
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
Minority interests		–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(25,079)</u>	<u>(224,207)</u>
DIVIDEND	6	–	–
LOSS PER SHARE	7		
Basic		<u>(HK cents 1.01)</u>	<u>(HK cents 9.03)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

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

30th September, 2001

		30th September, 2001 (Unaudited) HK\$'000	31st March, 2001 (Audited) HK\$'000
	Notes		
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 30th September, 2001*

	Six months ended 30th September,	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(78,218)</u>	<u>(47,979)</u>
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)
	<u>(78,218)</u>	<u>(47,979)</u>

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 31st March, 2001.

2. Basis of Presentation

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

As at 30th 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 30th 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 30th 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		Contribution to loss from operating activities	
	Six months ended 30th September, 2001 (Unaudited) HK\$'000	Six months ended 30th September, 2000 (Unaudited) HK\$'000	Six months ended 30th September, 2001 (Unaudited) HK\$'000	Six months ended 30th September, 2000 (Unaudited) 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)
	<u>29,008</u>	<u>188,571</u>	<u>(18,419)</u>	<u>(220,123)</u>

* 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 loss from operating activities	
	Six months ended		Six months ended	
	30th September,		30th September,	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	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)
	<u>29,008</u>	<u>188,571</u>	<u>(18,419)</u>	<u>(220,123)</u>

4. Loss from Operating Activities

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

	Six months ended	
	30th September,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	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	<u>–</u>	<u>1,898</u>

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 30th September,	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current period provision	–	–
Deferred tax	–	(1,500)
	<u>–</u>	<u>(1,500)</u>
Tax credit for the period	<u>–</u>	<u>(1,500)</u>

6. Dividend

The Board does not recommend to pay any interim dividend in respect of the six months ended 30th 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 30th 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 30th September, 2001 has not been calculated as no diluting events existed during the period. The diluted loss per share for the period ended 30th 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 30th 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 (31st March, 2001: HK\$40,724,000); and
- (ii) certain plant and machinery and equipment with an aggregate carrying value of approximately HK\$758,000 (31st 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 30th 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 (31st 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

	30th September, 2001 (Unaudited) HK\$'000	31st March, 2001 (Audited) 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)
	<u>8,317</u>	<u>4,107</u>

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

	30th September, 2001 (Unaudited) HK\$'000	31st 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 30th 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 16th 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 1st 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 31st March, and 1st April, 2001	44,397	10	18,024	(156,842)	(94,411)
Net loss for the period	–	–	–	(25,079)	(25,079)
At 30th September, 2001	<u>44,397</u>	<u>10</u>	<u>18,024</u>	<u>(181,921)</u>	<u>(119,490)</u>

15. Commitments

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

	30th September, 2001 (Unaudited) HK\$'000	31st 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
	<u>9,401</u>	<u>9,401</u>
 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	–
	<u>795</u>	<u>345</u>

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 31st March, 2001. During the six months ended 30th 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 30th 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 18th September, 2001 and 6th 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 18 to 27.

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 31st 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 26th 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 31st 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 31st 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 30th 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 30th 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 30th 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 31st 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 30th 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 30th September, 2001 and its net loss attributable to shareholders for the six months ended 30th 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 31st March, 2001. During the six months ended 30th 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 30th September, 2001 and the Group's net liabilities position as at 30th 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 30th September, 2001.

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

Ernst & Young

Certified Public Accountants

Hong Kong

21st 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 31st March, 2001. During the six months ended 30th 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 30th 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 18th September, 2001 and 6th September, 2001 respectively.

Liquidity and Financial Position

As at 30th 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 30th 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 30th 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 30th 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 17th 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 16th 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 30th 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 28th 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 30th 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 24th 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, 21st December, 2001

3. SUMMARY OF AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The following is a summary of the audited combined/consolidated results of the Group for each of the five years ended 31st March, 2001. The combined results for the year ended 31st March, 1997 has been extracted from the Company's prospectus dated 25th February, 1998 which was prepared from the audited financial statements of the companies now comprising the Group as if the structure of the Group had been in existence throughout the year. The results of the Group for each of four years ended 31st March, 2001 are those extracted from the relevant annual reports.

	Year ended 31st March,				
	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	133,090	223,713	241,254	290,600	202,682
Profit/(loss) before tax	28,270	52,649	32,029	30,286	(283,689)
Tax	(4,307)	(8,049)	11,328	(4,091)	4,354
Minority interests (Note 1)	—	—	—	—	—
Extraordinary items (Note 1)	—	—	—	—	—
Net profit/(loss) from ordinary activities attributable to Shareholders	23,963	44,600	43,357	26,195	(279,335)
Dividend	50,000	22,000	2,000	—	—
Earnings/(Loss) per share (HK cents)					
– Basic (Note 2)	1.60	2.91	2.17	1.18	(11.25)
– Diluted (Note 3)	N/A	N/A	N/A	1.12	N/A
Dividend per share (HK cents) (Note 4)	N/A	N/A	0.1	—	—

Notes:

- For each of the five years ended 31st March, 2001, the Group had no minority interests and do not record any extraordinary items.
- The 1997 figure is calculated based on the assumption that 150,000,000 shares were in issue during the year. The basic earnings per share figures in respect of the four years ended 31st March, 2000 have been adjusted for the effect resulted from the shares subdivision in April 2000, in which each of the Company's issued and unissued ordinary shares of HK\$0.10 each was subdivided into ten ordinary shares of HK\$0.01 each.
- Figure of diluted loss per share has not been presented for 2001 because any potential ordinary shares of the Group outstanding during the year have anti-dilutive effect on the basic loss per share for 2001. Figures of diluted earnings per share for 2000 has been adjusted to reflect the shares subdivision in April 2000 mentioned above. Figures of diluted earnings per share have not been presented for 1997, 1998 and 1999 as no diluting events existed during these years.
- The dividend per share figure for 1999 has been adjusted to reflect the shares subdivision in April 2000 mentioned above. Figures of dividend per share have not been presented for 1997 and 1998 as the dividends were paid by certain subsidiaries of the Group to their then shareholders prior to the group reorganisation on 17th February, 1998.

4. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is the text of the report of the auditors and the audited accounts of the Group for the year ended 31st March, 2001 as extracted from the Company's 2001 annual report.



To the shareholders

Hung Fung Group Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 42 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

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

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(i) to the 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 various measures being undertaken or proposed to be undertaken by the directors to relieve the Group from its current profitability and liquidity problems. The 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 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 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 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. Accordingly, we disclaim our opinion on account of this scope limitation alone, notwithstanding the matters noted below.

2. *Scope limitation – completeness of books and records and maintenance of internal controls*

As further explained in note 2 (ii) to the 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 year ended 31st March, 2001 and the related balances as further detailed in note 2 (ii) to the 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 year ended 31st March, 2001, the Group's net liabilities position as at 31st March, 2001 and the classification and related disclosures thereof in the financial statements.

3. *Scope limitation – valuation of fixed assets*

In view of the liquidity problems currently faced by the Group, the construction in progress 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 as at 31st March, 2001. We concur with this provision on the basis that the Group has no plans to complete the construction, nor does it 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 People's Republic of China (the "PRC"). Having regard to the gross operating loss incurred by the Group for the year ended 31st March, 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 financial statements, 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 of approximately HK\$79,214,000, the valuation of which was performed by an independent firm of professional valuers as at 31st March, 2001 as further detailed in note 12 to the financial statements, the net book value of the fixed assets held by the Group was stated at cost less accumulated depreciation and impairments which included leasehold improvements of approximately HK\$9,377,000, moulds, plant and machinery of approximately HK\$32,535,000, and furniture, fixtures, equipment and motor vehicles of approximately HK\$1,676,000. 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 31st March, 2001 currently provided by the Group as disclosed in note 12 to the financial statements 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 at 31st March, 2001 and its net loss attributable to shareholders for the year then ended.

4. *Scope limitation – potential claim*

As further explained in note 27 to the financial statements, the Group received a claim for an amount of approximately HK\$18.7 million. 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 year ended 31st March, 2001 and the Group's net liabilities position as at 31st March, 2001.

5. *Fundamental uncertainty – legal proceedings against the Group*

As further detailed in note 28 to the financial statements, there are legal proceedings against the Group including 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 financial statements. Other than the amounts claimed as summarised in note 28, 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. Although we consider the disclosures made in respect of these matters is adequate, we consider them to be so significant that we have disclaimed our opinion in this respect.

Disclaimer of opinion

Because of the significance of each of (i) the fundamental uncertainty relating to the going concern basis detailed in paragraph 5 above, and (ii) the possible effects of the limitations in evidence available to us as set out in each of paragraphs 1 to 4 in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st March, 2001 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) proper books of accounts have not been kept.

Ernst & Young

Certified public accountants

Hong Kong

26th July, 2001

Consolidated Profit and Loss Account

		2001	2000
	Notes	HK\$'000	HK\$'000
TURNOVER	4	202,682	290,600
Cost of sales		(209,240)	(226,428)
Gross profit/(loss)		(6,558)	64,172
Other income		772	2,217
Selling and distribution costs		(2,032)	(2,172)
Administrative expenses		(31,158)	(26,347)
Other operating expenses	5	(231,018)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	(269,994)	37,870
Finance costs	6	(13,695)	(7,584)
PROFIT/(LOSS) BEFORE TAX		(283,689)	30,286
Tax	8	4,354	(4,091)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9, 24	(279,335)	26,195
EARNINGS/(LOSS) PER SHARE	11		
Basic		HK(11.25) cents	HK1.18 cents
Diluted		–	HK1.12 cents

Consolidated Statement of Recognised Gains and Losses

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Surplus/(deficit) on revaluation of medium term leasehold land and buildings – <i>note 24</i>	<u>(18,954)</u>	<u>25,848</u>
Net gains/(losses) not recognised in the profit and loss account	(18,954)	25,848
Net profit/(loss) from ordinary activities for the year attributable to shareholders	<u>(279,335)</u>	<u>26,195</u>
Total recognised gains and losses	<u><u>(298,289)</u></u>	<u><u>52,043</u></u>

Consolidated Balance Sheet

		2001	2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	122,802	204,948
CURRENT ASSETS			
Inventories	14	11,569	24,631
Accounts receivable	15	4,107	95,883
Prepayments, deposits and other receivables		1,744	3,628
Cash and bank balances		782	63,462
		<u>18,202</u>	<u>187,604</u>
CURRENT LIABILITIES			
Interest-bearing bank loans and overdrafts	17	38,968	5,482
Trust receipt loans, unsecured		72,896	50,714
Current portion of finance lease payables	19	6,614	2,823
Accounts payable	16	26,224	47,615
Other payables and accruals		47,327	12,655
Tax payable		5	82
Loan from a director	20	9,000	–
		<u>201,034</u>	<u>119,371</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(182,832)</u>	<u>68,233</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(60,030)	273,181
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	17	6,542	37,774
Finance lease payables	19	–	2,396
Deferred tax	21	–	4,300
Convertible note	22	3,000	–
		<u>9,542</u>	<u>44,470</u>
		<u>(69,572)</u>	<u>228,711</u>
CAPITAL AND RESERVES			
Issued share capital	23	24,839	24,833
Reserves	24	(94,411)	203,878
		<u>(69,572)</u>	<u>228,711</u>

Consolidated Cash Flow Statement

		2001	2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW)			
FROM OPERATING ACTIVITIES	25(a)	(80,086)	59,775
RETURNS ON INVESTMENTS			
AND SERVICING OF FINANCE			
Interest received		63	542
Interest paid		(13,050)	(6,924)
Interest element of finance			
lease rental payments		(645)	(660)
Net cash outflow from returns on			
investments and servicing of finance		(13,632)	(7,042)
TAX			
Hong Kong profits tax paid		(23)	(6,373)
INVESTING ACTIVITIES			
Purchases of fixed assets		(11,834)	(49,694)
Proceeds from disposals			
of fixed assets		302	4
Net cash outflow from			
investing activities		(11,532)	(49,690)
NET CASH OUTFLOW BEFORE			
FINANCING ACTIVITIES		(105,273)	(3,330)
FINANCING ACTIVITIES	25(b)		
Issue of share capital		28	31,507
Share issue expenses		(22)	(662)
Drawdown of loan from a director		9,000	–
Drawdown/(repayment) of bank loans		(1,204)	11,471
Issue of convertible note		3,000	–
Capital element of finance leases		(2,139)	(3,163)
Net cash inflow from			
financing activities		8,663	39,153
INCREASE/(DECREASE) IN CASH			
AND CASH EQUIVALENTS		(96,610)	35,823
Cash and cash equivalents			
at beginning of year		18,225	(17,598)
CASH AND CASH EQUIVALENTS			
AT END OF YEAR		(78,385)	18,225

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
ANALYSIS OF BALANCES OF		
CASH AND CASH EQUIVALENTS		
Cash and bank balances	782	63,462
Bank overdrafts	(6,271)	(2,813)
Trust receipt loans with original maturity within three months	(72,896)	(42,424)
	<u>(78,385)</u>	<u>18,225</u>

Balance Sheet

		2001	2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	13	–	136,183
CURRENT ASSETS			
Dividend receivable		–	8,000
Prepayments and other receivables		50	507
Cash and bank balances		6	1,820
		<u>56</u>	<u>10,327</u>
CURRENT LIABILITIES			
Other payables and accruals		94,324	381
Loan from a director	20	9,000	–
		<u>103,324</u>	<u>381</u>
NET CURRENT ASSETS/ (LIABILITIES)			
		<u>(103,268)</u>	<u>9,946</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		(103,268)	146,129
NON-CURRENT LIABILITY			
Convertible note	22	3,000	–
		<u>(106,268)</u>	<u>146,129</u>
CAPITAL AND RESERVES			
Issued share capital	23	24,839	24,833
Reserves	24	(131,107)	121,296
		<u>(106,268)</u>	<u>146,129</u>

Notes to financial Statements

1. CORPORATE INFORMATION

During the year, the Group was involved in the design, manufacture and sale of a wide range of toys.

There were no significant changes in the nature of the Company or the Group's principal activities during the year. The Group has scaled down its operating during the year.

In the opinion of the directors, the ultimate holding company is Baxter Resources S.A., a company incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

The Group's financial statements for the year ended 31st March, 2001 have been prepared on the following bases:

(i) Going concern

At 31st March, 2001, the Group had net current liabilities of approximately HK\$182,832,000. The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK\$279,335,000 and reported a significant cash outflow from operating activities of HK\$80,086,000 for the year ended 31st March, 2001.

Although the directors have been undertaking a number of measures with a view to improving the Group's liquidity and restore its operations to profitability, the Group continues 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 (see note 28). Accordingly, the amounts due to banks and other 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. On 7th December, 2000, Mr. Lo Ming Chi, a then independent third party and potential investor, was appointed as a director and the new chairman of the Group. Up to the date of this report, Mr. Lo Ming Chi had advanced approximately HK\$4,000,000 to 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; the possibility of entering into a debt hair cut agreement is also under active discussions; 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 31st March, 2001 and the date on which these financial statements were 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 financial statements.

(ii) Available books and records

The 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 relocation 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 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 bank 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\$71,431,000; cash payments of purchase deposits of approximately HK\$4,635,000; cash payments for purchases of fixed assets of approximately HK\$9,116,000; cash advances to a company of approximately HK\$3,189,000; and other expenses settled in cash of approximately HK\$728,000 in total. All documentation of these transactions conducted via the savings 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\$159,001,000 for the period from 1st April, 2000 to 31st December, 2000;
 - (ii) turnover of approximately HK\$195,578,000 and the corresponding accounts receivable of approximately HK\$117,781,000;
 - (iii) deposits made to certain suppliers of approximately HK\$4,635,000;
 - (iv) an advance made to a company of approximately HK\$5,177,000 which included a cash payment of approximately HK\$3,189,000 via the saving accounts as noted in (a) above; and
 - (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 as stated in (ii) to (v) above is remote, a full provision has been made against the respective amounts (see note 5 to the financial statements).

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 provision for all liabilities based on such books and records as 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 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 1st April, 2000 to 31st December, 2000 could be given by the existing Directors although care has been taken in the preparation of the financial statements to mitigate the effects of the incomplete records. The Directors are unable to represent that all transactions entered into in the name of the Company and its subsidiaries during the period from 1st April, 2000 to 31st December, 2000 have been included in the 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 financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic re-measurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31st March, 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and impairment. Construction in progress is stated at cost less impairment.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Medium term leasehold land	– Over the lease terms
Buildings	– 20 years or over the lease terms, whichever is shorter
Leasehold improvements	– 5 years or over the lease terms, whichever is shorter
Moulds, plant and machinery	– 6 ² / ₃ to 8 years
Furniture, fixtures, equipment and motor vehicles	– 5 years

No depreciation is provided on construction in progress until it is completed and put into use. The gain or loss arising on the disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Credit terms

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 90 days. Overdue balance are regularly reviewed by senior management.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation of overseas subsidiaries, their financial statements are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

4. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover – Sale of goods	202,682	290,600
Interest income	63	542
Revenue	<u>202,745</u>	<u>291,142</u>

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cost of inventories sold	209,240	226,428
Depreciation:		
Owned fixed assets	15,583	16,785
Leased fixed assets	2,390	1,168
Staff costs (excluding directors' remuneration, <i>note 7</i>)	15,086	20,081
Operating lease rentals in respect of land and buildings	675	1,462
Auditors' remuneration	1,680	843
Exchange gains, net	(147)	(497)
Gain on disposal of fixed assets	—	(4)
Other operating expenses:		
Provision for bad and doubtful debts		
Accounts receivable	117,781	—
Other receivables	6,734	—
	124,515	—
Provisions for impairment of fixed assets (<i>note 12</i>)	54,981	—
Provisions against advances to a company	5,177	—
Provisions against deposits made to certain suppliers	4,635	—
Provisions for unrecoverable inventories held by a company	11,791	—
Revaluation deficit on land and buildings	3,073	—
Provisions for inventories	6,615	—
Provisions for potential claim	18,000	—
Loss on disposal of fixed assets	2,231	—
	231,018	—

The cost of inventories sold includes HK\$20,991,000 (2000: HK\$27,791,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	12,987	6,924
Interest on convertible note	63	—
Interest on finance leases	645	660
	13,695	7,584

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Company's directors are set out as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Executive directors:		
Fees	–	–
Basic salaries, housing, other allowances and benefits in kind	3,641	3,816
Independent non-executive directors:		
Fees	326	240
	<u>3,967</u>	<u>4,056</u>

The number of directors whose remuneration fell within the bands set out below is as follows:

	2001 Number of directors	2000 Number of directors
Nil – HK\$1,000,000	12	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	<u>–</u>	<u>1</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Of the five highest paid individuals, five (2000: Three) were directors of the Company and their remuneration has been included above. The remuneration of the remaining two highest paid individuals for the year ended 31st March, 2000 was as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, housing, other allowances and benefits in kind	<u>–</u>	<u>837</u>
	Number of employee	
	2001	2000
Nil – HK\$1,000,000	<u>–</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join, or upon joining, the Group, or as compensation for loss of office.

No value is included in the directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

8. TAX

Hong Kong profits tax has not been provided because there were no assessable profits arising in Hong Kong during the year. For the year ended 31st March, 2000, Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that year.

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Hong Kong		
Current year provision	–	1,791
Overprovision in prior year	(54)	–
Deferred tax (<i>note 21</i>)	(4,300)	2,300
	<u>(4,354)</u>	<u>2,300</u>
Tax charge/(credit) for the year	<u>(4,354)</u>	<u>4,091</u>

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$252,403,000 (2000: Profit of HK\$3,556,000).

10. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31st March, 2001 (2000: Nil).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$279,335,000 (2000 : Profit of HK\$26,195,000) and the weighted average of 2,483,921,285 (2000: 2,212,655,670) ordinary shares in issue during the year, adjusted to reflect the Shares Subdivision (as here in after defined) during the year as detailed in note 23 to the financial statements.

The diluted loss per share for the year has not been presented because any potential ordinary shares of the Group outstanding during the year had anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31st March, 2000 was based on the net profit from ordinary activities attributable to shareholders for the year of HK\$26,195,000. The weighted average number of ordinary shares used in the calculation is 2,212,655,670 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 133,658,529 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options and warrants during the year adjusted to reflect the shares subdivision as further detailed in note 24 to the financial statements.

12. FIXED ASSETS

Group

	Medium term leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Moulds, plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of the year	121,387	28,029	76,699	5,392	29,892	261,399
Additions	–	601	11,923	448	2,396	15,368
Disposals	–	(6,278)	–	(700)	–	(6,978)
Revaluation deficit	(26,127)	–	–	–	–	(26,127)
At 31st March, 2001	95,260	22,352	88,622	5,140	32,288	243,662
Accumulated depreciation and impairment:						
At beginning of the year	–	12,401	41,186	2,864	–	56,451
Provided during the year	4,100	4,710	8,254	909	–	17,973
Provisions for impairment	16,046	–	6,647	–	32,288	54,981
Disposals	–	(4,136)	–	(309)	–	(4,445)
Reversal of accumulated depreciation upon revaluation	(4,100)	–	–	–	–	(4,100)
At 31st March, 2001	16,046	12,975	56,087	3,464	32,288	120,860
Net book value:						
At 31st March, 2001	79,214	9,377	32,535	1,676	–	122,802
At 31st March, 2000	121,387	15,628	35,513	2,528	29,892	204,948
Analysis of cost and valuation:						
At cost	–	22,352	88,622	5,140	32,288	148,402
At valuation	95,260	–	–	–	–	95,260
	95,260	22,352	88,622	5,140	32,288	243,662

All the medium term leasehold land and buildings are situated outside Hong Kong. As at 31st March, 2000, all the leasehold land and buildings were revalued on a depreciated replacement cost basis by Knight Frank, an independent firm of professional valuers, at approximately HK\$95,260,000.

Had the Group's revalued leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$81,517,000 (2000: HK\$84,809,000).

Certain leasehold land and buildings, plant and machinery and equipment were pledged to secure banking facilities granted to the Group as set out in note 18.

As at 31st March, 2001, the Group was in the process of obtaining the land use rights certificate for leasehold land amounting to approximately HK\$28,851,000 (2000: HK\$44,503,000).

The net book value of fixed assets held under finance leases included in the above at the balance sheet date was HK\$10,390,000 (2000: HK\$8,235,000). The depreciation charge for the year in respect of such assets amounted to HK\$2,390,000 (2000: HK\$1,168,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	68,709	68,709
Due from subsidiaries	84,064	67,474
	152,773	136,183
Less: Provisions for diminutions in values	152,773	—
	—	136,183

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued and paid-up share capital	Percentage of equity attributable to the Company	Principal activities
Hung Cheong Holdings Limited (“HCHL”)	British Virgin Islands	Ordinary US\$2,004	100%	Investment holding
Hung Cheong Toys International Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$200,000*	100%	Trading of toy products
Hung Cheong Toys Factory Limited	British Virgin Islands/ PRC	Ordinary US\$4	100%	Sub-contracting of manufacture of toy products
Huang Chiang Chen Hung Cheong Plastics Factory Company Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$10,000*	100%	Property holding
Hung Cheong Toys Trading Limited	British Virgin Islands/ Hong Kong	Ordinary US\$4	100%	Dormant
Hung Cheong Toys Manufacturing Limited	British Virgin Islands/ Hong Kong	Ordinary US\$4	100%	Dormant
Sunstar Nominees Limited	Hong Kong	Ordinary HK\$100	100%	Dormant
Asian Ocean Limited	Hong Kong	Ordinary HK\$2	100%	Dormant
Sino New Finance Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	Dormant

Name	Place of incorporation/ operations	Nominal value of issued and paid-up share capital	Percentage of equity attributable to the Company	Principal activities
Chiu Fung Toys Trading Limited	Hong Kong	Ordinary HK\$100	100%	Dormant
Gainful International Investment Limited	Hong Kong	Ordinary HK\$100	100%	Dormant
Hung Cheong Technology Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	Dormant

Except for HCHL, all the above subsidiaries are indirectly held by the Company.

* *The non-voting deferred shares carry no rights to dividends other than a fixed non-cumulative dividend at the rate of 5% per annum on the excess of the net profits over HK\$1,000,000,000,000 that the company may determine to distribute in respect of any financial year. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of the company, to a return of the capital paid up on the non-voting deferred shares held by them respectively, after a total sum of HK\$1,000,000,000,000 has been distributed in such a winding-up in respect of each of the ordinary shares of the company. Save as described above, the holders of the non-voting deferred shares are not entitled to any participation in the profits or surplus assets of the company and shall not be entitled to receive notice of or to attend or vote at any general meeting of the company.*

14. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	6,195	9,885
Work in progress	1,374	2,276
Finished goods	4,000	12,470
	<u>11,569</u>	<u>24,631</u>

As at 31st March, 2001, inventories stated at net realisable value included in the above were approximately HK\$892,000 (2000: Nil).

15. ACCOUNTS RECEIVABLE

	2001 HK\$'000	Group 2000 HK\$'000
The ages of the accounts receivable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	3,010	23,672
Between 31 to 60 days	154	17,797
Between 61 to 90 days	71	18,720
Between 91 to 180 days	48,923	27,104
Over 180 days	69,730	8,590
	121,888	95,883
Less: Provision for bad and doubtful debts	(117,781)	–
	4,107	95,883

The Group has a defined credit policy with credit terms ranged from 30 days to 90 days.

16. ACCOUNTS PAYABLE

	2001 HK\$'000	Group 2000 HK\$'000
The ages of the accounts payable are analysed as follows:		
Outstanding balances with ages:		
Within 30 days	1,455	8,227
Between 31 to 60 days	305	13,532
Between 61 to 90 days	299	399
Between 91 to 180 days	9,152	15,011
Over 180 days	15,013	10,446
	26,224	47,615

17. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Bank overdrafts, unsecured	6,271	2,813
Bank loans, unsecured	8,398	9,135
Bank loans, secured	30,841	31,308
	<u>45,510</u>	<u>43,256</u>
Bank overdrafts repayable within one year or on demand	<u>6,271</u>	<u>2,813</u>
Bank loans repayable:		
Within one year, or on demand	32,697	2,669
In the second year	6,542	26,754
In the third to fifth years, inclusive	–	11,020
	<u>39,239</u>	<u>40,443</u>
	45,510	43,256
Portion classified as current liabilities	<u>(38,968)</u>	<u>(5,482)</u>
Non-current portion	<u>6,542</u>	<u>37,774</u>

18. BANKING FACILITIES

As at 31st March, 2001, the Group's banking facilities were secured by the following:

- (i) certain leasehold land and buildings in the PRC with an aggregate carrying value of approximately HK\$40,724,000 (2000: HK\$76,884,000);
- (ii) certain plant and machinery and equipment with an aggregate carrying value of approximately HK\$1,326,000 (2000: NIL);
- (iii) corporate guarantees executed by the Company and its subsidiary; and
- (iv) personal guarantees of approximately HK\$31,167,000 from Mr. Chan Chun Hung and Ms. Wong Kin Ching, former directors of the Company.

As further disclosed in note 28 to the financial statements, as at the date of the report, writs of summon were issued by certain banks in respect of overdue borrowings.

19. FINANCE LEASE PAYABLES

There were commitments under non-cancelable finance leases at the balance sheet date as follows:

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Amounts payable:		
Within one year	7,443	3,247
In the second year	–	2,132
In the third to fifth years, inclusive	–	436
Total minimum lease payments	7,443	5,815
Future finance charges	(829)	(596)
Total net finance lease payables	6,614	5,219
Portion classified as current liabilities	(6,614)	(2,823)
Non-current portion of finance lease payables	–	2,396

As further disclosed in note 28 to the financial statements, as at the date of the report, writs of summon were issued by miscellaneous creditors in respect of overdue borrowings.

20. 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.

21. DEFERRED TAX

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
At beginning of year	4,300	2,000
Charge/(credit) for the year (<i>note 8</i>)	(4,300)	2,300
At end of year	–	4,300

The provision for deferred tax is made in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

There are no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Deferred tax has not been provided for the Company because the Company did not have any significant timing differences at the balance sheet date.

22. CONVERTIBLE NOTE

On 30th October, 2000, the Company entered into a conditional subscription agreement (the “Agreement”) with Join Asia Enterprises Limited (“Join Asia”). Join Asia 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 16th 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.

23. SHARE CAPITAL**Shares**

	Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
10,000,000,000 (2000: 1,000,000,000) ordinary shares of HK\$0.01 (2000: HK\$0.1) each	100,000	100,000
<i>Issued and fully paid:</i>		
2,483,936,760 (2000: 248,332,900) ordinary shares of HK\$0.01 (2000: HK\$0.1) each	24,839	24,833

Details of the movements in the issued share capital of the Company during the year were as follows:

	<i>Notes</i>	<i>HK\$'000</i>	Number of shares
At 1st April, 2000		24,833	248,332,900
Subdivision	(a)	–	2,234,996,100
Warrants exercised	(b)	6	607,760
At 31st March, 2001		24,839	2,483,936,760

(a) Pursuant to an ordinary resolution passed on 5th April, 2000, each of the Company’s issued and unissued ordinary shares on 6th April, 2000 of HK\$0.10 each was subdivided into ten ordinary shares HK\$0.01 each (“Subdivided Shares”) (“Shares Subdivision”). As a result of such Share Subdivision, the Company’s authorised share capital was changed from 1,000,000,000 ordinary shares of HK\$0.10 each to 10,000,000,000 ordinary shares of HK\$0.01 each and the Company’s issued ordinary share capital was changed from 248,332,900 ordinary shares of HK\$0.10 each to 2,483,329,000 ordinary shares of HK\$0.01 each.

(b) During the year, 60,400 shares of HK\$0.10 each and 3,760 Subdivided Shares of HK\$0.01 each were issued for cash at the subscription price of HK\$0.47 per share and HK\$0.05 per Subdivided Share, respectively pursuant to the exercise of the Company’s warrants for a total cash consideration, before expenses, of HK\$28,576.

The excess of the proceeds over the par value of the shares issued was credited to the share premium account.

Share options

On 17th 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 16th 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 12th March, 1998.

During the year, 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 20th 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 21st July, 1999 to 16th February, 2008.

On 25th October, 2000, 65,000,000 share options were granted by the Company, pursuant to the above scheme, to their 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 20th September, 2000 to 16th February, 2008.

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

The exercise in full of remaining outstanding subscription rights attached to the 109,700,000 share options would, under the present capital structure of the Company, result 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 28th 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 28th 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.

24. 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 1st April, 1999	18,385	10	11,130	96,298	125,823
Issue 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
At 31st March, and 1st April, 2000	44,397	10	36,978	122,493	203,878
Issue of shares	22	–	–	–	22
Share issue expenses	(22)	–	–	–	(22)
Net loss for year	–	–	–	(279,335)	(279,335)
Revaluation deficit	–	–	(18,954)	–	(18,954)
At 31st March, 2001	<u>44,397</u>	<u>10</u>	<u>18,024</u>	<u>(156,842)</u>	<u>(94,411)</u>
		Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Company					
At 1st April, 1999		18,385	68,509	4,834	91,728
Issue of shares		26,674	–	–	26,674
Share issue expenses		(662)	–	–	(662)
Net profit for the year		–	–	3,556	3,556
At 31st March, and 1st April, 2000		44,397	68,509	8,390	121,296
Issue of shares		22	–	–	22
Share issue expenses		(22)	–	–	(22)
Net loss for the year		–	–	(252,403)	(252,403)
At 31st March, 2001		<u>44,397</u>	<u>68,509</u>	<u>(244,013)</u>	<u>(131,107)</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 17th February, 1998, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain circumstances, which at present the Company is unable to meet.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit/(loss) from operating activities	(269,994)	37,870
Depreciation	17,973	17,953
Interest income	(63)	(542)
Loss/(gain) on disposal of fixed assets	2,231	(4)
Provision for bad and doubtful debts	124,515	–
Provisions for inventories	6,615	–
Provisions against advances to a company	5,177	–
Provisions against deposits made to certain suppliers	4,635	–
Provisions for unrecoverable inventories held by a company	11,791	–
Provisions for impairment of fixed assets	54,981	–
Revaluation deficit on land and buildings	3,073	–
Increase in accounts receivable	(26,005)	(26,359)
Increase in inventories	(5,344)	(2,275)
Decrease/(increase) in prepayments, deposits and other receivables	(14,662)	3,918
Increase/(decrease) in trust receipt loans with original maturity greater than three months	(8,290)	4,995
Increase/(decrease) in accounts payable	(21,391)	24,621
Increase/(decrease) in other payables and accruals	34,672	(402)
	<u>34,672</u>	<u>(402)</u>
Net cash inflow/(outflow) from operating activities	<u>(80,086)</u>	<u>59,775</u>

(b) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Loan from a director <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Convertible note <i>HK\$'000</i>
At 1st April, 1999	38,385	28,972	–	3,256	–
Issue of shares	31,507	–	–	–	–
Share issue expenses	(662)	–	–	–	–
Net cash inflow/ (outflow) from financing	–	11,471	–	(3,163)	–
Inception of finance leases (<i>note 25(c)</i>)	–	–	–	5,126	–
At 31st March, and 1st April, 2000	69,230	40,443	–	5,219	–
Issue of shares	28	–	–	–	–
Share issue expenses	(22)	–	–	–	–
Net cash inflow/ (outflow) from financing	–	(1,204)	9,000	(2,139)	3,000
Inception of finance leases (<i>note 25(c)</i>)	–	–	–	3,534	–
At 31st March, 2001	<u>69,236</u>	<u>39,239</u>	<u>9,000</u>	<u>6,614</u>	<u>3,000</u>

(c) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$3,534,000. (2000: HK\$5,126,000).

26. COMMITMENTS

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

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Capital commitments:		
Authorised, but not contracted for	3,150	3,150
Contracted, but not provided for	<u>6,251</u>	<u>8,843</u>
	<u>9,401</u>	<u>11,993</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	345	102
In the second to fifth years, inclusive	<u>–</u>	<u>2,693</u>
	<u>345</u>	<u>2,795</u>

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

27. CONTINGENT LIABILITIES**(i) Potential claim**

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 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

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	–	320	–	–
Guarantee of credit purchase facilities granted to a subsidiary	–	–	–	3,000
Guarantee of banking facilities granted to a subsidiary	–	–	–	66,974
	<u>–</u>	<u>–</u>	<u>–</u>	<u>66,974</u>
	<u>–</u>	<u>320</u>	<u>–</u>	<u>69,974</u>

28. 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 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 12th May, 2001 and 23rd May, 2001, winding-up petitions were filed by Sin Hua Bank Limited, Hong Kong Branch (“Sin Hua”) against Hung Cheong Toys International Limited (“Hung Cheong”), a principal operating subsidiary within the Group and 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 1st August, 2001 while the hearing of the petition against the Company was adjourned to 22nd August, 2001.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26th July, 2001.

5. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Set out below is the pro forma statement of the unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated deficiency in assets of the Group as at 31st March, 2001 and adjusted as follows:

	<i>HK\$' million</i>
Audited consolidated deficiency in assets of the Group as at 31st March, 2001	(69.6)
Unaudited consolidated loss of the Group for the six months ended 30th September, 2001	(25.1)
Unaudited consolidated deficiency in assets of the Group as at 30th September, 2001	(94.7)
Revaluation deficit (<i>Note 2</i>)	(6.6)
Shares issued on conversion of Former Convertible Note	3.0
Adjusted consolidated deficiency in assets before the Restructuring Proposal and the Settlements	(98.3)
Add: Indebtedness waived pursuant to the Restructuring Proposal (<i>Note 3</i>)	70.4
Proceeds from the Open Offer (<i>Note 5</i>)	40.3
Proceeds from the Subscription	30.0
Reduction of indebtedness pursuant to the Settlements (<i>Note 4</i>)	16.2
Less: Estimated professional fees and expenses in connection with the Restructuring Proposal	(7.0)
Pro forma unaudited adjusted consolidated net tangible assets of the Group after completion of the Restructuring Proposal and the Settlements	51.6

HK\$

Pro forma unaudited adjusted consolidated deficiency in assets
per Share prior to completion of the Restructuring Proposal
and the Settlements (*Note 5*) (0.037)

Pro forma unaudited adjusted consolidated net tangible assets per
Share upon completion of the Restructuring Proposal and the
Settlements (*Note 6*) 0.0048

Notes:

1. The pro forma unaudited adjusted consolidated net tangible assets prepared above does not take into account the effect upon conversion of the outstanding Options, the Convertible Bonds and the New Convertible Note.
2. The carrying value of the leasehold land and buildings and the construction in progress of the Group as at 28th February, 2002 amounted to HK\$85.6 million and nil, respectively, and were revalued by Knight Frank, an independent firm of professional valuers, at 28th February, 2002 at approximately HK\$124.0 million in aggregate.

The revalued amounts of the leasehold land and buildings of the Group amounted to HK\$95.0 million as at 28th February, 2002. In the opinion of the Directors, certain of these leasehold land and buildings were impaired as they had been left vacant and were currently not being used by the Group and provisions for impairment of HK\$16.0 million were made as at 31st March, 2001. The revaluation deficit of HK\$6.6 million as set out in the pro forma statement of unaudited adjusted consolidated net tangible assets, represents the shortfall of the revalued amounts of HK\$95.0 million after deducting the aforesaid provisions for impairment of HK\$16.0 million, under the then carrying values of leasehold land and buildings of HK\$85.6 million as at 28th February, 2002.

The construction in progress with no carrying value as at 28th February, 2002 had been revalued at HK\$29.0 million by Knight Frank. In the opinion of the Directors, the aforesaid construction in progress were impaired as development of the asset had been put on hold by the Group. As a result, the corresponding revaluation surplus of approximately HK\$29.0 million has not been incorporated in the pro forma statement of unaudited adjusted consolidated net tangible assets.

3. Being the Total Compromised Debt of HK\$99.7 million after netting off the principal amount of the Convertible Bonds of HK\$6.5 million to be issued, HK\$20.0 million to be repaid to the Bank Group by cash and the interest accrued by the Group in respect of the Total Compromised Debt of HK\$2.8 million for the period from 1st October, 2001 to 17th December, 2001.
4. Being the settlement of debts of HK\$34.3 million due to certain creditors of the Group after netting off the payment of HK\$2.1 million cash and the issue of the New Convertible Note in the amount of HK\$16.0 million.
5. Based on the issued share capital of 2,683,936,760 Shares as at the Latest Practicable Date.
6. Based on the enlarged issued share capital of 10,780,121,900 Shares after the Restructuring Proposal and the Settlements.

6. INDEBTEDNESS

At the close of business on 28th February, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowing of approximately HK\$177.5 million comprising secured bank overdrafts of approximately HK\$7.8 million, secured trust receipt loans of approximately HK\$72.6 million, secured bank loans of approximately HK\$38.6 million, unsecured other loans of approximately HK\$31.6 million, convertible note payable of approximately HK\$3.0 million, obligation under finance lease contracts of approximately HK\$4.1 million, advance from a director of approximately HK\$4.0 million and accrued interest payable of aforesaid indebtedness of approximately HK\$15.8 million.

As at 28th February, 2002, the Group's borrowings were secured by legal charges on certain of the Group's medium term leasehold land and buildings situated outside Hong Kong with an aggregate net book value of approximately HK\$56.1 million, corporate guarantees executed by the Company and a subsidiary, pledge of certain plant and machinery of the Group with an aggregate net book value of approximately HK\$1.1 million and personal guarantees executed by Mr. Chan Chun Hung and Ms. Wong Kin Ching, both of whom are former directors of the Company.

Save as aforesaid and apart from intra-group liabilities, none of the companies comprising the Group had outstanding at the close of business on 28th February, 2002, any mortgage, charges or debentures, loan capital issued and outstanding or agree to be issued, bank overdrafts and loans, debt security or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

In addition to the above, as at 28th February, 2002, the Group had outstanding claims in respect of pending litigation as detailed in note 6 of Appendix II to this prospectus.

Save as disclosed above and the Restructuring Proposal, the Directors confirmed that there had been no material change in indebtedness and contingent liabilities of the Group since 28th February, 2002.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 28th February, 2002.

7. WORKING CAPITAL STATEMENT

The Directors have prepared the cash flow projections of the Group for the period from 1st March, 2002 to 31st May, 2003 (the “Projection Period”) based on the unaudited management accounts for the eleven months ended 28th February, 2002 and a projection of the Group’s working capital requirement for the fifteen months ending 31st May, 2003 (the “Working Capital Projection”). Provided that the Restructuring Proposal becomes effective, the Group will raise net proceeds of approximately HK\$63.3 million from the Subscription from the Investor and the Open Offer. In addition, subject to Completion, Get Start Holdings Limited, the holding company of the Investor, has undertaken to the Company to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operation as a viable concern notwithstanding any present or future financial difficulties experienced by the Group during the Projection Period. At present, the Group has undertaken a number of other measures in order to further relieve its current liquidity pressure.

In this regard, the Group has obtained written consent from the Group’s bankers in the PRC to reschedule and extend the repayment period, subject to a repayment of HK\$2.3 million, of its bank borrowings at 28th February, 2002 of approximately HK\$30.2 million (the “PRC Bank Borrowings”) for another one year upon their original maturity in the second half of 2002.

Speed Up Developments Limited (“Speed Up”), an independent third party not connected with the Group, had advanced loans in aggregate of approximately HK\$22.4 million (the “Loans”) to the Group as at 28th February, 2002 and agreed that it will not demand the Group to repay partly or wholly of the Loans before 30th June, 2003. As at 30th September, 2001, the loans advanced by Speed Up amounted to HK\$16.0 million. During 1st March, 2002 to the Latest Practicable Date, Speed Up further advanced HK\$5.0 million to the Group.

The Group has entered into agreements with trade and other creditors of the Group in respect of arrangements for settlement their debts as at 28th February, 2002 of approximately HK\$34.3 million by way of cash settlement of HK\$2.1 million and issuance of Shares and New Convertible Note.

Further, certain Directors have agreed that they will not demand for the Group to repay partly or wholly of a total sum of approximately HK\$6.2 million as at 28th February, 2002 in respect of loans advanced to the Group and accrued emoluments unless the Group will thereafter have sufficient working capital for its normal operational requirements.

Hung Cheong Toys International Limited (“HCT”), a wholly-owned subsidiary of the Company, had a deficiency in assets of approximately HK\$168.1 million as at 28th February, 2002 and remained dormant since June 2001. As at 28th February, 2002, HCT had total liabilities of approximately HK\$168.7 million which comprised borrowings owed to the Bank Group of approximately HK\$102.1 million including interest payable, intra group liabilities of approximately HK\$52.9 million, other liabilities of HK\$3.9 million guaranteed by the Company and unsecured liabilities of approximately HK\$9.8 million. Having considered the legal counsels’ advice, the Directors intend to dispose of the entire interest in HCT held by the Company and withdraw all the Company’s financial support provided to HCT in order to improve the Group’s current liquidity which is in the interest of the Shareholders. In this regard, other than borrowings owed to the Bank Group and secured liabilities, the Group has no intention to settle the unsecured liabilities of HCT amounted to approximately HK\$9.8 million during the Projection Period. In connection with the Working Capital Projection, no revenue, operating result and related cash flow of HCT had been budgeted by the Group. In the opinion of the Directors, the future disposal of HCT will not have significant adverse impact to the Group.

The Directors are of the opinion that, in the absence of unforeseen circumstances and subject to the completion of the Restructuring Proposal, taking into account (i) the undertaking given by the holding company of the Investor; (ii) the success in rescheduling and extending the repayment period for the PRC Bank Borrowings; (iii) the satisfaction of the conditions in respect of the arrangement for settlement of Other Settlement Debts by way of cash and issuance of Shares and New Convertible Note; (iv) the intention of the Directors for the disposition of HCT; and (v) the withdrawal of all the Company’s financial support to HCT, the Group, which includes the Company and its subsidiaries other than HCT, will have sufficient working capital for the Projection Period. Should the Restructuring Proposal and other measures abovementioned be unsuccessful, the Directors are of the opinion that the Group would not have adequate fund to enable it to operate as a going concern in the foreseeable future.

In assessing the adequacy of working capital of the Group, the Directors have prepared the cash flow projections of the Group for the Projection Period on the basis of a number of assumptions, the principal ones of which are set out below. It should be noted that the assumptions set out below could be materially affected by changes in economic and other circumstances.

As a result, actual cash flows may differ substantially from the prospective financial information contained in the cash flow projections since actual events frequently do not occur as expected and such variation may be material.

Principal assumptions:

1. that the Restructuring Proposal is successfully implemented;
2. that the Group succeeds in rescheduling and extending the repayment period for the PRC Bank Borrowings;
3. that there is a successful completion of settlement of Other Settlement Debts by way of cash and issuance of Company's shares and convertible note;
4. that certain Directors will not demand repayment of their loans of HK\$6.2 million as at 28th February, 2002 advanced to the Group on 8th June, 2001 and 9th July, 2001 and accrued emoluments unless the Group would have sufficient working capital for its normal operation requirements (after payment thereof);
5. that the Group will dispose of HCT and withdraw its financial support to HCT and will not be required to settle the unsecured liabilities of HCT, which amounted to HK\$9.8 million as at 28th February, 2002 during the Projection Period. The disposal of HCT will not have any adverse effect to the Group;
6. that, without jeopardising the interest of the Group, the Group will not be required to make payment of land premium of approximately HK\$8.6 million accrued to the relevant Land Administration Bureau of the PRC in respect of certain lands held under medium term lease by the Group during the Projection Period;
7. that there will be no material changes in principal activities and operations of the Group for the period from 1st March, 2002 to 31st May, 2003;
8. that there will not be any significant provision for bad debts during the Projection Period;
9. that orders on hand are delivered in full and on time;
10. that there will be no material increases in the operating expenses of the Group;
11. that there will be no material changes in existing political, legal, fiscal or economic conditions in Hong Kong and any other places in which the Group carries on business;
12. that there will be no material changes in the bases or rates of taxation applicable to the activities of the Group;
13. that prices of raw material will not differ materially from those currently prevailing;

14. that there will be no material changes in interest rates and foreign currency exchange rates from those currently prevailing; and
15. that there will be no major business disruptions through international crisis or financial turmoil, industrial disputes, industrial accidents or severe weather conditions.

8. MATERIAL CHANGES SINCE 31ST MARCH, 2001

Save as disclosed in the Company's interim report 2001, the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group on pages 68 to 69 of this prospectus, and the paragraph headed "Litigation" in Appendix II of this prospectus, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st March, 2001, the date to which the latest audited financial statements of the Company were made up.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this prospectus, and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, opinions expressed in this prospectus have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

2. PARTICULARS OF DIRECTORS

(i) Executive Directors

Name	Address
Mr. Lo Ming Chi, Charles (<i>Chairman</i>)	Rm 2503, Block B, Villa Rocha, 10 Broadwood Road, Happy Valley, Hong Kong
Mr. Yu Wai Man	Flat G, 41/F., Block 2, Well On Garden, Tseung Kwan O, Kowloon

Mr. Lo Ming Chi, Charles, JP., aged 52, joined the Company as an executive director in December 2000. He is a Certified Practising Accountant of Australia and an Associate Member of the Securities Institute of Australia. He has over 25 years of professional and business experience in financial and investment services in Australia, Hong Kong and other Asian countries.

Mr. Yu Wai Man, aged 37, joined the Company in December 2000 as a Company Secretary and was an executive director in April 2001. Mr. Yu is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and has over 17 years of experience in the accounting field including 3 years in external audit and 2 years in internal audit. He has over 9 years of financial experience in companies listed both in Hong Kong and the United Kingdom.

(ii) Non-executive Directors

Name	Address
Mr. Wu Wing Kit	Flat 1512, 15/F., Block B, Kornhill, Hong Kong
Mr. Wong Kwok Tai	Flat F, 9/F., Greenview Garden, 125 Robinson Road, Hong Kong

Mr. Wu Wing Kit, aged 45, joined the Company as an independent non-executive director in December 2000. He holds a Bachelor Degree in Law from the University of Hong Kong and a Master Degree in Law from the City University of Hong Kong. He has been practicing as a solicitor in Hong Kong for more than 21 years. Mr. Wu is presently a partner in the law firm of Fred Kan & Co. and is a notary public in Hong Kong and a China Appointed Attesting Officer. Mr. Wu is also a director of a number of listed companies in Hong Kong.

Mr. Wong Kwok Tai, aged 63, joined the Company as an independent non-executive director in August 2001. Mr. Wong is a fellow of Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Society of Accountants and a Certified Public Accountant. He has more than 36 years financial experience. Mr. Wong is the company secretary of many listed companies and also the principal of W. Wong & Co., C.P.A.

3. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Principal place of business in Hong Kong	Room 3A03-06, 3/F New Mandarin Plaza 14 Science Museum Road Tsimshatsui East Hong Kong
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Financial adviser	Somerley Limited Suite 3108, One Exchange Square 8 Connaught Place Central Hong Kong

Underwriter	Vision Century Group Limited P.O. Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands
Sub-underwriters	Somerley Limited Suite 3108, One Exchange Square 8 Connaught Place Central Hong Kong Kingston Securities Limited 2801 One International Finance Centre 1 Harbour View Street Central Hong Kong
Legal advisers to the Company	<i>On Hong Kong law:</i> Richards Butler 20/F Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda law:</i> Conyers Dill & Pearman Suite 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	Ernst & Young <i>Certified Public Accountants</i> 1501 Hutchison House 10 Harcourt Road Central Hong Kong
Principal bankers	Standard Chartered Bank 23/F, 4-4A Des Voeux Road Central, Hong Kong Bank of East Asia Ltd. G/F, 60 Percival Street Causeway Bay, Hong Kong

Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Tengis Limtied 4/F Hutchison House 10 Harcourt Road Central Hong Kong
Authorised representatives	Mr. Lo Ming Chi, Charles Mr. Yu Wai Man
Company secretary	Mr. Yu Wai Man, AHKSA

4. DISCLOSURE OF INTERESTS OF DIRECTORS

(a) Interests in the Company

(i) *Directors' interests in Shares*

As at the Latest Practicable Date, none of the Directors had interests in any equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he was taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, so far as the Directors are aware.

(ii) *Directors' rights to acquire Shares*

The Company had adopted the Share Option Scheme under which the Directors may, on or before 16th February, 2008, invite any employee or executive director of the Group to take up options to subscribe for Shares.

As at the Latest Practicable Date, none of the Directors held any options granted to them under the Share Option Scheme.

Save as disclosed herein, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31st March, 2001, the date to which the latest published audited financial statements of the Group were made up. Save as disclosed herein, there is no contract or arrangement subsisting at the date of this

prospectus in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

(iii) *Substantial Shareholders*

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the substantial shareholder holding, direct or indirect, interest of 10% or more of the nominal value of any class of share capital was recorded as follows:

Name	Number of Shares held	Percentage of issued Shares
Baxter Resources S.A.	1,595,140,000	59.4%

5. MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiaries not being contracts entered into in the ordinary course of business carried on by the Group within two years immediately preceding the date of this prospectus and are or may be material:

- (i) A shareholders' agreement dated 20th September, 2000 between On Glory Holdings Limited, Hung Cheong Technology Limited, Robert Technology Limited and Toysmatch.com Limited in respect of the establishment of a joint venture company, Toysmatch.com Limited, to operate a business to business electronic commerce portal;
- (ii) A subscription agreement dated 30th October, 2000 between the Company and Join Asia Enterprises Limited in respect of the subscription by Join Asia Enterprises Limited of a convertible note issued by the Company at a face value of HK\$3,000,000;
- (iii) A sale and purchase agreement dated 3rd October, 2000 as amended by a supplemental agreement dated 24th October, 2000 between Gainful International Investments Limited, a member of the Group, and Pearlhost Limited in respect of a proposed sale of properties located in Hong Kong known at House 3 of Greenery Villas, 2-10 Ma Ying Path, Kau To Shan, Shatin, which transaction was cancelled on 6th March, 2001 pursuant to a cancellation agreement between the same parties;
- (iv) the Subscription Agreement;
- (v) the Compromise Agreement;
- (vi) the Underwriting Agreement;

(vii) the CN Settlement Agreement; and

(viii) the Share Settlement Agreements.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this prospectus.

6. LITIGATION

Save as disclosed below, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Hong Kong

1. A claim (HCA 9585 of 2000) for HK\$4,413,480.63 plus damages and costs in respect of an alleged default under an overdraft facility and a trade facility was brought by DBS Kwong On Bank Limited, a party to the Compromise Agreement, against (1) Hung Cheong Toys International Limited; and (2) Hung Fung Group Holdings Limited. DBS Kwong On Bank Limited has since joined the Bank Group and this claim will be settled as part of the Bank Compromise.
2. A claim (DCCJ 17900 of 2000) for alleged outstanding trade debts was brought by Winco Paper Products Company Limited against Hung Cheong Toys International Limited. Claiming HK\$370,249.19 together with interests, costs and/or other relief. The statement of claim was filed on 21st December, 2000 and a defence was filed on 19th January, 2001. No further action has been taken by the parties.
3. A claim (DCCJ 3872 of 2001) for alleged outstanding trade debts was brought by Ip Hing Chemicals Limited against Hung Cheong Toys International Limited. The amount claimed was HK\$479,681.06, together with interests, costs and/or other relief. The statement of claim was filed on 23rd February, 2001 and an acknowledgement of service was filed on 8th March, 2001. No further action has been taken by the parties.
4. A claim (HCA 9532 of 2000) for HK\$2,994,076.30 alleged for payment for goods provided plus interests was brought by Wesco China Limited against (1) Hung Cheong Toys International Limited and (2) Hung Fung Group Holdings Limited and an amended judgement was entered in favour of the plaintiff on 29th January, 2001. By a consent order dated 11th April, 2001, there was a stay of execution on judgement on the condition that the Group do pay to the plaintiff the claim together with interest by 8 instalments.

5. A claim (HCA 561 of 2001) for HK\$3,195,529.06 being allegedly payable by way of payment for printing services to Hung Cheong Toys International Limited plus interest was brought by Midas Printing Limited against Hung Fung Group Holdings Limited. By a consent order on 1st March, 2001, the claim will be settled by monthly instalments. Due to the default in payment, there was a winding up petition (HCCW 67 of 2002) by Midas Printing Limited against the Company. On 22nd March, 2002, the Group entered a deed of settlement with the plaintiff and the petition was withdrawn on 16th April, 2002.
6. Winding-up petitions (HCCW501 of 2001 and HCCW 438 of 2001) filed by Sin Hua Bank Limited, Hong Kong Branch were issued against the Company and Hung Cheong Toys International Limited respectively, but were withdrawn by way of court order on 29th August, 2001 and 5th September, 2001 respectively.
7. A claim (HCA1663 of 2001) for the total sum of HK\$2,348,933.95 being the lease payment plus interest was brought by Wing Hang Finance Company Limited against (1) Hung Cheong Toys International Limited and (2) Hung Fung Group Holdings Limited on 12th April 2001. By way of undertaking and guarantee/indemnity signed between the parties, the claim was adjourned sine die with no order as to costs at a hearing on 15th October, 2001.

PRC

8. A claim (2001) 東經初字第5437號 for alleged outstanding trade debts was bought by 廣東省大亞灣 (惠光) 石化貿易公司 against (1) Hung Cheong Industrial Company and (2) HCTF and a judgment was entered in favour of the plaintiff on the 10th day of December, 2001 for an amount in the total sum of RMB\$311,287.65 plus interest and costs in the sum of RMB\$7,646.00.
9. Two claims were filed by Pacific Finance (Hong Kong) Limited against (1) Hung Cheong Toys International Limited; (2) Hung Cheong Industrial Company; and (3) HCTF in the PRC in respect of a dispute regarding hire purchase contracts for certain equipment. The parties have entered into a settlement arrangement on 21st March, 2001 regarding those claims under which the Group is obliged to pay rental and interest by instalment, the last of which is payable on 15th August, 2002.

7. EXPERT

- (a) Ernst & Young (certified public accountants) has no direct or indirect shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (b) Ernst & Young has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of references to its names in the form and context in which they appear.
- (c) Ernst & Young does not have any direct or indirect interest in any assets which have been since 31st March, 2001, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

8. LEGAL EFFECT

This prospectus and the enclosed Application Form, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance of the Laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Section 44A and 44B of the Companies Ordinance of Hong Kong, so far as applicable.

9. EXPENSES

The expenses in connection with the Open Offer, including the financial advisory fee, underwriting commission, printing, registration, translation, legal, and accounting charges are estimated to amount to approximately HK\$3.5 million and will be payable by the Company.

10. DOCUMENTS REGISTERED BY THE REGISTRAR OF COMPANIES

A copy of this prospectus together with, the Application Form, having attached thereto the written consent given by Ernst & Young as referred to in this Appendix, have been registered with the Registrar of Companies in Hong Kong.

11. DIRECTORS' SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with any member of the Group which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

12. MISCELLANEOUS

The English text of this prospectus and the Application Form shall prevail over the Chinese text in the case of any inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at Room 3A03-06, 3/F New Mandarin Plaza, 14 Science Museum Road, Tsimshatsui East, Hong Kong, up to and including 27th May, 2002:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the three financial years ended 31st March, 2001;
- (c) the interim report of the Company for the six months ended 30th September, 2001;
- (d) the circular of the Company dated 26th April, 2002 in relation to the Open Offer and the Restructuring Proposal;
- (e) the material contracts referred to in the section headed “Material contracts” in this Appendix; and
- (f) the written consent referred to in the section headed “Expert” in this Appendix.