

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Board of Directors (the "Board") of Sewco International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as "Sewco" or the "Group") for the six months ended 30 June 2002 together with the comparative figures for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER	2	202,878	141,829
Cost of sales		(158,394)	(109,362)
Gross profit		44,484	32,467
Other revenue, net		3,958	1,715
Distribution costs		(8,274)	(5,659)
Administrative expenses		(17,055)	(12,412)
Other operating expenses		(911)	-
PROFIT FROM OPERATING ACTIVITIES	3	22,202	16,111
Finance costs		(35)	(142)
PROFIT BEFORE TAX		22,167	15,969
Tax	4	(2,656)	1,064
PROFIT BEFORE MINORITY INTERESTS		19,511	17,033
Minority interests		201	-
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		19,712	17,033
EARNINGS PER SHARE – Basic	5	HK5.30 cents	HK5.32 cents
DIVIDENDS	6		
2002 special dividend		8,000	-
2002 interim dividend		4,800	-

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Total shareholders' equity at 1 January	151,845	115,414
Exchange differences on translation of the financial statements of a foreign subsidiary – note 11	44	24
Net gain not recognised in the condensed consolidated profit and loss account	44	24
Issue of shares	36,037	–
Net profit for the period attributable to shareholders	19,712	17,033
Special dividend	(8,000)	–
Total shareholders' equity at 30 June	<u>199,638</u>	<u>132,471</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		94,578	94,898
Goodwill		3,034	–
Club debentures		600	600
Loan receivable	7	4,500	–
		102,712	95,498
CURRENT ASSETS			
Inventories		68,729	52,439
Trade receivables	8	50,032	51,234
Prepayments, deposits and other receivables		2,664	4,513
Loan receivable	7	–	4,500
Tax recoverable		–	2,693
Due from a related company		4	2
Due from a director		213	51
Cash and cash equivalents		79,748	20,252
		201,390	135,684
CURRENT LIABILITIES			
Trade payables	9	78,642	53,478
Other payables and accruals		12,946	13,090
Interest-bearing bank loans		–	472
Tax payable		10,195	7,823
		101,783	74,863
NET CURRENT ASSETS		99,607	60,821
TOTAL ASSETS LESS CURRENT LIABILITIES		202,319	156,319
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		–	2,488
Deferred tax		1,986	1,986
		1,986	4,474
MINORITY INTERESTS		695	–
		199,638	151,845
CAPITAL AND RESERVES			
Issued capital	10	40,001	200
Reserves	11	154,837	151,645
Interim dividend		4,800	–
		199,638	151,845

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	40,248	(9,836)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(5,869)	(1,958)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	25,077	(610)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	59,456	(12,404)
Cash and cash equivalents at beginning of period	20,252	36,408
Effect of foreign exchange rate changes, net	40	20
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>79,748</u>	<u>24,024</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	65,047	3,524
Time deposits with original maturity of less than three months when acquired	14,701	20,500
	<u>79,748</u>	<u>24,024</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated as an exempted company with limited liability in Bermuda on 22 August 2001 under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation arrangement (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 March 2002, the Company became the holding company of the Group on 5 February 2002. The Group Reorganisation involved companies under common control. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2002 have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 27, "Accounting for group reconstructions". The condensed consolidated interim financial statements for the six months ended 30 June 2002 together with the comparative figures of the corresponding period in last year and the related notes thereto have also been presented in these condensed consolidated interim financial statements on the basis as if the group structure immediately after the Group Reorganisation, which comprises the Company and all of the other companies as wholly-owned subsidiaries of the Company, resulting from the Group Reorganisation executed on 5 February 2002, had been in existence throughout the periods ended 30 June 2001 and 2002 and since 1 January 2001 or since the respective dates of incorporation/registration of the Company and its subsidiaries, where this is a shorter period.

The unaudited condensed consolidated interim financial statements are prepared in accordance with SSAP No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation adopted are the same as those used in the Group's pro forma combined financial statements for the year ended 31 December 2001, except that the Group has changed certain of its accounting policies following the adoption of the following new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for the accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised):	Presentation of financial statements
SSAP 11 (Revised):	Foreign currency translation
SSAP 15 (Revised):	Cash flow statements
SSAP 33:	Discontinuing operations
SSAP 34:	Employee benefits

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries operating in Mainland China and overseas are translated on consolidation at an average rate for the period, rather than at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. This SSAP has not had any material impact on these financial statements.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for current interim period and the comparative figures have been presented with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has not had any material impact on these financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has not had any material impact on these financial statements.

2. SEGMENT INFORMATION

(a) Business segments

The following table presents revenue and profit/(loss) information of the Group's business segments for the six months ended 30 June 2002 and 30 June 2001 respectively.

	Hard toys		Stuffed toys		Corporate and others		Eliminations		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	138,975	117,377	63,903	24,452	-	-	-	-	202,878	141,829
Intersegment sales	40,282	-	1,884	569	-	-	(42,166)	(569)	-	-
Other revenue from external sources	1,174	944	281	145	1,875	(187)	-	-	3,330	902
Intersegment other revenue	961	2,134	-	-	12,800	-	(13,761)	(2,134)	-	-
Total	<u>181,392</u>	<u>120,455</u>	<u>66,068</u>	<u>25,166</u>	<u>14,675</u>	<u>(187)</u>	<u>(55,927)</u>	<u>(2,703)</u>	<u>206,208</u>	<u>142,731</u>
Segment results	<u>16,023</u>	<u>15,309</u>	<u>4,331</u>	<u>176</u>	<u>14,020</u>	<u>(187)</u>	<u>(12,800)</u>	<u>-</u>	<u>21,574</u>	<u>15,298</u>
Interest income									628	813
Finance costs									(35)	(142)
Profit before tax									22,167	15,969
Tax									(2,656)	1,064
Profit before minority interests									19,511	17,033
Minority interests									201	-
Net profit from ordinary activities attributable to shareholders									<u>19,712</u>	<u>17,033</u>

2. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and profit/(loss) information of the Group's geographical segments for the six months ended 30 June 2002 and 30 June 2001 respectively.

	USA and Canada		Japan and others		Hong Kong and PRC		Corporate and eliminations		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	172,634	114,227	30,244	27,602	-	-	-	-	202,878	141,829
Other revenue	731	334	585	243	139	512	1,875	(187)	3,330	902
Total	<u>173,365</u>	<u>114,561</u>	<u>30,829</u>	<u>27,845</u>	<u>139</u>	<u>512</u>	<u>1,875</u>	<u>(187)</u>	<u>206,208</u>	<u>142,731</u>
Segment results	<u>17,387</u>	<u>11,308</u>	<u>3,739</u>	<u>3,665</u>	<u>(772)</u>	<u>512</u>	<u>1,220</u>	<u>(187)</u>	<u>21,574</u>	<u>15,298</u>

3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Cost of inventories sold	158,394	109,362
Depreciation	2,934	3,318
Amortisation of land use rights	-	122
Amortisation of goodwill	51	-
Loss on disposal of fixed assets	911	-
Interest income	<u>(628)</u>	<u>(813)</u>

4. TAX

Hong Kong profits tax has been provided at the rate of 16% (six months ended 30 June 2001: 16%) on the estimated assessable profits arising in Hong Kong during the period.

The provision for income tax of a subsidiary operating in The People's Republic of China (the "PRC") has been calculated at the applicable rate of tax prevailing in the areas in which that subsidiary operates, based on existing legislation, interpretations and practices in respect thereof, during the period. According to the Income Tax Law of the PRC, the Company's subsidiary which operates in Zhongshan, the PRC, has obtained a 50% relief from PRC income tax granted by the Zhongshan State Tax Bureau. Accordingly, PRC income tax has been provided at 12% during the period.

4. TAX (Continued)

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Provision for the period:		
Hong Kong	(2,426)	(1,743)
Elsewhere	(230)	(116)
Overprovision in prior years	-	2,923
Tax credit/(charge) for the period	<u>(2,656)</u>	<u>1,064</u>

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$19,712,000 (six months ended 30 June 2001: HK\$17,033,000) and the pro forma weighted average of 371,713,901 (six months ended 30 June 2001: pro forma weighted average of 320,000,000) ordinary shares in issue during the period.

As the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the six months ended 30 June 2002, there was no dilutive effect on the basic earnings per share for the period. Diluted earnings per share amount was not presented for the six months ended 30 June 2001 as there were no dilutive potential ordinary shares outstanding during the prior period.

6. DIVIDENDS

At the annual general meeting of the Company held on 27 May 2002, the Company's shareholders approved the payment of a special dividend of HK2 cents per share of the Company (six months ended 30 June 2001: Nil). This special dividend was paid to the Company's shareholders in June 2002.

At a meeting of the Board held on 18 September 2002, the Board resolved to pay an interim dividend of HK1.2 cents per share of the Company for the six months ended 30 June 2002 (six months ended 30 June 2001: Nil) to the Company's shareholders whose names appear on the Company's Registers of Members on 11 October 2002. This interim dividend will be paid around 7 November 2002.

7. LOAN RECEIVABLE

The balance represents an advance of HK\$4,500,000 made by a subsidiary of the Company to an employee of the Group, which is secured by a first legal charge over a leasehold property situated in Hong Kong held by the borrower and a personal guarantee given by a director of the Group. During the period, the loan interest rate was changed from 6.667% per annum to Hong Kong prime rate minus 2.25% per annum and the maturity date of which was extended from November 2002 to April 2004. Accordingly, the loan receivable has been classified as a long term loan receivable as at 30 June 2002.

8. TRADE RECEIVABLES

An aged analysis of the trade receivables from the sale of goods at the balance sheet date, based on invoice date, is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	39,872	41,486
31 – 90 days	9,717	9,748
Over 90 days	443	–
	<u>50,032</u>	<u>51,234</u>

The Group normally allows credit terms for established customers ranging from 14 to 45 days.

9. TRADE PAYABLES

The aged analysis of trade payables at the balance sheet date, based on invoice date, is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	35,660	23,123
31 – 90 days	42,982	26,095
Over 90 days	–	4,260
	<u>78,642</u>	<u>53,478</u>

10. SHARE CAPITAL

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Authorised:		
1,000,000,000 (31 December 2001: 1,000,000) ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100</u>
Issued:		
400,002,000 ordinary shares of HK\$0.1 each fully paid (31 December 2001: 1,000,000 ordinary shares of HK\$0.1 each nil paid)	<u>40,001</u>	<u>–</u>

10. SHARE CAPITAL (Continued)

A summary of the movements of the Company's ordinary share capital during the period from 22 August 2001 (date of incorporation) to 30 June 2002 is as follows:

	Number of shares	Carrying amount HK\$'000
Shares allotted and issued nil paid on 11 September 2001	1,000,000	–
Shares issued as part of the consideration for acquisition of the entire issued share capital of Sewco (B.V.I.) Limited ("Sewco BVI")	1,000,000	100
1,000,000 nil paid shares credited as fully paid as the remaining consideration for acquisition of the entire issued share capital of Sewco BVI	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the new issue of shares to the public	318,000,000	–
Pro forma share capital at 31 December 2001	320,000,000	200
New issue on public listing	80,000,000	8,000
Capitalisation of share premium account as set out above	–	31,800
Warrants exercised	2,000	1
Issued share capital at 30 June 2002	<u>400,002,000</u>	<u>40,001</u>

Share options

The Company operates a share option scheme which became effective on 5 February 2002.

Up to the date of approval of these condensed consolidated interim financial statements, no options have been granted under the said scheme.

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and placees of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

During the period from 6 March 2002 to the date of approval of these condensed consolidated interim financial statements, 2,000 warrants were exercised for 2,000 shares of HK\$0.10 each at HK\$0.70 per share. At the date of the approval of these condensed consolidated interim financial statements, the Company had 79,998,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 79,998,000 additional shares of HK\$0.10 each, for gross proceeds of HK\$55,999,000.

11. RESERVES

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Fixed assets revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2002	-	2,220	28,789	1,270	345	119,021	151,645
Issue of shares	36,001	-	-	-	-	-	36,001
Capitalisation issue of shares	(31,800)	-	-	-	-	-	(31,800)
Share issue expenses	(4,201)	(2,220)	-	-	-	(1,544)	(7,965)
Exchange realignments	-	-	-	-	44	-	44
Transfer	-	-	-	21	-	(21)	-
Net profit for the period	-	-	-	-	-	19,712	19,712
Special Dividend	-	-	-	-	-	(8,000)	(8,000)
2002 interim dividend	-	-	-	-	-	(4,800)	(4,800)
At 30 June 2002	-	-	28,789	1,291	389	124,368	154,837

12. COMMITMENTS

Other than the operating lease commitments detailed in note 13 below, at the balance sheet date, the Group did not have any significant commitments.

13. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one month to one and a half years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	1,424	1,709
In the second to fifth years, inclusive	16	554
	1,440	2,263

14. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities (31 December 2001: Nil).

15. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Rental expenses paid to a director	(i)	102	102
Rental expenses paid to a director's associate	(ii)	216	216

Notes:

- (i) The rental expenses were paid to Ms Cheung Man, Catherine, a director of the Company, for leasing a property as staff quarter by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.
- (ii) The rental expenses were paid to Ms Fung Wai Chi, Philomena, the wife of Mr Cheung Po Lun ("Mr Cheung"), a director of the Company, for leasing a property as staff quarter by the Group. The rental was determined between both parties with reference to then prevailing market conditions.
- (b) Certain of the Group's credit facilities were secured by personal guarantees from Mr Cheung. The guarantees are being replaced by a corporate guarantee provided by the Company after the listing of its shares on 6 March 2002.
- (c) The Group received a guarantee from Mr Cheung in respect of a loan granted to an employee of the Group (note 7).

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 18 September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Strong Financial Performance

Despite the global economic slowdown and the adverse retail environment, the Group's operations for the period under review have emerged unscathed and paradoxically, better. Contrary to the public's reckoning, the global toy industry has not been significantly affected by the economic downturn. The Group has been able to achieve a promising financial performance over the six months ended 30 June 2002.

Leveraging on its core strengths of a solid clientele base, an effective product mix, good quality products, scalable and cost-efficient production facilities and prudent cost control policies, the Group has continued to sustain its market position in the trading and manufacturing of hard and stuffed toy products.

The Group is delighted with the developments and improvements made over the first half year of 2002. The total unaudited turnover increased by 43.0% to reach HK\$202.9 million, as compared to the corresponding period in the prior year. Net profit from ordinary activities attributable to shareholders also increased by 15.7%, reaching HK\$19.7 million. This substantial progress is attributed to the increase in the quantity of orders made to the Group. With its efficient production capabilities and economies of scale, Sewco is able to offer clients with competitive prices, thereby attracting larger order quantities and boosting its turnover and profit.

The overall increase in turnover reflects the growth of the Group's two principal products — hard toys and stuffed toys. Sales of hard toys accounted for approximately 69% of the Group's turnover, while the balance of 31% can be attributed to the sales of stuffed toys. This analysis reflects the overwhelming popularity of hard toys in the consumer market, as they are versatile enough to meet the taste and preference of a wider age range of customers. During the period under review, the Group had not recorded any material change in the rate of contribution to turnover in terms of product line or geographical segments.

Solid Clientele Base

Sewco has firmly established itself as a renowned OEM toy manufacturer in Hong Kong and the PRC. With its unwavering commitment to quality products and services, the Group has earned the trust and allegiance of its customers.

The Group's three major clients comprise the two world-class toy companies, Bandai and Mattel, and TMSW, the agent for an internationally recognised fast food chain store. Given the longstanding and amicable business relationships with these multinational companies, Sewco has established a strong platform for future growth.

Effective Product Mix

Sewco has been able to maximise its production capacity throughout the sales year due to an effective product mix. Sales of toy products are generally affected by seasonality and the peak season runs from May to October. Out of its three major customers, Sewco produces toy products for two clients and premium products for the other one, which are not affected by seasonality but run instead in accordance with the client's marketing programs and strategies. The Group therefore has an effective product mix that allows for better planning and utilisation of production facilities and helps maximising its revenue.

Proven Production Capabilities

With its headquarters in Hong Kong, Sewco's production capacity is supported by three facilities in Zhongshan Shi, Guangdong Province, the PRC. These operations are well-positioned to take the advantages of low production costs and economical labour costs in the PRC.

During the period under review, the Group has added ten new injection moulding machines to its production portfolio, and it is expected to increase its production capacity. In total, the Group has 39 production lines for hard toy products, 90 injection moulding machines, six electronic assembly lines and 11 production lines for stuffed toy products. Given the increase in the number of orders, the facilities are running at full steam and Sewco is enjoying the tremendous benefits obtained through economies of scale.

It is the Group's objective to keep its operations efficient and effective, and to ensure that the principle of cost-effectiveness is always adhered to. In light of this, the Group will subcontract some of its production operations out when necessary, especially during the peak season through May to October. This will allow the Group to maintain flexibility in its daily operations and to enhance overall cost-efficiency.

Good Quality Products

The brandname Sewco is synonymous with high quality and competitively priced toy products. In order to sustain this image, the Group has implemented a series of quality assurance measures that maintain an almost zero defective rate before delivery. The Group's quality assurance team,

which comprises more than 75 inspection supervisors, technicians and assistants, is dedicated to upholding Sewco's high standards. Inspections are carried out throughout the production procedures, from purchase of materials to delivery of products, to ensure that the Group's high-quality values are not compromised.

Future Prospects

In the second half of the fiscal year 2002, Sewco anticipates that the popularity of "basic toys" will continue to flourish. The Group will leverage on its solid business platform to boost its sales volume and to increase its market share. The Group also hopes to further expand its solid client base to include more first-rate trading companies, premium suppliers and toy specialists.

In order to meet accelerating market demand for its products, the Group has already purchased a piece of land spanning approximately 35,000 sq.m. in Zhongshan Shi, the PRC, for the purpose of expanding its production capacity. The new facility encompasses a factory floor space of 50,000 sq.m. designated for the production of hard toys. The first stage of construction work for the new facility is planned to commence in the latter half of this year. Completion of the new plant is expected in 2003. By increasing its production capabilities, the Group will be able to fulfil more orders which in turn will help boosting its turnover.

Sewco will continue to strive for increasing cost-efficiency and productivity in order to achieve steady growth and better returns for its shareholders in the coming year. With its strong customer base, effective product mix, scalable production facilities and high-quality products, Sewco is well-positioned to thrive in line with the growing global toy industry.

Liquidity and Financial Resources

The Group has maintained a sound financial position during the period under review. As at 30 June 2002, the Group was ungeared, its net cash and bank balances, which were mainly in Hong Kong dollars and United States dollars, amounted to approximately HK\$79.7 million and the Group had no borrowings. The Board is in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

Contingent Liabilities

As at 30 June 2002, the Group did not have any significant contingent liabilities (31 December 2001: Nil).

Charge on Group Assets

As at 30 June 2002, certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate value of approximately HK\$2.6 million (31 December 2001: HK\$2.6 million) have been pledged to a bank in Hong Kong as security in respect of banking facilities of approximately HK\$22.0 million (31 December 2001: HK\$25.0 million) granted to the Group. As at 30 June 2002, such facilities were not utilised (31 December 2001: HK\$3.0 million).

Exposure to Foreign Exchange Risks

Most of the income and expenditure of the Group are denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, and the fluctuation in the exchange rate between Hong Kong dollars and Renminbi is minimal, the Group has not exposed to any material currency fluctuation risk during the period under review.

Employees and Remuneration Policy

As at 30 June 2002, the Group has a total of approximately 6,622 employees, an increase of 19.0% as compared with the corresponding period in 2001. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Bonuses and share options may be awarded to employees based on performance evaluation. These are drives and encouragements for personal performance.

USE OF PROCEEDS OF THE INITIAL PUBLIC OFFER

The net proceeds of the Share Offer (as defined in the prospectus of the Company dated 22 February 2002), after deducting related expenses, amounted to approximately HK\$36 million. Out of the net proceeds, approximately HK\$18 million will be used for construction of a new factory complex, approximately HK\$6 million for acquisition of additional machinery and equipment and approximately HK\$2 million for expansion of the sales and marketing team of the Group. The remaining proceeds will be used as additional working capital of the Group. As at 30 June 2002, approximately HK\$2 million was utilised as planned. The remaining of the proceeds is placed in short term deposits with licensed banks in Hong Kong and will be applied in the coming years to their intended uses as set out above.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2002, the interests of the directors of the Company and their associates in the securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(1) The Company

(i) Ordinary shares

Name of director	Type of interest	Number of shares owned
Mr Cheung	Corporate	300,000,000 (Note)

(ii) Warrants

Name of director	Type of interest	Number of warrants owned
Mr Cheung	Corporate	30,000,000 (Note)

Note:

Both the shares and warrants are held by Great Victory International Inc. ("Great Victory"), a company beneficially owned by Mr Cheung.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

(2) Associated corporations

(i) Great Victory (holding company of the Company)

Name of director	Nature of interest	Number and class of shares held in Great Victory
Mr Cheung	Personal	100 ordinary shares (representing its entire issued share capital)

(ii) Sewco Toys & Novelty Limited ("Sewco Toys") (indirect wholly-owned subsidiary of the Company)

Name of director	Nature of interest	Number and class of shares held in Sewco Toys
Mr Cheung	Personal	4,200 non-voting deferred shares (representing all of its issued non-voting deferred shares)

(iii) Pearl Delta Toys Limited ("Pearl Delta") (indirect wholly-owned subsidiary of the Company)

Name of director	Nature of interest	Number and class of shares held in Pearl Delta
Mr Cheung	Personal	2,000,000 non-voting deferred shares (representing all of its issued non-voting deferred shares)

In addition to the above, Mr Cheung holds an ordinary share in each of Sewco Toys and Pearl Delta in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors of the Company or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) or had any right to subscribe for equity or debt securities of the Company, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2002, the following interest of 10% or more of the issued share capital of the Company was 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 shares of the Company held	Percentage of the Company's issued capital
Great Victory	300,000,000	75

The above interest in the name of Great Victory was also disclosed as the interest of Mr Cheung in the above section headed "Directors' interests in the securities of the Company and its associated corporations".

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in the securities of the Company and its associated corporations" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 5 February 2002 (the "Scheme"), the Company can grant an option to any Eligible Person (as defined in the Scheme), including any full-time employee and executive and non-executive directors of the Group, to subscribe for shares of the Company. No share options have been granted by the Company under the Scheme since the adoption of the Scheme.

Except the Scheme, the Company or any of its subsidiaries have not adopted any schemes involving the grant by the Company or any of its subsidiaries of options over new shares or other new securities of the Company or any of its subsidiaries to, or for the benefit of, specified participants of such schemes.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period for the six months ended 30 June 2002, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

To comply with the Code, the Company established an audit committee (the "Committee") on 5 February 2002, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control system. The Committee comprises the two independent non-executive directors of the Company, namely Mr Yeung Po Chin and Mr Wong Yam Fung. This unaudited interim report for the six months ended 30 June 2002 has been reviewed by the Committee.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 7 October 2002 to Friday, 11 October 2002 (both days inclusive), during which period no transfer of shares will be registered and no shares of the Company will be issued upon exercise of any subscription rights attaching to the outstanding warrants issued by the Company. In order to qualify for entitlement to the interim dividend declared, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Friday, 4 October 2002.

On behalf of the Board
Cheung Po Lun
Chairman

Hong Kong, 18 September 2002