



Sewco's directors and senior management (from left to right): Mr Ho Kam Chuen, Ms Cheung Man, Catherine Mr Kung Ka Pang, Mr Cheung Po Lun (Chairman), Mr Hui Kwok Chu and Ms Lo Suk Yee Roxanna

Management Discussion and Analysis

Business Review for 2002

Representing 68.9% (2001: 76.4%) and 31.1% (2001: 23.6%) of the Group's total turnover, sales of hard toys and stuffed toys grew by 10.9% and 62.3% respectively over the previous year. With the benefit of increasing market demand for stuffed toys during the year, the Group, being an established reputable OEM manufacturer in Hong Kong and The People's Republic of China, was able to secure more orders for the stuffed toys in addition to the steady growth noted in the hard toys segment.

Geographically, sales to USA/Canada remained the largest segment through which 86.2% (2001:84.4%) of the Group's turnover for the year was generated, while the balance of 13.8% (2001: 15.6%) was attributable to the sales to Japan. The Group did not record any material change in the rate of contribution to operating profit in terms of geographical segments.

Liquidity and Financial Resources

The Group is financing its operations from internally generated cashflow. As at 31 December 2002, cash

and bank deposits, mainly in the form of Hong Kong dollars, US dollars and Renminbi, held by the Group was approximately HK\$87.0 million (2001: HK\$20.3 million). The increase in cash and bank balances has been attributed to the net proceeds of the Share Offer (as defined in the prospectus dated 22 February 2002 (the "Prospectus")) of HK\$36.0 million and the net cash inflow of HK\$62.8 million from its operating activities. Out of the bank credit facilities of approximately HK\$60.5 million granted from various banks, the Group did not utilise any such facilities as at 31 December 2002.

During the year under review, the Group maintained a strong and healthy financial position. As at 31 December 2002, the total shareholders' equity of the Group was approximately HK\$216.9 million. The Group's current ratio and the quick ratio were 2.9 (2001: 1.8) and 2.0 (2001: 1.0) respectively. Both ratios indicated that the Group has maintained a satisfactory and healthy liquidity level.

The Group's gearing ratio at 31 December 2002, defined as the total bank borrowings and finance lease payables divided by the total shareholders' equity of approximately HK\$216.9 million, was zero (2001: 1.9%).



Sewco's production facilities

Contingent Liability

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$0.7 million as at 31 December 2002 as a result of the adoption of the Statements of Standard Accounting Practice 34 "Employee benefits". The contingent liability has arisen because at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Charge on Assets

Certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate value of HK\$2.6 million as at 31 December 2001 had been pledged to a bank in Hong Kong as security in respect of banking facilities of approximately HK\$25.0 million granted to the Group in 2001. Such pledges were released during the year ended 31 December 2002. As at 31 December 2001, such facilities were utilised to the extent of HK\$3.0 million.

Exposure to Foreign Exchange Risks

The Group conducts most of its business transactions in currencies of United States dollars, Hong Kong dollars and Renminbi. As these currencies were relatively stable during the year under review, the Group has not been exposed to any material currency fluctuation risk during the year.

Employee and Remuneration Policies

As at 31 December 2002, the Group had approximately 8,250 (2001: 6,100) employees. The employees were remunerated based on their performance with reference made to the prevailing industry practice. Their remuneration are reviewed annually and discretionary bonus and options, which are used as drives and encouragements for personal performance, may be awarded to employees having regard to the performance and contribution of the employees.

Use of Proceeds of the Initial Public Offer

The net proceeds of the Share Offer (as defined in the Prospectus) after deducting related expenses amounted to HK\$36.0 million. Out of the net proceeds, approximately HK\$18.0 million will be used for the construction of a new factory complex, approximately HK\$6.0 million for the acquisition of additional machinery and equipment and approximately HK\$2.0 million for the 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 31 December 2002, approximately HK\$2.0 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.