

## UNAUDITED 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 2003 together with the comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Notes	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000
TURNOVER	2	<b>201,354</b>	202,878
Cost of sales		<b>(168,666)</b>	(158,394)
Gross profit		<b>32,688</b>	44,484
Other revenue and gains, net		<b>4,338</b>	3,958
Selling and distribution costs		<b>(8,567)</b>	(8,274)
Administrative expenses		<b>(16,458)</b>	(17,055)
Other operating expenses		<b>-</b>	(911)
PROFIT FROM OPERATING ACTIVITIES	3	<b>12,001</b>	22,202
Finance costs		<b>(1)</b>	(35)
Share of losses of associates		<b>(268)</b>	-
PROFIT BEFORE TAX		<b>11,732</b>	22,167
Tax	4	<b>(1,657)</b>	(2,866)
PROFIT BEFORE MINORITY INTERESTS		<b>10,075</b>	19,301
Minority interests		<b>-</b>	201
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>10,075</b>	19,502
DIVIDENDS	5	<b>5,376</b>	12,800
EARNINGS PER SHARE – basic	6	<b>HK2.48 cents</b>	HK5.25 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

30 June 2003

	Notes	<b>30 June 2003 (Unaudited)</b>	31 December 2002 (Audited, restated)
		<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>127,129</b>	100,321
Interests in associates	7	<b>6,172</b>	–
Club debentures		<b>600</b>	600
Loan receivable	8	<b>4,035</b>	4,350
		<b>137,936</b>	105,271
<b>CURRENT ASSETS</b>			
Inventories		<b>100,663</b>	57,454
Trade receivables	9	<b>63,090</b>	22,454
Prepayments, deposits and other receivables		<b>13,695</b>	5,472
Loan receivable	8	<b>315</b>	–
Due from related companies		<b>14</b>	18
Cash and cash equivalents		<b>55,384</b>	87,029
		<b>233,161</b>	172,427
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>93,297</b>	37,985
Other payables and accruals		<b>14,618</b>	15,297
Tax payable		<b>4,635</b>	5,532
Interest-bearing bank borrowings		<b>1,115</b>	–
		<b>113,665</b>	58,814
<b>NET CURRENT ASSETS</b>		<b>119,496</b>	113,613
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>257,432</b>	218,884
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		<b>8,885</b>	–
Deferred tax		<b>5,276</b>	3,876
		<b>14,161</b>	3,876
		<b>243,271</b>	215,008
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>44,801</b>	40,001
Reserves		<b>193,094</b>	167,007
Proposed dividends		<b>5,376</b>	8,000
		<b>243,271</b>	215,008

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 June 2003

	Six months ended 30 June	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<b>(23,585)</b>	40,248
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(36,300)</b>	(5,869)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>28,240</b>	25,077
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>(31,645)</b>	59,456
Cash and cash equivalents at beginning of period	<b>87,029</b>	20,252
Effect of foreign exchange rate changes, net	<b>-</b>	40
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b><u>55,384</u></b>	<u>79,748</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>21,927</b>	65,047
Time deposits with original maturity of less than three months when acquired	<b>33,457</b>	14,701
	<b><u>55,384</u></b>	<u>79,748</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed assets revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 January 2003									
As previously reported	40,001	-	-	29,111	1,797	342	137,647	8,000	216,898
Prior year adjustment – SSAP 12 (Revised) "Income Taxes" (note 1)	-	-	-	(1,520)	-	-	(370)	-	(1,890)
Audited, restated	40,001	-	-	27,591	1,797	342	137,277	8,000	215,008
Final 2002 dividend paid	-	-	-	-	-	-	-	(8,000)	(8,000)
Issue of shares	4,800	22,560	-	-	-	-	-	-	27,360
Share issue expenses	-	(1,120)	-	-	-	-	-	-	(1,120)
Exchange realignment	-	-	-	-	-	58	-	-	58
Revaluation reserve released	-	-	-	(319)	-	-	319	-	-
Deferred tax	-	-	-	(110)	-	-	-	-	(110)
Net profit for the period	-	-	-	-	-	-	10,075	-	10,075
Proposed interim 2003 dividend	-	-	-	-	-	-	(5,376)	5,376	-
<b>At 30 June 2003 (unaudited)</b>	<b>44,801</b>	<b>21,440</b>	<b>-</b>	<b>27,162</b>	<b>1,797</b>	<b>400</b>	<b>142,295</b>	<b>5,376</b>	<b>243,271</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2002

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed assets revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 January 2002:									
As previously reported	-	-	2,220	28,789	1,270	345	119,021	-	151,645
Prior year adjustment – SSAP 12 (Revised) "Income Taxes" (note 1)	-	-	-	(1,520)	-	-	-	-	(1,520)
Audited, restated	-	-	2,220	27,269	1,270	345	119,021	-	150,125
Issue of shares	8,101	36,001	-	-	-	-	-	-	44,102
Capitalisation of shares	31,900	(31,800)	-	-	-	-	-	-	100
Share issue expenses	-	(4,201)	(2,220)	-	-	-	(1,544)	-	(7,965)
Exchange realignment	-	-	-	-	-	44	-	-	44
Transfer	-	-	-	-	21	-	(21)	-	-
Net profit for the period (restated) (note 1)	-	-	-	-	-	-	19,502	-	19,502
Special dividend	-	-	-	-	-	-	(8,000)	-	(8,000)
Proposed interim 2002 dividend	-	-	-	-	-	-	(4,800)	4,800	-
At 30 June 2002 (unaudited, restated)	40,001	-	-	27,269	1,291	389	124,158	4,800	197,908

## NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2003

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted are the same as those used in the Group's audited consolidated financial statements for the year ended 31 December 2002, except that the Group has changed certain of its accounting policies following the adoption of SSAP No. 12 (Revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

SSAP No. 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is that:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings.

The adoption of this SSAP No.12 (Revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. In this connection, the balances of fixed assets revaluation reserve at 1 January 2002 and 1 January 2003 have been reduced by approximately HK\$1,520,000, the balances of retained profits at 1 January 2003 has been reduced by approximately HK\$370,000 and the net profit for the six months ended 30 June 2002 has been reduced by approximately HK\$210,000, representing the deferred tax liabilities recognised in respect of the revaluation surplus and other temporary differences on the Group's assets as at those dates.

## 2. SEGMENT INFORMATION

### (a) Business segments

The following table presents revenue and profit information regarding business segments for the six months ended 30 June 2003 and 30 June 2002.

	Hard toys		Stuffed toys		Corporate and others		Eliminations		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited, restated) HK\$'000
Segment revenue:										
Sales to external customers	177,643	138,975	23,711	63,903	-	-	-	-	201,354	202,878
Intersegment sales	-	40,282	-	1,884	-	-	-	(42,166)	-	-
Other revenue from external sources	1,990	1,174	645	281	1,365	1,875	-	-	4,000	3,330
Intersegment other revenue	616	961	-	-	10,752	12,800	(11,368)	(13,761)	-	-
<b>Total</b>	<b>180,249</b>	<b>181,392</b>	<b>24,356</b>	<b>66,068</b>	<b>12,117</b>	<b>14,675</b>	<b>(11,368)</b>	<b>(55,927)</b>	<b>205,354</b>	<b>206,208</b>
Segment results	9,245	16,023	1,735	4,331	11,435	14,020	(10,752)	(12,800)	11,663	21,574
Interest income									338	628
Finance costs									(1)	(35)
Share of losses of associates									(268)	-
Profit before tax									11,732	22,167
Tax									(1,657)	(2,866)
Profit before minority interests									10,075	19,301
Minority interests									-	201
Net profit from ordinary activities attributable to shareholders									10,075	19,502

### (b) Geographical segments

The following table presents revenue information regarding geographical segments for the six months ended 30 June 2003 and 30 June 2002.

	USA and Canada		Japan and others		Hong Kong and PRC		Corporate and eliminations		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	176,960	172,634	24,394	30,244	-	-	-	-	201,354	202,878
Other revenue	1,810	731	452	585	373	139	1,365	1,875	4,000	3,330
<b>Total</b>	<b>178,770</b>	<b>173,365</b>	<b>24,846</b>	<b>30,829</b>	<b>373</b>	<b>139</b>	<b>1,365</b>	<b>1,875</b>	<b>205,354</b>	<b>206,208</b>

### 3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	168,666	158,394
Depreciation	3,052	2,934
Amortisation of goodwill	-	51
Loss on disposal of fixed assets	-	911
Interest income	(338)	(628)
	<u>168,666</u>	<u>158,394</u>

### 4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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, can obtain a 50% relief from PRC income tax granted by the Zhongshan State Tax Bureau. Accordingly, PRC income tax has been provided at 12% (2002: 12%) during the period.

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited, restated)
	HK\$'000	HK\$'000
Group:		
Hong Kong	60	2,426
Elsewhere	307	230
Deferred tax	1,290	210
	<u>1,657</u>	<u>2,866</u>
Tax charge for the period		

### 5. DIVIDENDS

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Special dividend of Nil (2002: HK2 cents) per ordinary share	-	8,000
Interim dividend of HK1.2 cents (2002: HK1.2 cents) per ordinary share	5,376	4,800
	<u>5,376</u>	<u>12,800</u>

The Board has resolved to pay an interim dividend of HK1.2 cents per share of the Company for the six months ended 30 June 2003 (2002: HK1.2 cents per share) to the Company's shareholders whose names appear on the Company's Register of Members on Friday, 10 October 2003. This interim dividend will be paid on or before Friday, 7 November 2003.



## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately HK\$10,075,000 (2002: HK\$19,502,000 (restated)) and the weighted average of 405,571,061 ordinary shares (2002: pro forma weighted average of 371,713,901 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 in respect of both periods presented, there was no dilutive effect on the basic earnings per share for these periods.

## 7. INTERESTS IN ASSOCIATES

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Share of net assets	-	-
Goodwill on acquisition	<b>6,172</b>	-
	<b>6,172</b>	-

## 8. LOAN RECEIVABLE

The balance represents an advance of approximately HK\$4,350,000 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. The amount bears interest at Hong Kong prime rate minus 2.25% per annum. In the opinion of the directors, an amount of HK\$315,000 will be repayable within twelve months and, accordingly, this amount is shown as a current asset as at 30 June 2003.

## 9. TRADE RECEIVABLES

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

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Current to 30 days	<b>49,299</b>	15,490
31 - 90 days	<b>13,791</b>	6,964
	<b>63,090</b>	22,454

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

**10. TRADE PAYABLES**

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

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Current to 30 days	<b>49,343</b>	22,924
31 – 90 days	<b>43,124</b>	14,917
Over 90 days	<b>830</b>	144
	<b><u>93,297</u></b>	<u>37,985</u>

**11. SHARE CAPITAL****Shares**

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.1 each	<b><u>100,000</u></b>	<u>100,000</u>
	<b>Number of ordinary shares of HK\$0.1 each</b>	<b>Carrying amount HK\$'000</b>
Issued and fully paid: At 1 January 2003	400,002,000	40,001
Issue of shares (note)	<u>48,000,000</u>	<u>4,800</u>
<b>At 30 June 2003</b>	<b><u>448,002,000</u></b>	<b><u>44,801</u></b>

Note:

On 28 May 2003, an agreement was entered into by Great Victory International Inc. ("Great Victory"), the controlling shareholder of the Company, and CLSA Limited, the placing agent appointed by Great Victory for a placement (the "Placing") of 48,000,000 then existing ordinary shares of HK\$0.1 each in the Company (the "Placing Shares") at a price of HK\$0.57 per share (the "Placing Price"). Pursuant to the said agreement, CLSA Limited has agreed to unconditionally place the Placing Shares to six or more independent professional and institutional investors (the "Placees") on a fully underwritten basis. The Placing Shares were fully placed by CLSA Limited to the Placees on 2 June 2003. CLSA Limited and the Placees (and their ultimate beneficial owners) are independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them.

## 11. SHARE CAPITAL (continued)

As the same series of transactions, on 28 May 2003, Great Victory also entered into a conditional subscription agreement with the Company to subscribe (the "Subscription") for 48,000,000 new ordinary shares of HK\$0.1 each in the Company (the "Subscription Shares") at a price of HK\$0.57 per share (the "Subscription Price"). On 10 June 2003, the conditions as specified in the subscription agreement had been fulfilled and, accordingly, the Subscription was completed.

The Placing Shares represented approximately 12.00% of the then existing issued share capital of the Company and approximately 10.71% of the then issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Placing Price and Subscription Price of HK\$0.57 represented a discount of approximately 6.55% to the closing price of HK\$0.61 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 May 2003, and a discount of approximately 3.55% to the average closing price of HK\$0.591 per share as quoted on the Stock Exchange for the last ten trading days from 15 May 2003 to 28 May 2003 (both dates inclusive).

The net proceeds to the Company from the Subscription of approximately HK\$26 million is used to expand the Group's existing factory capacity by the construction of a new factory complex in Gangkou Zhen, Zhongshan Shi, the PRC.

The shareholding of Great Victory in the issued share capital of the Company was reduced from approximately 75.00% to approximately 63.00% upon the completion of the Placing but before completion of the Subscription and was increased to approximately 66.96% upon the completion of the Subscription.

### Share options

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 and any holder of any securities issued by any member of the Group, to subscribe for shares of the Company. No share options have been granted under the Scheme since the adoption of the 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\$0.1 at a subscription price of HK\$0.7, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

During the period under review, no warrants had been exercised and the Company had 79,998,000 warrants outstanding as at 30 June 2003. 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\$0.1 each, for gross proceeds of approximately HK\$55,999,000.

## 12. COMMITMENTS

In addition to the operating lease commitments detailed in note 13 below, the Group had the following commitments in respect of the construction of fixed assets at the balance sheet date.

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Capital commitments:		
Contracted for	<b>30,135</b>	176
Authorised, but not contracted for	<b>3,920</b>	40,118
	<b>34,055</b>	40,294

## 13. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from three months to one year and one month.

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

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within one year	<b>1,157</b>	1,238
In the second to fifth years, inclusive	<b>17</b>	335
	<b>1,174</b>	1,573

## 14. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Group provided a corporate guarantee of HK\$500,000 (31 December 2002: Nil) to a bank in connection with facilities granted to an associate. As at 30 June 2003, the bank facilities covered by the Group's guarantee to an associate were fully utilised.
- (b) 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 approximately HK\$783,000 as at 30 June 2003 (31 December 2002: HK\$674,000). 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.

**15. RELATED PARTY TRANSACTIONS**

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

	Notes	Six months ended 30 June	
		<b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2002 (Unaudited) HK\$'000
Rental expenses paid to a director	(i)	<b>102</b>	102
Rental expenses paid to a director's associate	(ii)	<b>216</b>	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 ("Ms Fung"), 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 the then prevailing market conditions.
- (b) The Group received a guarantee from Mr Cheung in respect of a loan granted to an employee of the Group (note 8).

**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 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Despite that the consumer confidence in USA has been flagging during the first half of 2003, Sewco was able to maintain its turnover at a comparable level as the corresponding period in 2002. For the six months ended 30 June 2003, the Group recorded a turnover of HK\$201.4 million, representing a slight decrease of 0.75% over that of the corresponding period in 2002. This was mainly attributable to Sewco's continuous commitments on product quality and competitive pricing policy, thereby attracting steady orders from its customers.

With the change in the market demand for hard toys and stuffed toys, sales of hard toys and stuffed toys for the six months ended 30 June 2003 were 88.22% (2002: 68.50%) and 11.78% (2002: 31.50%) of the Group's total turnover respectively.

During the period under review, USA and Canada remained the Group's major market, representing 87.89% (2002: 85.09%) of the Group's total turnover whereas the balance of 12.11% (2002: 14.91%) was attributable to the sales to Japan and other countries.

The price of plastic, a by-product of oil, had been increased significantly as a result of the Iraq War that broke out in March 2003. During the six months ended 30 June 2003, Sewco had experienced an average increase of 17% in the price of plastic, a major raw material used in the manufacture of its products. This adverse price change has caused the Group's gross profit margin and net profit margin fell to 16.23% (2002: 21.93%) and 5.00% (2002: 9.61%), respectively. The Group had not recorded any material change in the rate of contribution to turnover in terms of product line and geographical segments.

### Future prospects

In view of the gradual recovery of the global economy and purchasing plans provided by its existing customers, Sewco believes that the demand for "Basic Toy" products will continue to grow steadily for the rest of the year. In order to cater for the business growth and to boost the production efficiencies, the construction of a new factory complex in Gangkou Zhen, Zhongshan Shi, PRC, which comprises a gross floor area of approximately 70,000 sq.m., started in late 2002. The Group expects the construction to be completed in November 2003 and the production will then be commenced. The Group estimates the total construction cost to be approximately HK\$61.0 million and approximately HK\$27.0 million has been incurred as at 30 June 2003. The remaining construction cost will be financed by the net proceeds from the initial public offering of 80,000,000 shares in March 2002 and the issue of 48,000,000 shares in June 2003 and the term loan facility offered by a bank. By increasing the production capabilities by approximately 30%, Sewco will be able to fulfill more orders and enjoy the economies of scale, which in turn will boost its turnover and minimise its production costs.

### **Future prospects (continued)**

Capitalizing on its solid foundation and expertise, the management will continue to explore suitable development opportunities to assure the long-term growth of the Group and enhance the investment return of the shareholders.

### **Liquidity and financial resources**

The Group continued to adopt a conservative approach in managing its financial resources. As at 30 June 2003, the Group had cash and bank balances, which were mainly in Hong Kong dollars, US dollars and Renminbi, of approximately HK\$55.4 million (31 December 2002: HK\$87.0 million) and net assets amounted to approximately HK\$243.3 million (31 December 2002: HK\$215.0 million).

In order to finance the construction of the new factory complex, the Group had accepted a term loan facility of HK\$35 million and a revolving loan facility of HK\$20 million made available to the Group for a term of four years and one year respectively (collectively, the "Loan Facilities"), during the period under review. As at 30 June 2003, the Group has utilised the term loan facility of HK\$10 million. This loan facility is a clean loan without any charges or securities required and is subject to floating interest rates.

The Group continues to enjoy healthy financial position. As at 30 June 2003, the gearing ratio (total banking borrowings divided by the total shareholders' equity) was 4.11% (31 December 2002: 0%).

### **Contingent liabilities**

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 approximately HK\$0.8 million as at 30 June 2003 (31 December 2002: HK\$0.7 million). 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.

During the period under review, the Group provided a corporate guarantee of HK\$0.5 million (31 December 2002: Nil) to a bank in connection with the facilities granted to an associate. As at 30 June 2003, the bank facilities covered by the said guarantee were fully utilised.

In addition, it is one of the conditions of the Loan Facilities that Mr Cheung, the Chairman of the Board and the controlling shareholder (as defined in the Listing Rules) of the Company, his family members, close relatives, related trusts or companies controlled by him, his family members, close relatives or related trusts must beneficially own not less than 51% of the issued voting share capital of the Company throughout the life of the Loan

### Contingent liabilities (continued)

Facilities. A breach of the aforesaid condition will constitute an event of default under the Loan Facilities and no further advance will be allowed and all amounts outstanding under the Loan Facilities will immediately become due and payable. As at 30 June 2003 and up to the date of the approval of these condensed consolidated interim financial statements, Mr Cheung beneficially owns, through a company wholly-controlled by him, 66.96% of the issued share capital of the Company.

### Exposure to foreign exchange risks

The Group conducts most of its business transactions in currencies of US dollars, Hong Kong dollars and Renminbi. As these currencies were relatively stable during the period under review, the Group has not been exposed to any material currency fluctuation risk and therefore no use of financial instruments for hedging purposes was considered necessary.

### Employees and remuneration policy

As at 30 June 2003, the Group has a total of 7,250 (2002: 6,622) employees. The employees are remunerated based on their performance and the prevailing industry practice, with compensation policies and packages being reviewed annually. Bonuses and share options, which are used as drives and encouragements for personal performance, may be awarded to employees based on their performance.

## USE OF PROCEEDS

The net proceeds, after deducting the related issue expenses, from the initial public offering of 80,000,000 shares in 2002 and from the issue of 48,000,000 shares in 2003 were approximately HK\$36.0 million and HK\$26.0 million, respectively. As stated in the Company's prospectus dated 22 February 2002 and the Company's announcement dated 28 May 2003, the net proceeds will be applied as follows:

- approximately HK\$44.0 million will be used for the construction of a new factory complex;
- approximately HK\$6.0 million will be used for the acquisition of additional machinery and equipment;
- approximately HK\$2.0 million will be used for the expansion of sales and marketing team of the Group; and
- approximately HK\$10.0 million will be used as the working capital of the Group.

As at 30 June 2003, approximately HK\$27.0 million, HK\$6.0 million and HK\$10.0 million had been used for the construction of the new factory complex, the acquisition of machinery and equipment, and as working capital, respectively. The remaining of approximately HK\$19.0 million was 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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2003.

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

As at 30 June 2003, the interests and short positions of the directors of the Company in the securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) disclosed in accordance with the Listing Rules were as follows:

### (1) Long positions in securities of the Company

#### (i) Ordinary shares

Name of director	Capacity	Number of ordinary shares interested	Percentage of issued share capital
Mr Cheung	Interest in corporation	300,000,000 (Note)	66.96%

#### (ii) Warrants

Name of director	Capacity	Number of warrants interested	Percentage of issued share capital
Mr Cheung	Interest in corporation	30,000,000 (Note)	6.70%

Note:

Mr Cheung is deemed to be interested in 300,000,000 ordinary shares and 30,000,000 warrants of the Company which are held through Great Victory, a controlled corporation of Mr Cheung pursuant to SFO.

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

### (2) Long/short positions in shares of the associated corporations

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

Name of director	Long/short Position	Capacity	Number of ordinary shares interested in Great Victory	Percentage of issued share capital of Great Victory
Mr Cheung	Long	Beneficial owner	100	100%

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

Name of director	Long/short Position	Capacity	Class of shares	Number of shares interested in Sewco Toys	Note	Percentage of the respective classes of issued share capital of Sewco Toys
Mr Cheung	Long & short	Beneficial owner and interest in corporation	Non-voting deferred	4,200	(a)	100%
Mr Cheung	Long	Interest in corporation	Ordinary	2	(b)	100%

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

Name of director	Long/short Position	Capacity	Class of shares	Number of shares interested in Pearl Delta	Note	Percentage of the respective classes of issued share capital of Pearl Delta
Mr Cheung	Long & short	Beneficial owner and interest in corporation	Non-voting deferred	2,000,000	(a)	100%
Mr Cheung	Long	Interest in corporation	Ordinary	2	(b)	100%

#### Notes:

- (a) 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta are owned by Mr Cheung. Therefore Mr Cheung has a "long position" of 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta.

Pursuant to the option agreements dated 5 February 2002, Mr Cheung granted to Sewco (B.V.I.) Limited, a wholly-owned subsidiary of the Company, an option to purchase from him the 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta. Accordingly, Mr Cheung has a "short position" of 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta.

In addition, as the Company is a controlled corporation (as defined in Part XV of the SFO) of Mr Cheung, Mr Cheung is deemed to have a "long position" of the 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta that Sewco (B.V.I.) Limited has in such shares.

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

- (b) Mr Cheung is deemed to be interested in the 2 ordinary shares of each of Sewco Toys and Pearl Delta indirectly owned by the Company since the Company is a controlled corporation of Mr Cheung.

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, as at 30 June 2003, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 June 2003, the following parties were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Type of securities	Number of securities interested	Note	Percentage of issued share capital
Great Victory	Long	Beneficial owner	Ordinary shares	300,000,000	1	66.96%
Great Victory	Long	Beneficial owner	Warrants	30,000,000	1	6.70%
Ms Fung	Long	Interest of spouse	Ordinary shares	300,000,000	2	66.96%
Ms Fung	Long	Interest of spouse	Warrants	30,000,000	2	6.70%
Prudential Asset Management (Hong Kong) Limited ("PAML")	Long	Investment manager	Ordinary shares	39,672,000	3	8.86%
Prudential Corporation Holdings Limited ("PCHL")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.86%
Prudential PLC ("PP")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.86%

Notes:

- 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".
- Ms Fung is deemed to be interested in 300,000,000 ordinary shares and 30,000,000 warrants of the Company through interest of her spouse, Mr Cheung.
- PAML is wholly-owned by PCHL which is a wholly-owned subsidiary of PP. Accordingly PCHL and PP are deemed to be interested in the 39,672,000 shares of the Company in which PAML is interested.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)**

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' interests in the securities of the Company and its associated corporations" above, had registered an interest or a short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **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 2003, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, 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**

The Company established an audit committee (the "Committee") on 5 February 2002 in accordance with the requirements of the Code, 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 of two independent non-executive directors of the Company. The Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 have been reviewed by the Committee.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 8 October 2003, to Friday, 10 October 2003 (both days inclusive), during which period no transfer of shares of the Company 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 for the six months ended 30 June 2003, 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 G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30p.m. on Tuesday, 7 October 2003.

On behalf of the Board  
**Cheung Po Lun**  
Chairman

Hong Kong, 18 September 2003