

Corporate Information

Directors

Executive Directors

Mr Cheung Po Lun

Ms Cheung Man, Catherine

Mr Hui Kwok Chu

Mr Kung Ka Pang

Independent Non-executive Directors

Mr Yeung Po Chin

Mr Wong Yam Fung

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head Office and Principal

Place of Business in Hong Kong

18th Floor

Wing Wong Commercial Building

Nos. 557 and 559 Nathan Road

Yaumatei

Kowloon

Hong Kong

Company Secretary

Ms Lo Suk Yee, Roxanna

Mr Ira Stuart Outerbridge III

Assistant Secretary

Authorised Representatives

Mr Hui Kwok Chu

Ms Lo Suk Yee, Roxanna

Auditors

Ernst & Young, *Certified Public Accountants*

Audit Committee Members

Mr Yeung Po Chin

Mr Wong Yam Fung

Qualified Accountant

Ms Lo Suk Yee, Roxanna, *ACCA, HKSA*

Stock Code

209

Warrant Code

134

Principal Share Registrar and

Transfer Office

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong Branch Share Registrar

and Transfer Office

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Principal Bankers

International Bank of Asia Limited

Industrial and Commercial Bank of

China (Asia) Limited

Hang Seng Bank

BNP Paribas Hong Kong Branch

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 the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Notes	Six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	2	169,491	201,354
Cost of sales		(136,712)	(168,666)
Gross profit		32,779	32,688
Other revenue and gains, net		1,210	4,338
Selling and distribution costs		(5,469)	(8,567)
Administrative expenses		(17,508)	(16,458)
Other operating expenses		(202)	–
PROFIT FROM OPERATING ACTIVITIES		10,810	12,001
Finance costs		(210)	(1)
Share of losses of associates		(900)	(268)
PROFIT BEFORE TAX	3	9,700	11,732
Tax	4	(217)	(1,657)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		9,483	10,075
DIVIDEND	5	4,480	5,376
EARNINGS PER SHARE – basic	6	HK2.12 cents	HK2.48 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		167,674	160,142
Interests in associates		7,484	6,444
Club debentures		600	600
Loan receivable	7	1,205	1,295
Prepayments		-	3,057
		176,963	171,538
CURRENT ASSETS			
Inventories		85,850	59,200
Trade receivables	8	53,924	36,622
Prepayments, deposits and other receivables		9,827	9,428
Loan receivable	7	180	2,780
Due from related companies		17	14
Tax recoverable		3,358	2,263
Cash and cash equivalents		39,130	56,349
		192,286	166,656
CURRENT LIABILITIES			
Trade payables	9	71,293	42,752
Other payables and accruals		16,787	22,310
Bank loans		5,960	4,457
		94,040	69,519
NET CURRENT ASSETS		98,246	97,137
TOTAL ASSETS LESS CURRENT LIABILITIES		275,209	268,675
NON-CURRENT LIABILITIES			
Bank loans		12,550	15,543
Deferred tax		6,020	6,020
		18,570	21,563
		256,639	247,112
CAPITAL AND RESERVES			
Issued capital	10	44,801	44,801
Reserves		207,358	202,311
Proposed dividend		4,480	-
		256,639	247,112

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2004*

	Six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,125)	(23,585)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(8,604)	(36,300)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(1,490)	28,240
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,219)	(31,645)
Cash and cash equivalents at beginning of period	56,349	87,029
CASH AND CASH EQUIVALENTS AT END OF PERIOD	39,130	55,384
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	25,780	21,927
Time deposits with original maturity of less than three months when acquired	13,350	33,457
	39,130	55,384

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed assets revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1 January 2004	44,801	21,440	26,924	2,592	22	151,333	-	247,112
Exchange realignment and net gain not recognised in the profit and loss account	-	-	-	-	44	-	-	44
Revaluation reserve released	-	-	(343)	-	-	343	-	-
Net profit for the period	-	-	-	-	-	9,483	-	9,483
Proposed interim dividend	-	-	-	-	-	(4,480)	4,480	-
At 30 June 2004 (unaudited)	44,801	21,440*	26,581*	2,592*	66*	156,679*	4,480	256,639

* Comprises consolidated reserves of HK\$207,358,000 included in the condensed consolidated balance sheet as at 30 June 2004.

For the six months ended 30 June 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed assets revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1 January 2003	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)
Revaluation reserve released	-	-	(319)	-	-	319	-	-
Exchange realignment	-	-	-	-	58	-	-	58
Deferred tax	-	-	(110)	-	-	-	-	(110)
Net gain and loss not recognised in the profit and loss account	-	-	(110)	-	58	-	-	(52)
Net profit for the period	-	-	-	-	-	10,075	-	10,075
Proposed interim dividend	-	-	-	-	-	(5,376)	5,376	-
At 30 June 2003 (unaudited)	44,801	21,440	27,162	1,797	400	142,295	5,376	243,271

NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2004

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants 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 2003.

2. SEGMENT INFORMATION(a) *Business segments*

The following table presents revenue and profit information regarding business segments for the six months ended 30 June 2004 and 30 June 2003.

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	146,271	177,643	23,220	23,711	-	-	-	-	169,491	201,354
Other revenue from external sources	947	1,990	54	645	-	1,365	-	-	1,001	4,000
Intersegment other revenue	616	616	-	-	8,960	10,752	(9,576)	(11,368)	-	-
Total	147,834	180,249	23,274	24,356	8,960	12,117	(9,576)	(11,368)	170,492	205,354
Segment results	9,974	9,245	1,434	1,735	8,769	11,435	(9,576)	(10,752)	10,601	11,663
Interest income									209	338
Finance costs									(210)	(11)
Share of losses of associates									(900)	(268)
Profit before tax									9,700	11,732
Tax									(217)	(1,657)
Net profit from ordinary activities attributable to shareholders									9,483	10,075

(b) *Geographical segments*

The following table presents revenue information regarding geographical segments for the six months ended 30 June 2004 and 30 June 2003.

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	136,178	176,960	28,209	24,394	5,104	-	-	-	169,491	201,354
Other revenue	508	1,810	300	452	193	373	-	1,365	1,001	4,000
Total	136,686	178,770	28,509	24,846	5,297	373	-	1,365	170,492	205,354

3. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold*	136,712	168,666
Depreciation*	4,868	3,052
Loss on disposal of fixed assets, net	202	-
Finance costs	210	1
Amortisation of goodwill on acquisition of associates	403	268
Interest income	(209)	(338)

* A depreciation charge of HK\$3,446,000 (2003: HK\$2,213,000) was also included in "Cost of inventories sold".

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

The provision for income tax of a subsidiary operating in Mainland China 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.

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Hong Kong	7	60
Elsewhere	210	307
Deferred tax	-	1,290
Tax charge for the period	217	1,657

5. DIVIDEND

The Board has resolved to pay an interim dividend of HK1 cent per share of the Company for the six months ended 30 June 2004 (2003: HK1.2 cents per share) to the Company's shareholders whose names appear on the Company's register of members on Thursday, 30 September 2004. This interim dividend will be paid on or around Friday, 5 November 2004.

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 HK\$9,483,000 (2003: HK\$10,075,000) and the weighted average of 448,002,000 (2003: 405,571,061) ordinary shares in issue during the period.

Since the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the periods ended 30 June 2004 and 2003, there were no dilutive potential ordinary shares outstanding during the periods and therefore no diluted earnings per share amount was presented.

7. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2.0% per annum. The outstanding loan balance is repayable by monthly installments of HK\$15,000 by the borrower. Accordingly, an amount of HK\$180,000 is included under current assets and the balance of HK\$1,205,000 is included under non-current assets as at 30 June 2004.

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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current to 30 days	46,004	27,735
31 – 90 days	7,898	8,887
Over 90 days	22	–
	<u>53,924</u>	<u>36,622</u>

The Group normally allows credit terms for established customers ranging from 14 to 60 days.

9. TRADE PAYABLES

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

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current to 30 days	57,757	26,912
31 – 90 days	13,268	15,711
Over 90 days	268	129
	<u>71,293</u>	<u>42,752</u>

10. SHARE CAPITAL**Share capital**

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid: 448,002,000 ordinary shares of HK\$0.1 each	<u>44,801</u>	<u>44,801</u>

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive and non-executive directors, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholders of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of ordinary shares in respect of which options may be granted at any time under the Scheme and any other share option schemes of the Company cannot exceed 30% of the issued share capital of the Company from time to time. The total number of ordinary shares currently available for issue upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 40,000,000 shares, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 and approximately 8.93% of the issued share capital of the Company as at the date of this interim report. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of shares issuable under share options granted to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date.

10. SHARE CAPITAL (continued)

Share options (continued)

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the grant of the share options which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant.

No share options have been granted under the Scheme during the period and as at balance sheet date.

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 each 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 under review, no warrants were exercised and the Company had 79,998,000 warrants outstanding as at 30 June 2004. 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 approximately HK\$55,999,000.

11. CONTINGENT LIABILITIES

- (a) The Group had 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\$586,000 as at 30 June 2004 (31 December 2003: HK\$590,000). The contingent liability arose because at the balance sheet date a number of current employees had 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 was not recognised in respect of such possible payments, as it was not considered probable that the situation would result in a material future outflow of resources from the Group.
- (b) At the balance sheet date, the Company had provided corporate guarantees of HK\$500,000 (31 December 2003: HK\$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2004, such banking facilities were utilised up to an amount of HK\$227,000 (31 December 2003: HK\$500,000).

12. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms from seven months 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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	277	422
In the second to fifth years, inclusive	118	204
	395	626

13. COMMITMENTS

In addition to the operating lease commitments detailed in note 12 above, the Group had the following commitments as at the balance sheet date:

(a) *Capital commitments*

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Capital commitments:		
Contracted for	15	4,363
Authorised, but not contracted for	-	244
	15	4,607

(b) *Commitments under forward foreign exchange contracts*

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Forward foreign exchange contracts	17,160	72,540

14. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (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 quarters by the Group. The rental expenses were 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 quarters by the Group. The rental expenses were determined between both parties with reference to the then prevailing market conditions.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 September 2004 to Thursday, 30 September 2004 (both dates 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 2004, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30p.m. on Friday, 24 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's turnover for the six months ended 30 June 2004 was HK\$169,491,000, representing a decrease of 15.8% as compared to HK\$201,354,000 recorded in the corresponding period in 2003. The gross profit margin for the six months ended 30 June 2004 was 19.3%, an increase of 3.1% as compared with that of the corresponding period in 2003. Net profit from ordinary activities attributable to shareholders had decreased by 5.9% from the previous corresponding period to achieve HK\$9,483,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Results (continued)

As at 30 June 2004, total assets and net assets of the Group were HK\$369,249,000 (31 December 2003: HK\$338,194,000) and HK\$256,639,000 (31 December 2003: HK\$247,112,000), respectively, representing an increase of 9.2% and 3.9%, respectively, as compared with last year.

Business Review

Although highly competitive business environment and fierce price competition were noted during the period under review, the Group has intentionally changed its strategy to concentrate on orders with relatively higher profit margin only. This change in policy was in the hope that the Group would be able to withstand the unexpected increase in the price of plastic, a major raw material used in the manufacturing of its products, by the higher gross profit margin generated from the accepted orders. The Board considered this policy was successful during the six months ended 30 June 2004 as the gross profit margin has attained 19.3%, an improvement of 3.1% as compared to 16.2% recorded in the corresponding period in 2003. The gross profit for the period under review amounted to HK\$32,779,000, representing an increase of 0.3% as compared to that of the corresponding period in 2003 even though the Group's turnover has decreased by 15.8% as compared with that of the same period in 2003.

Sales of hard toys and stuffed toys for the six months ended 30 June 2004 remained relatively stable as compared to that of the corresponding period in last year. 86.3% (2003: 88.2%) and 13.7% (2003: 11.8%) of the Group's turnover were attributable to sales of hard toys and stuffed toys, respectively.

Geographically, although sales to USA and Canada remained the largest segment through which 80.3% (2003: 87.9%) of the Group's turnover for the period was generated, the Group has recorded sales in other countries/cities, such as United Kingdom and Hong Kong, as a result of new customers generated last year. Therefore the balances of 16.7% (2003: 12.1%) and 3.0% (2003: Nil) were attributable to sales to Japan & others and Hong Kong & Mainland China, respectively. The Group did not record any material change in the rate of contribution to operating profit in terms of geographical segments.

Future Prospects

The price of oil has continuously hit its high since 2004 even though the Organisation of Petroleum Exporting Countries has agreed to adopt measures to stabilise the price of oil. Therefore the future direction of the price of oil will still be very uncertain and hence the raw material costs will still be a major concern to the Group. The Group will therefore adopt the following measures in order to minimise the production costs:

- The Group will closely monitor the price of plastic and will raise the inventory level for plastic on a very cautious way;

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Future Prospects (continued)

- After commencing operation of its new factory complex in Gangkou Zhen, Zhongshan Shi, Mainland China, the Group has expanded its production capabilities by approximately 30%. Because of this expansion, the Group will be able to minimise its sub-contracting processes so as to reduce its sub-contracting charges; and
- The Group will continue to search for suitable companies for the purpose of vertical integration so as to achieve higher operational efficiency and more stringent cost controls.

Based on the current order book status, the directors are reasonably optimistic and confident that our Group will achieve moderate growth for the ensuing year.

Financial Review

Liquidity and Financial Resources

The Group continued to rely on internally generated funds as well as banking facilities granted by its principal bankers to finance its operations. As at 30 June 2004, the Group had cash and bank balances, which were mainly denominated in Hong Kong dollars, US dollars and Renminbi, of approximately HK\$39,130,000 (31 December 2003: HK\$56,349,000). The decrease in balances was mainly due to the tie-up of cash in inventories and trade receivables during the peak season, which normally falls from May to October.

The Group has aggregate banking facilities of approximately HK\$135,000,000, comprising the term loan, revolving loan, import and export facilities and overdrafts. As at 30 June 2004, the Group has utilised its term loan facility of HK\$18,510,000, of which HK\$5,960,000 is repayable by four equal quarterly installments within one year, and the balances of HK\$12,550,000 will be repayable by eight quarterly installments with the final payments repayable on 12 May 2007. This term loan facility is a clean loan without any charges or securities required and is subject to floating interest rates. It is one of the conditions of the term loan and revolving loan facilities (collectively referred to as "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 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 become due and payable immediately. As at 30 June 2004 and up to the date of the approval of these unaudited condensed consolidated interim financial statements, Mr Cheung beneficially owns, through a company wholly-controlled by him, approximately 66.96% of the issued share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Liquidity and Financial Resources (continued)

The Group has been able to maintain a strong and healthy financial position through the adoption of prudent and effective treasury policies. As at 30 June 2004, the Group's net current assets amounted to HK\$98,246,000 (31 December 2003: HK\$97,137,000). The Group's current ratio (current assets/current liabilities) and gearing ratio (total bank borrowings/total shareholders' equity) were 2.04 (31 December 2003: 2.4) and 7.2% (31 December 2003: 8.1%), respectively.

Charge on Assets

The Group did not have any charges on assets as at 30 June 2004 and 31 December 2003.

Exchange Risk

During the period under review, most of the Group's transactions were conducted in Hong Kong dollars, US dollars and Renminbi. As the exchange rates of these currencies were relatively stable, the Group's exposure to fluctuations in exchange rates was minimal.

However, in view of the possible appreciation of Renminbi in the coming months, the Group had entered into a series of forward contracts pursuant to which approximately US\$2,200,000 can be exchanged into Renminbi at fixed rates for the period up to 25 September 2004.

Employees

As at 30 June 2004, the Group had a total of approximately 8,300 (2003: 7,250) employees in Hong Kong and Mainland China. The Group's remuneration packages are generally structured by reference to market terms and individual merits. The management considers that the pay levels of the employees of the Group are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. In addition, share options under the Company's share option scheme may be awarded to the Group's employees based on their performance evaluation. All these measures are drives and encouragements for personal performance. Up to now, no share option has been granted by the Company.

USE OF PROCEEDS

The proceeds from the initial public offering of 80,000,000 shares in 2002 and from the issue of 48,000,000 shares in 2003, after deduction of related issuance expenses, amounted to approximately HK\$36,000,000 and HK\$26,000,000 respectively. As at 30 June 2004, approximately HK\$44,000,000 of these proceeds had been applied for the construction of a new factory complex in Mainland China, approximately HK\$6,000,000 had been applied to acquire plant and machinery and approximately HK\$10,000,000 had been used as working capital of the Group. Such usage is in accordance with the proposed applications set out in the Company's prospectus dated 22 February 2002 and the Company's announcement dated 28 May 2003. The remaining proceeds of approximately HK\$2,000,000 was placed in short term deposits with licensed banks in Hong Kong and will be applied in the coming years to its intended use as set out in the Prospectus.

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 2004.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, 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")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long positions in warrants of the Company:

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

Note: Mr Cheung was deemed to be interested in 300,000,000 ordinary shares and 30,000,000 warrants of the Company which are held through Great Victory International Inc. ("GVII"), a controlled corporation of Mr Cheung pursuant to SFO.

Long/Short positions in shares of the associated corporations:

(i) GVII (holding company of the Company)

Name of director	Long/Short position	Capacity	Number of ordinary shares interested in GVII	Percentage of the issued share capital of GVII
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	Notes	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%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long/Short positions in shares of the associated corporations (continued):

(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	Notes	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) The 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta were owned by Mr Cheung. Therefore, Mr Cheung had 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 had 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 was a controlled corporation (as defined in Part XV of the SFO) of Mr Cheung, Mr Cheung was 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 had in such shares.

- (b) Mr Cheung was 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 was a controlled corporation of Mr Cheung.

In addition to the above, Mr Cheung held an ordinary share in each of Sewco Toys and Pearl Delta in a non-beneficial capacity for the benefit of the Group, solely for the purpose of ensuring that these subsidiaries have more than one shareholder.

Save as disclosed above, as at 30 June 2004, 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, registered an interest 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 interest which was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO 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 SHAREHOLDERS' INTERESTS

At 30 June 2004, the following interests of 5% or more of the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Type of securities	Number of securities interested	Notes	Percentage of the Company's issued share capital
GVII	Long	Beneficial owner	Ordinary shares	300,000,000	1	66.96%
GVII	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%
The Prudential Assurance Company Limited (Hong Kong Branch)	Long	Beneficial owner	Ordinary shares	22,656,000		5.06%

Notes:

1. The above interests in the name of GVII were also disclosed as the interests of Mr Cheung in the above section headed "Directors' interests and short positions in shares and underlying shares".
2. Ms Fung was deemed to be interested in the 300,000,000 ordinary shares and 30,000,000 warrants of the Company through the interest of her spouse, Mr Cheung.
3. PAML was wholly-owned by PCHL which was a wholly-owned subsidiary of PP. Accordingly PCHL and PP were deemed to be interested in the 39,672,000 shares of the Company in which PAML was interested.

Save as disclosed above, no person, other than the directors of the Company whose interests were set out in the section "Directors' interests and short positions in shares and underlying shares" 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.

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 2004, 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 has an audit committee (the "Committee") which was established 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 the two independent non-executive directors. The Group's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the relevant legal requirements, and that adequate disclosures have been made.

On behalf of the Board
Cheung Po Lun
Chairman

Hong Kong, 3 September 2004