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For the quarterly period ended June 30, 2002

Commission File Number 0-23696

RADICA GAMES LIMITED  
(Exact name of registrant as specified in charter)

Bermuda  
(Country of Incorporation)

N/A  
(I.R.S. Employer Identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong  
(Address of principal executive offices)

Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2002
Common Stock, par value \$0.01 per share	17,734,991

\* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

RADICA GAMES LIMITED  
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QUARTER ENDED JUNE 30, 2002

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. Forward-looking statements involve risks and uncertainties that could cause actual results to

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differ materially from projected results. These risks include those set forth in our Annual Report on Form 20-F for the fiscal year ended December 31, 2001, as filed with the Securities and Exchange Commission. See "Item 3. Key Information - Risk Factors" in such report on Form 20-F. We are not undertaking to publicly update or revise any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

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### Item 1. Financial Statements

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RADICA GAMES LIMITED  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2002 AND DECEMBER 31, 2001

(US Dollars in thousands, except share data)

	June 30,	Decemb
	2002	200
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,134	\$ 25,
Accounts receivable, net of allowances for doubtful accounts of \$1,402 (\$2,207 in 2001)	11,528	17,
Inventories, net of provision of \$3,860 (\$3,997 in 2001)	24,905	17,
Prepaid expenses and other current assets	3,586	2,
Income taxes receivable	931	
Deferred income taxes	168	
Total current assets	63,252	63,
Property, plant and equipment, net	15,308	16,
Intangible assets, net	9,761	9,
Deferred income taxes, noncurrent	1,421	1,
Total assets	\$ 89,742	\$ 91,
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short term borrowings	\$ 846	\$
Accounts payable	12,236	10,
Current portion of long-term debt	3,649	3,
Accrued payroll and employee benefits	998	
Accrued expenses	9,255	10,
Income taxes payable	510	
Total current liabilities	27,494	26,
Long-term debt	-	1,
Total liabilities	27,494	28,

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Shareholders' equity:		
Common stock		
par value \$0.01 each, 100,000,000 shares authorized, 17,729,511 shares outstanding (17,646,740 in 2001)	177	
Additional paid-in capital	2,168	1,
Warrants to acquire common stock	--	
Retained earnings	60,399	61,
Accumulated other comprehensive income	(496)	(
	-----	-----
Total shareholders' equity	62,248	63,
	-----	-----
Total liabilities and shareholders' equity	\$ 89,742	\$ 91,
	=====	=====

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE MONTHS AND SIX MONTHS ENDED  
JUNE 30, 2002 AND 2001

(US Dollars in thousands, except per share data)	Three months ended June 30,		Six
	2002	2001	20
	-----	-----	-----
	(unaudited)	(unaudited)	(unaud
Revenues:			
Net sales	\$ 20,507	\$ 10,295	\$ 38
Cost of goods sold (exclusive of items shown separately below)	(14,305)	(6,707)	(25
Gross Profit	6,202	3,588	12
Operating expenses:			
Selling, general and administrative expenses	(4,324)	(4,833)	(9
Research and development	(953)	(1,446)	(1
Depreciation and amortization	(717)	(1,011)	(1
Foreign exchange gain (loss)	966	(58)	
	-----	-----	-----
Total operating expenses	(5,028)	(7,348)	(12
	-----	-----	-----
Operating income (loss)	1,174	(3,760)	
Other income	40	15	
Interest income	15	51	
	-----	-----	-----
Income (loss) before income taxes	1,229	(3,694)	
Provision for income taxes	(267)	(41)	
	-----	-----	-----
Net income (loss)	962	(3,735)	
	=====	=====	=====
Net income (loss) per share:			
Basic	\$ 0.05	\$ (0.21)	\$ (
	=====	=====	=====
Diluted	\$ 0.05	\$ (0.21)	\$ (

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	=====	=====	=====
Weighted average number of common and common equivalent shares:			
Basic	17,717,795	17,613,303	17,692
	=====	=====	=====
Diluted	18,366,659	17,613,303	17,692
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME  
THREE MONTHS ENDED MARCH 31, 2002

(US dollars in thousands)	Common stock		Additional paid-in capital	Warrants to acquire common stock	Re
	Number of shares	Amount			
	-----	-----	-----	-----	-----
Balance at December 31, 2001	17,646,740	\$ 176	\$ 1,549	\$ 445	\$
Issuance of stock	2,526	-	10	-	
Stock options exercised	80,245	1	164	-	
Expiration of stock warrants	-	-	445	(445)	
Net loss	-	-	-	-	
Foreign currency translation	-	-	-	-	
	-----	-----	-----	-----	-----
Balance at June 30, 2002	17,729,511	\$ 177	\$ 2,168	\$ -	\$
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2002 AND 2001

(US dollars in thousands)	2002	2001
	----- (unaudited)	----- (unaudited)
Cash flow from operating activities:		
Net loss	\$ (613)	\$ (7,459)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		

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Deferred income taxes	466	-
Depreciation	1,226	1,323
Amortization	210	691
Loss on disposal and write off of property, plant and equipment	18	40
Changes in current assets and liabilities:		
Decrease (increase) in accounts receivable	5,762	17,816
(Increase) in inventories	(7,726)	(5,521)
(Increase) in prepaid expenses and other current assets	(1,303)	(1,322)
Increase in accounts payable	2,615	228
Increase in accrued payroll and employee benefits	55	241
(Decrease) in accrued warranty expenses	(480)	(610)
(Decrease) in other accrued liabilities	(1,652)	(3,017)
(Increase) decrease income taxes	3	386
	-----	-----
Net cash (used in) provided by operating activities	(1,419)	2,796
	-----	-----
Cash flow from investing activities:		
Proceeds from sale of property, plant and equipment	210	47
Purchase of property, plant and equipment	(452)	(449)
	-----	-----
Net cash used in investing activities	(242)	(402)
	-----	-----
Cash flow from financing activities:		
Funds from issuance of stock	\$ 10	12
Funds from stock options exercised	165	78
(Decrease) increase in short-term borrowings	-	(1,966)
Repayment of long-term debt	(1,824)	(1,824)
	-----	-----
Net cash used in financing activities	(1,649)	(3,700)
	-----	-----
Effect of currency exchange rate change	(366)	46
	-----	-----
Net (decrease) increase in cash and cash equivalents	(3,676)	(1,260)
Cash and cash equivalents:		
Beginning of period	25,810	23,097
	-----	-----
End of period	\$ 22,134	\$ 21,837
	=====	=====

See accompanying notes to the consolidated financial statements.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

1. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financials statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated

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financial statements, accounting policies and related notes included in the Form 20F for the year ended December 31, 2001 as filed with the SEC.

The information provided in this report reflects all adjustments (consisting solely of normal recurring accruals) that are, in the opinion of management and subject to year-end audit, necessary to present fairly the financial position of the Company as of June 30, 2002, and the results of operations and cash flows for the periods then ended. Because the Company's business is seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the full year.

### 2. SEGMENT INFORMATION

The Company is a worldwide designer, producer and marketer of electronic entertainment devices. The Company has two reportable segments from which it derives its revenues: the Games business that sells product under the Company's Radica(R), Radica Gold(R) and Girl Tech(R) brand names, and the Video Game Accessory ("VGA") business that sells product under the Company's Gamester(TM) brand name. The Company also sources certain VGA and other electronic products through third party manufacturers for retailers to sell under their own brands; this is also included in the VGA segment. The reportable segments are strategic businesses that offer different products.

The accounting policies of the reportable segments are the same as those described in the Notes to the Company's consolidated financial statements for the year ended December 31, 2001, except for the Company's adoption of Statements of Financial Accounting Standards Nos. 142 and 144.

The Company measures segment performance based on net income before interest and other income and income taxes. Inter-segment sales and transfers have been eliminated and are not included in the following table. Certain corporate expenses are managed outside of the operating segments. Corporate expenses consist primarily of costs related to business integration and other general and administrative expenses. All corporate and indirect costs have been apportioned on the basis of corresponding sales and direct costs.

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## RADICA GAMES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QUARTER ENDED JUNE 30, 2002) (US dollars in thousands)

### 2. SEGMENT INFORMATION (Continued)

A large proportion of the Company's assets are utilized by both segments and are therefore not suitable for allocating to specific assets. In 2002, the Company has further refined the segment assets. The segment assets are comprised of accounts receivable, inventories and intangible assets. Other assets included in corporate principally are cash and cash equivalents, deferred tax assets, property, plant and equipment, and all other insignificant assets not reportable under other segments. Certain information presented in the tables below has been restated to conform to the current management structure as of January 2002. Information by segment and a reconciliation to reported amounts for the six months ended June 30,



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2002 and 2001 are as follows:

	Three months ended June 30,		Six months ended J	
	2002	2001	2002	
Revenues				
Games	\$ 16,608	\$ 9,070	\$ 29,034	\$
VGA	3,899	1,225	8,976	
Total revenues	\$ 20,507	\$ 10,295	\$ 38,010	\$
Segment income (loss)				
Games	\$ 1,263	\$ (3,143)	\$ 1,090	\$
VGA	(89)	(617)	(1,428)	
Total segment income (loss)	\$ 1,174	\$ (3,760)	\$ (338)	\$
Net Interest and other income	55	66	71	
Provision for income taxes	(267)	(41)	(346)	
Total consolidated net income (loss)	\$ 962	\$ (3,735)	\$ (613)	\$
			June 30,	Dece
			2002	
Segment assets				
Games			\$ 25,912	\$
VGA			20,282	
Corporate			43,548	
Total consolidated assets			\$ 89,742	\$

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

2. SEGMENT INFORMATION (Continued)

Revenues from external customers by product category are summarized as follows:

	Three months ended June 30,	Six months ended June 30,
	-----	-----

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	2002	2001	2002	2001
Electronics Games	\$ 8,607	\$ 6,083	\$15,437	\$11,537
Girls Electronics	1,802	1,305	3,813	3,599
ODM/OEM	6,199	1,682	9,784	3,446
Sourcing	798	425	2,212	1,148
VGA	3,101	800	6,764	2,338
Total net revenues	\$20,507	\$10,295	\$38,010	\$22,068

Information about the Company's operations in different geographic areas is set forth in the table below. Net sales are attributed to countries based on the location of customers, while long-lived assets are reported based on their location. Long-lived assets principally include property, plant and equipment, intangible assets and long-term investment:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Net sales:				
United States and Canada	\$ 14,112	\$ 6,895	\$ 26,622	\$ 13,810
Asia Pacific and other countries	3,692	1,557	4,920	2,000
Europe	2,703	1,843	6,468	3,250
	\$ 20,507	\$ 10,295	\$ 38,010	\$ 19,060

	June 30,	December 31,
	2002	2001
Long-lived assets		
United States and Canada	\$ 1,167	\$ 1,167
Asia Pacific and other countries	14,145	14,145
Europe	9,757	9,757
	\$ 25,069	\$ 25,069

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

3. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted income

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(loss) per share as of June 30:

	Three months ended June 30,		Six months en
	2002	2001	2002
Numerator for basic and diluted earnings per share:			
Net income (loss)	\$ 962	\$ (3,735)	\$ (613)
Denominator for earnings (loss) per share - Basic	17,717,795	17,613,303	17,692,695
Effect of dilutive options	648,864	--	--
Denominator for earnings (loss) per share - Diluted	18,366,659	17,613,303	17,692,695
Earnings (loss) per share - Basic	\$ 0.05	\$ (0.21)	\$ (0.03)
Earnings (loss) per share - Diluted	\$ 0.05	\$ (0.21)	\$ (0.03)

Basic earnings (loss) per share is based on the weighted average number of shares of common stock, and with respect to diluted earnings (loss) per share, also includes the effect of all dilutive potential common stock outstanding. Dilutive potential common stock results from dilutive stock options and warrants. The effect of such dilutive potential common stock on net income per share is computed using the treasury stock method. All potentially dilutive securities were excluded from the computation in loss making periods as their inclusion would have been anti-dilutive.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

4. RESTRUCTURING CHARGE

During December 2001, the Board of Directors approved a company wide restructuring plan which includes the consolidation of operations in Hong Kong and the China factory, the closure of the Company's San Francisco R&D office, the consolidation of the Company's product development operations as well as other head count reductions in the US, UK and Hong Kong offices. The Company recorded an accrual of \$1,551 of total pre-tax restructuring charge in Q4 2001, of which approximately \$199 related to the closure of the Company's San Francisco R&D office.

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The consolidation of operations in Hong Kong and China consisted of the localization in the China factory of a number of departments, which previously operated out of Hong Kong. The localization and consolidation of product development and manufacturing operations resulted in a workforce reduction of approximately 170 employees worldwide. This workforce reduction resulted in an accrual of approximately \$1,389 for severance and contractual termination costs and benefits payments. The consolidation occurred during the first half of 2002. The components of restructuring charges are as follows:

	Balance December 31, 2001 -----	Charges -----	Amount incurred -----	Balance June 30, 2002 -----
Severance and other compensation	\$ 1,389	\$ --	\$ (1,124)	\$ 265
Lease termination costs and related asset writedowns	199	--	(128)	71
	----- \$ 1,588	----- \$ --	----- \$ (1,252)	----- \$ 336
	=====	=====	=====	=====

### 5. INVENTORIES

Inventories by major categories are summarized as follows:

	June 30, ----- 2002 -----	December 31, ----- 2001 -----
Raw materials	\$ 4,759	\$ 3,165
Work in progress	4,749	3,176
Finished goods	14,473	10,137
Consigned finished goods	924	701
	----- \$24,905	----- \$17,179
	=====	=====

### RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

### 6. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

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	June 30, ----- 2002 -----	December 31, ----- 2001 -----
Accrued advertising expenses	\$ 946	\$ 1,105
Accrued license and royalties	1,576	2,346
Accrued sales expenses	3,303	3,422
Commissions payable	65	149
Other accrued liabilities	3,365	3,885
	-----	-----
Total	\$ 9,255	\$10,907
	=====	=====

7. PLEDGE OF ASSETS

The Company entered into guaranteed loan agreements and general banking facilities with one of its banks. The agreement contains covenants that, among other things, require the Company to maintain a minimum tangible net worth, gearing ratio and other financial ratios. At June 30, 2002, the loan agreements and general banking facilities including trade and overdraft facilities were collateralized as follows:

Leasehold land and buildings	\$ 11,298
Bank balances	8,955
Inventories	11,253
	-----
	\$ 31,506
	=====

8. LITIGATION

The Company is a party to certain claims and legal actions that have arisen in the ordinary course of business. Some of these matters are substantially covered by insurance. The resolution of these matters is not expected to have a material impact on the Company. The Company currently has no contingent obligations for which management views the crystallization to be probable or reasonably possible, and has therefore made no disclosures over current or pending legal actions taken against the Company.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(QUARTER ENDED JUNE 30, 2002)  
(US dollars in thousands)

9. RECENT ACCOUNTING PRONOUNCEMENTS

Effective on January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, which superceded Accounting Principles Board ("APB") Opinion No. 17, Intangible Assets. This statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. In accordance with the adoption of SFAS No. 142, the Company ceased amortization of goodwill and tested its goodwill and other

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intangible assets for impairment based on the requirements included in Statement 141 and reassessed the useful lives and residual values of those intangible assets other than goodwill. As of June 30, 2002, there was no impairment to the underlying value of the assets.

In August 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company has adopted SFAS No. 144 on January 1, 2002.

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### RADICA GAMES LIMITED

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QUARTER ENDED JUNE 30, 2002) (US dollars in thousands)

#### 9. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

The effect of the adoption of SFAS No. 142 for the current and prior year is as follows:

	Three months ended June 30,		Six months ended Ju	
	2002	2001	2002	2001
Reported net income (loss)	\$ 962	\$ (3,735)	\$ (613)	\$
Add back: Amortization of goodwill and other intangibles, net of tax effect	--	199	--	--
Net income (loss) as adjusted	\$ 962	\$ (3,536)	\$ (613)	\$
Earnings (loss) per share - Basic	\$ 0.05	\$ (0.21)	\$ (0.03)	\$
Add back: Amortization of goodwill and other intangibles, net of tax effect	--	0.01	--	--
Net earnings (loss) as adjusted	\$ 0.05	\$ (0.20)	\$ (0.03)	\$

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Earnings (loss) per share - Diluted	\$ 0.05	\$ (0.21)	\$ (0.03)	\$
Add back: Amortization of goodwill and other intangibles, net of tax effect	--	0.01	--	
	-----	-----	-----	-----
Net earnings (loss) as adjusted	\$ 0.05	\$ (0.20)	\$ (0.03)	\$
	=====	=====	=====	=====

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

-----

The following discussion should be read in conjunction with the attached financial statements and notes thereto, and with the audited financial statements, accounting policies and notes included in the Company's Annual Report on Form 20-F for the year ended December 31, 2001 as filed with the United States Securities and Exchange Commission.

OVERVIEW

Radica Games Limited (the "Company") manufactures and markets a diverse line of electronic entertainment products including handheld and tabletop games, girls' lifestyle products, high-tech toys, and video game accessories. The Company is headquartered in Hong Kong at the address set forth on the cover of this report and manufactures its products in its factory in southern China. The Company markets its products through subsidiaries in the United States, the United Kingdom, Canada and Hong Kong. Its largest market is in the United States where in 2001 it had the second largest market share in handheld and tabletop electronic games according to the NPD Group, Inc., the primary source for such industry data. In the United Kingdom, the Company's subsidiary had the largest market share of the video game controller market among third-party manufacturers in 2001 according to industry data source, Chart Track.

The Company's products currently include 1) handheld electronic and tabletop games sold under the Company's Radica and Radica Gold brand names, 2) technology enhanced games and gadgets for girls under the Girl Tech brand name, 3) Radica Play TV(TM) games, featuring XaviX(R) technology and 4) video game accessories sold under the Gamester brand name.

The Company employs a team of designers and engineers in its US, UK and Asia offices. Most of Radica's product concepts are generated internally, however on occasion the Company acquires product concepts from third party inventors. Inventors are compensated through royalties that are generally paid as a percentage of worldwide sales of the related product. Radica expects to continue to develop most of its product in-house going forward, but also plan to use outside inventors as a source for new product concepts.

Radica currently manufactures its products at its Tai Ping factory (the "Factory") in Dongguan, Southern China approximately 40 miles northwest of Hong Kong. The Factory was constructed with the cooperation of the local government according to the Company's design specifications on a 3.7-acre site. An extension of the Factory commenced in December 1999 to add 202,000 square feet of factory space and 178,000 square feet of dormitory space allowing for up to an additional 3,000 employees to be housed. The cost of construction of the extension would have been approximately \$3.0 million, exclusive of manufacturing equipment. As a result of the drop in demand for Radica product in the US during

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2000, work towards completion of this addition has been postponed and may continue when market demand warrants use of the additional space. The expansion has been sufficiently completed to the point that no impairment issues exist and it is currently being used for storage during peak production season. The unit capacity of the Factory depends on the product mix produced. In any event, there can be no assurance that the Company will be able to operate at full capacity or have sufficient sales to warrant doing so.

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The Company's offices in Dallas, Texas and Hertfordshire, UK manage its North American and UK distribution, respectively. Third-party distributors manage distribution throughout the rest of the world. Substantial portions of the Company's sales are sold to its distributors and retail customers on letter of credit basis or open account, and title of goods is taken in Hong Kong. Radica also sells product from domestic inventories held in various US, Canadian and UK warehouses. The Company currently has agreements with distributors in Germany and France that allow them to sell the Company's product on a consignment basis. The inventory is recorded in the Company's balance sheet and sales are recorded upon confirmation from the distributor.

A sales return allowance is recorded for estimated sales returns from customers. The allowance is based on historical trends and management's best assessment of sales returns as a percentage of overall sales. The Company also records an allowance for marketing and advertising costs agreed to with certain customers. These allowances are based on other specific dollar-value programs or percentages of sales, depending on how the program is negotiated with the individual customer.

The Company's cost of sales is comprised primarily of the cost of goods of its product manufactured in its Dongguan factory and sourced from third-party manufacturers. Other costs include inbound and outbound freight costs for goods that are shipped domestically from its distribution operations in North America and the UK, obsolescence provisions, warranty provisions for defective product and license and royalty expenses. The largest factors affecting the Company's gross margin percentages is the product sales mix; the different product lines make different gross margins and can have a significant impact on the overall gross margin of the Company.

The Company's selling, general and administrative ("SG&A") expenses are comprised of selling expenses such as sales commissions and product advertising, as well as non manufacturing-related labor expenses, general corporate expenses and depreciation and amortization. As a result of SFAS 142, beginning January 1, 2002, the Company ceased amortization of goodwill and tested its goodwill and other intangible assets for impairment based on the requirements included in SFAS 141. As of June 30, 2002, there was no impairment to the underlying value of the assets.

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### RESULTS OF OPERATIONS

The following unaudited table sets forth items from the Company's Consolidated Statements of Operations as a percentage of net sales:



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	Three month ended June 30,	
	2002	2001
Net sales	100.0%	100.0%
Cost of sales	(69.8%)	(65.1%)
Gross margin	30.2%	34.9%
Selling, general and administrative expenses	(21.1%)	(47.5%)
Research and development	(4.6%)	(14.1%)
Depreciation and amortization	(3.5%)	(9.8%)
Foreign exchange gain (loss)	4.7%	(9.8%)
Operating income (loss)	5.7%	(46.3%)
Other income	0.2%	0.1%
Interest income, net	0.1%	0.5%
Income (loss) before income taxes	6.0%	(45.7%)
Provision for income taxes	(1.3%)	(0.4%)
Net income (loss)	4.7%	(46.1%)

Net profit for the quarter was \$1.0 million or \$0.05 per share compared to a net loss of \$3.7 million or \$0.21 per share in the second quarter of 2001.

Net sales for the quarter increased by 99.0% to \$20.5 million from \$10.3 million in the second quarter of 2001. Revenues for the quarter were comprised of 42.0% Electronic Games (Handheld Games and Play TV(TM)), 8.8% Girls' Electronics (Girl Tech(R) and Barbie(TM)), 15.1% VGA and 34.1% Manufacturing Services (ODM, OEM and Sourcing) compared to 59.1%, 12.7%, 7.8% and 20.4% for the same period in 2001. In US dollar terms this represents sales growth of 41.5% for Electronic Games, 38.1% for Girls' Electronics, 287.6% for VGA and 232.1% for Manufacturing Services.

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Net sales by product category are summarized as follows (\$ in thousands):

	Three months ended June 30,	
	2002	2001
Electronic Games	\$ 8,607	\$ 6,083
Girls Electronics	1,802	1,305
ODM/OEM	6,199	1,682
Sourcing	798	425
VGA	3,101	800
Total Net Sales	\$20,507	\$10,295

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The Company's gross profit increased to \$6.2 million in 2002 from \$3.6 million in 2001. The Company's gross margin for the second quarter of 2002 was 30.2% compared to 34.9% in the second quarter of 2001 as a result of a higher mix of the lower margin Manufacturing Services business and certain inventory provisions taken primarily due to the recent sales declines experienced in European sales of old platform GameBoy Color and PSOne inventory.

Operating expenses for the quarter were \$5.0 million compared to \$7.3 million in Q2 of 2001. The decrease in expenditure was as a result of the Company's reorganization plan implemented earlier in the year and reduced amortization charges compared to 2001. As part of this, both SG&A expenses and R&D costs each decreased by \$0.5 million. In addition the Company made a foreign exchange gain of approximately \$1.0 million in its U.K. operation due to the increased strength of the Pound Sterling compared to the US Dollar.

### CAPITAL RESOURCES AND LIQUIDITY

At June 30, 2002 the Company had \$22.1 million of cash and total assets of \$89.7 million. The Company generates a significant majority of its cash from its normal operations but seasonal cash requirements have been met with the use of short-term borrowings, which included borrowings under secured lines of credit. There was no long-term debt as at June 30, 2002. During the second quarter of 2002, the Company made no acquisitions.

At June 30, 2002, cash and cash equivalents, net of borrowings, were \$17.6 million of which \$9.0 million of cash deposits have been pledged as security for undrawn or substantially repaid facilities. Management does not consider that there are any significant restrictions on its ability to gain access to these deposits. This compares with cash and cash equivalents, net of borrowings of \$19.5 million at December 31, 2001. The Company believes that during 2002 and beyond, its most significant cash source will be from its operating profits. The Company's management believes that it will realize an operating profit in 2002 and will successfully convert its receivables into the cash used to fund the business. The Company gives no assurances that it will successfully be able to achieve an operating profit in 2002.

Receivables decreased to \$11.5 million from the December 31, 2001 level of \$17.3 million while they increased by \$3.4 million compared with receivables of \$8.1 million as of June 30, 2001. Accounts

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receivable at the quarter-end is primarily composed of second quarter revenues in 2002. Net sales for the quarter increased by \$10.2 million compared to the second quarter of 2001. Inventories increased to \$24.9 million from \$17.2 million at December 31, 2001 to support third quarter sales. Current liabilities were \$27.5 million at June 30, 2002 compared to \$27.0 million at December 31, 2001.

Net cash used in financing activities was \$1.6 million in the second quarter of 2002. This was primarily due to the repayment of an installment of a term loan, partially offset by the proceeds from the exercise of stock options. Loan installments due within twelve months of reported quarter-end are included in short-term liabilities. The term loan and revolving loan are secured by certain properties and deposits of the Company (see Notes to the Consolidated Financial Statements). The agreement contains covenants that, among other things, require the Company to maintain a minimum of tangible net worth, gearing ratio and other financial ratios.

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Management believes that the Company's existing credit lines are sufficient to meet future short-term cash demands. The Company funds its operations and liquidity needs primarily through cash flow from operations, as well as utilizing borrowings under the Company's secured and unsecured credit facilities when needed. During 2002, the Company expects to continue to fund its working capital needs through operations and its revolving credit facility and believes that the funds available to it are adequate to meet its needs. The Company expects to be in compliance with its covenants in 2002. However, unforeseen circumstances, such as severe softness in or a collapse of the retail environment may result in a significant decline in revenues and operating results of the Company, thereby causing the Company to exhaust its cash resources. If this were to occur, the Company may be required to seek alternative financing of its working capital. In addition, this may cause the Company to be in non-compliance with its debt covenants and to be unable to utilize its revolving credit facility.

The Company had no derivative instruments or off balance sheet financing activities during the quarter ended June 30, 2002. The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy the current anticipated working capital needs of its core business.

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### Item 3. Qualitative and Quantitative Disclosures About Market Risk

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#### MARKET RISK DISCLOSURES

The following discussion about the Company's market risk disclosures contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates and foreign currency exchange rates. The Company does not have derivative financial instruments for hedging, speculative, or trading purposes.

#### INTEREST RATE SENSITIVITY

The Company's long-term loan agreement is based upon the US\$ Singapore Interbank Offered Rate ("SIBOR") and, as such, is sensitive to changes in interest rates. The Company has not used derivative financial instruments in its indebtedness. At June 30, 2002, the result of a hypothetical one percentage change in the underlying US\$ SIBOR rates would have resulted in less than \$0.1 million change in the annual amount of interest payable on such debt.

#### FOREIGN CURRENCY RISK

The Company has net monetary asset and liability balances in foreign currencies other than the U.S. dollar, including the Pound Sterling, the Canadian dollar, the Hong Kong dollar and the Chinese Renminbi. International distribution and sales revenues usually are made by the Company's subsidiaries in the United States, United Kingdom and Canada, and are denominated typically in their local currency. However, the expenses incurred by these subsidiaries are also denominated in the local currency. As a result, the operating results of the Company are exposed to changes in exchange rates between the United States Dollar and the Pound Sterling or the Canadian dollar. The Company's primary exposure relates to the intercompany debt that exists between Radica China, its manufacturing company that records its intercompany receivables in US

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Dollars, and Radica UK, its UK distribution company that records its intercompany payable to Radica China in Pound Sterling. Were there to be a significant fluctuation in exchange rates, this could have a material impact on the financial results of the Company. The Company does not currently hedge its foreign exchange risk. The Company will continue to monitor its exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations. There can be no assurance that exchange rate fluctuations will not harm the business in the future.

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### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

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None.

#### Item 2. Changes in Securities and Use of Proceeds

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None.

#### Item 3. Defaults Upon Senior Securities

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None.

#### Item 4. Submission of Matters to a Vote of Security Holders

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None.

#### Item 5. Other Information

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None.

#### Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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RADICA GAMES LIMITED

Date: September 30, 2002  
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/s/ Craig D. Storey  
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Craig D. Storey  
Chief Accounting Officer