



PLAYMATES INTERACTIVE ENTERTAINMENT LIMITED

彩星互動科娛有限公司*

(incorporated in Bermuda with limited liability)

INTERIM ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2001

RESULTS

The Directors of Playmates Interactive Entertainment Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 ("the period") as follows:

Condensed consolidated profit and loss account For the six months ended 30 June 2001

	Note	Six months ended 30 June		
		2001 US\$'000 (Note 6)	2001 HK\$'000	2000 HK\$'000
Turnover		17,506	136,550	245,607
Cost of sales		(11,847)	(92,408)	(152,970)
Gross profit		5,659	44,142	92,637
Operating expenses				
Marketing		(3,935)	(30,698)	(79,037)
Selling, distribution and administration		(10,156)	(79,219)	(101,778)
Operating loss		(8,432)	(65,775)	(88,178)
Non-operating income/(expenses)				
Interest expense and bank charges		(1,293)	(10,087)	(5,765)
Other revenues		1,696	13,228	13,242
Net gain on investment in securities		1,728	13,482	179,827
		(6,301)	(49,152)	99,126
Share of profits less losses of associated companies		579	4,517	6,364
(Loss)/profit before taxation	2	(5,722)	(44,635)	105,490
Taxation	3	112	876	18,952
(Loss)/profit after taxation		(5,610)	(43,759)	124,442
Minority interests		—	—	2
(Loss)/profit attributable to shareholders		(5,610)	(43,759)	124,444
Proposed interim dividend	4	—	—	13,454
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	5	(0.64)	(5.02)	18.64
Diluted		N/A	N/A	18.54

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products and property investment.

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2001			
	Toys	Property Investment	Eliminations	Consolidated
REVENUE				
Turnover	125,804	10,746	—	136,550
Inter-segment revenue (Note ii)	—	1,878	(1,878)	—
Total revenue	125,804	12,624	(1,878)	136,550
RESULTS				
Segment results	(73,821)	9,144	—	(64,677)
Unallocated costs	—	—	—	(1,098)
Operating loss	—	—	—	(65,775)

Notes:

- No business segment analysis is provided for the six months ended 30 June 2000 as there was only toy operation during that period.
- Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group.
- The Group's associated companies are engaged in toys business only and contributed HK\$4,071,000 (share of net profit after taxation) to the toys results for the current period.

An analysis of the Group's turnover and contribution to operating (loss)/profit for the period by geographical segments is as follows:

	Turnover		Operating (loss)/profit	
	Six months ended 30 June 2001 HK\$'000	2000 HK\$'000	Six months ended 30 June 2001 HK\$'000	2000 HK\$'000
Geographical segment:				
North America	96,623	193,192	(57,101)	(88,435)
Europe	25,678	44,097	(14,088)	949
Asia Pacific	13,773	6,004	5,646	(1,128)
Others	476	2,314	(232)	436
	136,550	245,607	(65,775)	(88,178)

2 (Loss)/profit before taxation

The (loss)/profit before taxation is stated after charging and crediting the following:—

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Charging:		
Cost of inventories sold	62,057	116,988
Depreciation of fixed assets	5,156	5,653
Loss on disposal of fixed assets	—	1,223
Crediting:		
Interest income	5,188	11,502
Dividend income	142	844

3 Taxation

The taxation credit/(charge) in the condensed consolidated profit and loss account comprises:—

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax		
Current period	(2,917)	(335)
Prior years	3,783	—
	866	(335)
Overseas taxation		
Current period	(6)	20,244
Prior years	456	20,244
	(446)	(957)
Share of taxation attributable to associated companies	876	18,952

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Overseas taxation is provided on the profits/losses of the overseas subsidiaries and branch in accordance with the tax laws of the countries in which these entities operate.

4 Dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months period ended 30 June 2001 (2000: HK\$0.02).

5 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the following data:

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Number of shares	(43,759)	124,444
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	871,541,499	667,457,288
Number of potential ordinary shares issuable under share options	N/A	3,631,694
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	N/A	671,088,982

(Loss)/profit attributable to shareholders for the purpose of calculating basic and diluted (loss)/earnings per share

No diluted loss per share has been presented for current period as the exercise of share options would be anti-dilutive. The basic and diluted earnings per share for prior period has not been adjusted as the rights issue completed on 16 March 2001 does not give rise to a bonus element.

6 US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1.00 ruling at 30 June 2001.

7 Comparative amounts

Certain comparative amounts have been adjusted or reclassified to conform with current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

The drop in turnover was attributable to a decrease in revenues from toy sales, the principal activity of the Group, by 48.8% compared to the same period last year. In response to uncertain economic conditions in the principal markets in North America and Europe, retail customers had been cautious in making inventory commitments during the period. The Group had anticipated the prospect of an economic slowdown and was thus able to adjust its business plans proactively. Despite the drop in toy revenues, the operating loss during the period was less than that of the same period last year as a result of persistent cost reduction exercises and rationalization measures.

A number of established product lines, including *The Simpsons*, *Amazing Ally* and her family of interactive dolls, and the *Waterbabies* continued to perform well. The first *Waterbabies* sporting the magic of classic Disney characters were introduced during the period to encouraging response. The line of action figures based on *Paramount Picture's Tomb Raider* movie performed well. Other lines based on movies or TV series had performed less satisfactorily due to generally weakened demands for entertainment-related merchandise.

In January 2001, the Group completed the acquisition of the commercial building at 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The building has been re-named *The Toy House* [Chinese translation: Playmates Group Building], as the seat of the Group's global headquarters. Rental income from property investments contributed to 8% of total revenue in the period and provides a stable income stream to the Group's core business.

The Group will continue to hone its business plans to adapt to the changing environment; to exploit new technologies in innovative toy applications; to seek out meaningful opportunities in entertainment concepts, and to maintain the position as a lead player in its key categories.

The developments of the remaining new products for this year have been on time and proceeding according to plan. Most of the new products have been or will be launched during the third quarter. Nevertheless, the full year results are expected to be overshadowed by weakening consumer confidence and other prevailing negative economic conditions in the principal markets.

Playmates will bring to life characters and scenes from the classic *J.R.R. Tolkien* trilogy *The Lord of the Rings* in a complete line of interactive electronic construction toys. *New Line Cinema* will introduce the first episode of the trilogy, *The Fellowship of the Ring*, to movie screens in December 2001. *Re:PLAY's Armor Bots* are supported by all major US retailers. Shipment of this line of hip battling robots commenced in July.

For Holiday 2001, Playmates will present *Cinderella*, one of the best loved *Disney Princesses*, as the first entry in the *My Interactive Princess* line. *Snow White* and other princesses will soon join *Cinderella* to tell their stories and perform magical interactions with little girls. Also supported by all major US retailers, *Totally Trolls*, with their distinctive looks and crazy color hair, received immediate consumer recognition and response. Many more *Trolls* of unique characters and designs will be introduced to enhance their collectable attribute.

A number of major product and category concepts are under active development for 2002 and beyond. In the coming months, the Group will be presenting to the trade fresh line extensions to the established brands and franchises; new categories for the *Disney* license; new entertainment-based merchandise, and last but not least, some major initiatives targeted at a wide audience of consumers.

Liquidity and financial resources

The Group's toy business is seasonal in nature. Sales in the second half-year are generally significantly higher than the first half. Accordingly, a disproportionately high balance of receivables is generated during the selling seasons in the fourth quarter of the year. Consistent with trade practices, a significant portion of the sales is not collected until the final weeks of the fourth quarter and the first quarter of the subsequent year, resulting in a seasonal demand for working capital for the peak selling seasons. As at 30 June 2001, trade receivables related to toy operation were HK\$1,203,222,000 (31 December 2000: HK\$2,530,911,000) and inventories were HK\$16,644,000 (31 December 2000: HK\$19,211,000).

The Group's property investment business generates stable monthly income over the period. Approximately 90% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2001. Rental receivables were minimal at HK\$281,000 as at period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 30 June 2001 was 31.4 percent compared to 9.7 percent at 31 December 2000. The ratio of current assets to current liabilities i.e. liquidity ratio was 0.8 at 30 June 2001 compared to 2.0 at 31 December 2000. As at 30 June 2001, the Group's cash and bank balances were HK\$224,457,000 compared to HK\$376,051,000 at 31 December 2000.

Acquisition of a subsidiary

On 16 January 2001 the Group acquired the entire share capital and shareholder's loan of Preity Star Limited which is engaged in property investment (the "Acquisition"). The total consideration for the Acquisition was approximately HK\$257 million and was satisfied by cash.

Charges on group assets

As at 30 June 2001, the Group had available banking facilities amounting to approximately HK\$756 million (31 December 2000: HK\$517 million), of which HK\$338 million (31 December 2000: HK\$384 million) were utilised. The amount utilised was secured by inventories of HK\$17 million (31 December 2000: HK\$19 million), trade receivables of HK\$72 million (31 December 2000: HK\$216 million), bank balance of HK\$72 million (31 December 2000: HK\$66 million) and certain investment property and land and building with a net book value of HK\$497 million (31 December 2000: nil).

Contingent liabilities

There was no material change in contingent liabilities compared to the most recently published annual report.

Employees

As at 30 June 2001, the Group had a total of 110 employees world-wide.

There was no material change in remuneration policies compared to the most recently published annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
Chan Chun Ho, Thomas
Chairman

Hong Kong, 12 September 2001

* for identification purpose only