



PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(formerly known as Playmates Interactive Entertainment Limited)
(Incorporated in Bermuda with limited liability)

INTERIM ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

RESULTS

The Directors of Playmates Holdings Limited (formerly known as Playmates Interactive Entertainment Limited) (the "Company") are pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 ("the period") as follows:

Condensed consolidated profit and loss account For the six months ended 30 June 2002

| Note | Unaudited | | |
|---|-------------------------------|----------|----------|
| | Six months ended 30 June 2001 | | |
| | 2002 | 2001 | |
| | US\$'000 | HK\$'000 | HK\$'000 |
| | (Note 6) | | |
| Turnover | 1 | 15,678 | 136,550 |
| Cost of sales | | (8,913) | (69,521) |
| Gross profit | | 6,765 | 52,768 |
| Operating expenses | | | 44,142 |
| Marketing | | (3,759) | (29,317) |
| Selling, distribution and administration | | (8,991) | (70,135) |
| Operating loss | | (5,985) | (46,684) |
| Non-operating income/(expenses) | | | (65,775) |
| Interest expense and bank charges | | (827) | (6,450) |
| Other revenues | | 289 | 2,261 |
| Net gain on investment in securities | | 1,976 | 15,414 |
| | | (4,547) | (35,459) |
| Share of profits less losses of associated companies | | (751) | (5,861) |
| | | | 4,517 |
| Loss before taxation | 2 | (5,298) | (41,320) |
| Taxation | 3 | (20) | (158) |
| Loss attributable to shareholders | | (5,318) | (41,478) |
| | | | (43,759) |
| | | US cents | HK cents |
| Loss per share | 5 | (0.50) | (3.88) |
| | | | (5.02) |

2 Loss before taxation

Loss before taxation is stated after charging and crediting the following:

| | Six months ended 30 June | |
|---|--------------------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Charging: | | |
| Cost of inventories sold | 37,974 | 62,057 |
| Staff costs (note i) | 37,637 | 39,017 |
| Depreciation of fixed assets | 13,583 | 5,156 |
| Crediting: | | |
| Interest income from bank deposits | 1,232 | 5,188 |
| Dividend income from listed investments | 1,029 | 142 |
| Gain on disposal of fixed assets | 70 | — |

Note i Staff costs include retirement benefit costs of HK\$991,000 for the Group's defined contribution schemes (2001: HK\$1,272,000).

3 Taxation

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

| | Six months ended 30 June | |
|--|--------------------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Hong Kong profits tax | | |
| Current period | (176) | (2,917) |
| Prior years | 18 | 3,783 |
| | (158) | 866 |
| Overseas taxation | | |
| Current period | — | (6) |
| Prior years | — | 462 |
| | — | 456 |
| Share of taxation attributable to associated companies | | |
| | — | (446) |
| | (158) | 876 |

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

The Mirage/4Kids/Playmates Toys partnership has commenced development of comprehensive, national, child directed advertising, public relations and promotional campaigns in preparation for the Spring 2003 national, multimedia launch of this property. Additionally, Mirage and 4Kids will soon conclude negotiations with a major licensing partner for the development and worldwide distribution of Teenage Mutant Ninja Turtles video games on all leading console and hand held platforms.

Playmates Toys' is fully prepared for a broad, television advertised re-launch of the Teenage Mutant Ninja Turtles toy line in Spring 2003. As the Master Toy Licensee, it will develop products in a wide range of categories to fully exploit the significant potential of this timeless property.

Other promising product line introductions in 2003 include Speedeez, a new boys' micro scale vehicle and playset brand that fulfills Playmates Toys' objective of building a sustainable presence in the important vehicle category. Incorporating Playmates Toys' proprietary Intelli-Tronic technology, Pro-Zone collectible sports figures and electronic environments will also launch in Spring 2003.

To capitalize on opportunities outside the U.S. market, Playmates Toys has formed strategic alliances with key, experienced, capable and financially strong European distributors. These reciprocal relationships will not only strengthen the worldwide distribution of Playmates Toys products but also facilitate the identification and joint development of new product lines.

The Group's income from property rental and management (before inter-segment revenue eliminated) in the first half increased by 12 percent to HK\$14,094,000 compared to the same period last year. Despite the extremely soft property market in Hong Kong, we have been able to attract more quality tenants and achieve reduction in vacancy rates. Rental yield of investment properties during the period was 5.2 percent, compared to 5.03 percent during the same period last year. Property investment and management business will continue to provide the Group with a steady income stream and augment the Group's core business.

Liquidity and financial resources

The Group's toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are significantly higher than in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling seasons. As at 30 June 2002, trade receivables related to toy operation were HK\$22,087,000 (31 December 2001: HK\$45,013,000) and inventories were HK\$20,402,000 (31 December 2001: HK\$14,604,000).

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys

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

Business segments

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

| | Six months ended 30 June 2002 | | | |
|----------------------------------|------------------------------------|---------------|--------------|-----------------|
| | Property investment and management | | Eliminations | Group |
| | Toys | HK\$'000 | | |
| Revenue | | | | |
| Turnover | 108,970 | 13,319 | — | 122,289 |
| Inter-segment revenue (Note iii) | — | 775 | (775) | — |
| | <u>108,970</u> | <u>14,094</u> | <u>(775)</u> | <u>122,289</u> |
| Results | | | | |
| Segment results | (50,125) | 6,004 | — | (44,121) |
| Inter-segment transactions | (775) | 775 | — | — |
| | <u>(50,900)</u> | <u>6,779</u> | <u>—</u> | <u>(44,121)</u> |

| | | | | |
|-------------------|--|--|--|-----------------|
| Unallocated costs | | | | (2,563) |
| Operating loss | | | | <u>(46,684)</u> |

| | Six months ended 30 June 2001 | | | |
|----------------------------------|------------------------------------|---------------|----------------|-----------------|
| | Property investment and management | | Eliminations | Group |
| | Toys | HK\$'000 | | |
| Revenue | | | | |
| Turnover | 125,804 | 10,746 | — | 136,550 |
| Inter-segment revenue (Note iii) | — | 1,878 | (1,878) | — |
| | <u>125,804</u> | <u>12,624</u> | <u>(1,878)</u> | <u>136,550</u> |
| Results | | | | |
| Segment results | (73,821) | 9,144 | — | (64,677) |
| Inter-segment transactions | (1,878) | 1,878 | — | — |
| | <u>(75,699)</u> | <u>11,022</u> | <u>—</u> | <u>(64,677)</u> |
| Unallocated costs | | | | (1,098) |
| Operating loss | | | | <u>(65,775)</u> |

Notes:

- Toys business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- Property investment and management business refers to the leasing of office and residential premises to generate rental income, and the provision of property management services.
- Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after tax of associated companies for the period amounted to HK\$5,861,000 (2001: net profit after taxation of HK\$4,071,000), which has not been included in the segment results shown above.

Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

| | Turnover | | Segment results | |
|---------------|--------------------------|----------------|--------------------------|-----------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| North America | 100,959 | 96,623 | (45,878) | (57,101) |
| Europe | 6,061 | 25,678 | (2,207) | (14,088) |
| Asia Pacific | 15,269 | 13,773 | 3,964 | 6,744 |
| Others | — | 476 | — | (232) |
| | <u>122,289</u> | <u>136,550</u> | <u>(44,121)</u> | <u>(64,677)</u> |

Dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months period ended 30 June 2002 (2001: HK\$ nil).

Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$41,478,000 (2001: HK\$43,759,000) and the weighted average number of 1,070,380,000 ordinary shares (2001: 871,541,000 ordinary shares) in issue during the period.

The basic loss per share for the prior period has not been adjusted as the rights issue completed on 7 May 2002 does not give rise to a bonus element.

Diluted loss per share has not been presented for both periods as the exercise of share options and warrants would be anti-dilutive.

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 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

For the first half of 2002, the Group recorded a turnover of HK\$122,289,000, compared to HK\$136,550,000 a year ago. The turnover from toy sales was HK\$108,970,000, compared to HK\$125,804,000 a year ago and turnover from property investment and management (before inter-segment revenue eliminated) was HK\$14,094,000, an increase of 12 percent. Gross profit of the Group improved by 19.5 percent over the same period in 2001. Coupled with management focus on operation efficiencies, operating losses reduced by 29 percent to HK\$46,684,000. Net loss attributable to shareholders decreased by 5 percent to HK\$41,478,000 due to a share of losses from associated companies. Loss per share was reduced to HK cents 3.88 from a loss of HK cents 5.02 per share in the same period last year.

The results are in line with management's expectations and are tracking to the 2002 full year plan. These results validate Playmates Toys' strategy to reposition toy operations by focusing efforts on the establishment and growth of core, extendable, promotional brands with higher gross margin potential. Additionally, Playmates Toys decided to minimize its reliance on lower gross margin export shipments and maximize higher gross margin domestic U.S. shipments. This shift in shipping patterns has enabled Playmates Toys to meet retailers' inventory control objectives.

The implementation of Playmates Toys' strategy to improve supply chain efficiencies, reduce operating costs, grow profitable core brands, and realign its financial planning is delivering tangible, positive results. Playmates Toys continues to refine its product development and sourcing functions resulting in a marked increase in gross profit margin. As additional efforts are being made to rationalize operations and streamline organization structure, Playmates Toys has taken significant steps to strengthen its core management team with the addition of seasoned, industry professionals in senior sales, marketing and financial management positions. These efforts are laying the foundation for long-term growth.

Sales of the Disney product line have grown 180% over 2001, exceeding early forecast. Continued growth is planned through 2003. For Holiday 2002, Playmates Toys will expand the Disney lineup with the first extension to the "My Interactive Princess" segment that was successfully introduced last year. This year's introduction, My Interactive Princess Belle (inspired by Disney's Beauty and the Beast), reached retailer shelves earlier in season and is already performing ahead of plan. Early sales of the "Before Once Upon a Time ..." assortment of Disney Princess toddler dolls validate Playmates Toys' strategy to position this segment as a sustainable, staple addition to the Disney business. Playmates Toys' new, TV advertised line of beautifully detailed, interactive "Magic Talk" small dolls and playsets bring the Disney Princesses to life with actual character voices and sound effects from Disney feature films. Sales of all "Magic Talk" products are tracking ahead of plan. The Disney Waterbabies business continues to grow with the timely addition of new, classic Disney characters to this successful, basic segment.

"The Simpsons" line of collectible products has maintained its positive momentum in 2002. New figures and playsets based on the 20th Century FOX prime time animated series, "The Simpsons" will be released throughout 2002 and 2003. The Simpsons, is currently entering its 14th season and will celebrate its 300th episode in February 2003.

Amazing Little Friends is the latest addition to Playmates' acclaimed Amazing doll brand. Launched in Fall 2002, Amazing Little Friends is a truly interactive assortment of endearing and imaginative characters that will engage and amaze little girls.

Playmates Toys has partnered with Mirage Studios (creators of the Teenage Mutant Ninja Turtles) and 4Kids Entertainment Inc. to launch a completely new, updated version of the classic Teenage Mutant Ninja Turtles property. Earlier this year, Mirage and 4Kids announced that production has commenced on the first twenty-six of a planned fifty-two episodes of an entirely new, animated Teenage Mutant Ninja Turtles television series. This new series is scheduled to premiere in the U.S. in the first quarter of 2003 on the FOX BOX, the 4Kids programmed, Saturday morning slate of boys action programs on the national Fox Network.

Approximately 90% of the total gross profit area of the Group's investment properties were leased out as at 30 June 2002. Rental receivables were minimal as at period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 30 June 2002 was 31.9 percent compared to 29.5 percent at 31 December 2001. The ratio of current assets to current liabilities, i.e. current ratio, was 1.23 at 30 June 2002 compared to 1.15 at 31 December 2001.

During the period, the Group increased its short term Other Investments (liquid listed investments, bonds or unit trusts) to HK\$118,217,000 (31 December 2001: HK\$12,923,000) with a view to improve portfolio investment return. The Group's cash and bank balances as at 30 June 2002 were HK\$141,234,000 (31 December 2001: HK\$230,233,000). As at 30 June 2002, the Group's cash and bank balances and short term Other Investments were HK\$259,451,000 compared to HK\$243,156,000 as at 31 December 2001.

Acquisition of a subsidiary

The Group entered into a Sale and Purchase Agreement to acquire the entire issued share capital of Bagnols Limited ("Bagnols") (formerly known as Rosy Way Company Limited) at a cash consideration of HK\$14.2 million. The principal asset of Bagnols is the whole of the factory buildings situated at No. 1 Tin Hau Road, Tuen Mun, New Territories, Hong Kong, which was agreed at a value of HK\$55.0 million. The major liability of Bagnols is a bank mortgage loan of HK\$38.5 million.

On 30 June 2002, a deposit of HK\$1.4 million was paid in respect of the acquisition, leaving a capital commitment of HK\$12.8 million. The acquisition was completed on 10 July 2002.

Charges on group assets

As at 30 June 2002, the Group has banking facilities amounting to approximately HK\$569 million (31 December 2001: HK\$534 million), of which HK\$305 million (31 December 2001: HK\$287 million) were utilised.

The banking facilities of certain subsidiaries are secured by inventories of HK\$20 million (31 December 2001: HK\$14 million), gross trade receivables of HK\$34 million (31 December 2001: HK\$48 million), bank balances of HK\$39 million (31 December 2001: HK\$64 million), other investments of HK\$106 million (31 December 2001: HK\$ nil) and investment properties with aggregate net book value of HK\$538 million (31 December 2001: HK\$538 million) of the Group at 30 June 2002.

Contingent liabilities

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

Employees

As at 30 June 2002, the Group had a total of 99 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 the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30 June 2002.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

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

Hong Kong, 10 September 2002

* for identification purpose only

On behalf of the Board
Chan Chun Hoo, Thomas
Chairman