



PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(Incorporated in Bermuda with limited liability)

Announcement of Annual Results Year Ended 31 December 2002

RESULTS

The Directors of Playmates Holdings Limited (the “Company”) announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002 as follows:

	Note	2002 US\$'000 (Note 7)	2002 HK\$'000	2001 HK\$'000
Turnover	2	62,213	485,261	514,617
Cost of sales		(30,516)	(238,026)	(276,014)
Gross profit		31,697	247,235	238,603
Operating expenses				
Marketing		(11,713)	(91,360)	(124,209)
Selling, distribution and administration		(18,326)	(142,941)	(211,687)
Operating profit/(loss)		1,658	12,934	(97,293)
Non-operating income/(expenses)				
Interest expense and bank charges		(1,953)	(15,234)	(18,514)
Other revenues		478	3,727	8,049
Net gain on investment in securities		628	4,899	12,290
		811	6,326	(95,468)
Share of profits less losses of associated companies		(525)	(4,093)	3,511
Profit/(loss) before taxation	3	286	2,233	(91,957)
Taxation (charge)/credit	4	(123)	(961)	5,158
Profit/(loss) attributable to shareholders		163	1,272	(86,799)
Dividends	5	—	—	10,091
		US cents	HK cents	HK cents
Earnings/(loss) per share	6			
Basic		0.01	0.11	(9.23)
Diluted		0.01	0.11	N/A

Notes:

1 Basis of preparation

During the year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 34 (revised)	: Employee benefits

Following the adoption of these new standards, certain comparatives previously reported have been restated to conform with the new policies. Detailed changes to the Group’s accounting policies and the effect of adopting these new standards are set out in the annual report.

2 Turnover and segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management. Turnover recognised during the year is as follows:

	2002 HK\$’000	2001 HK\$’000
Turnover		
Sales of goods	456,112	490,022
Rental income from investment properties	26,685	22,839
Property management income	2,464	1,756
	<u>485,261</u>	<u>514,617</u>

Business segments

An analysis of the Group’s turnover and results for the year by business segments is as follows:

	Year ended 31 December 2002			
	Toys	Property investment and management	Elimination	Group
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue				
Turnover	456,112	29,149	—	485,261
Inter-segment revenue (Note iii)	—	1,534	(1,534)	—
	<u>456,112</u>	<u>30,683</u>	<u>(1,534)</u>	<u>485,261</u>
Results				
Segment results	3,785	18,022	—	21,807
Inter-segment transactions	(1,534)	1,534	—	—
	<u>2,251</u>	<u>19,556</u>	<u>—</u>	<u>21,807</u>
Unallocated costs				(8,873)
Operating profit				<u>12,934</u>

	Year ended 31 December 2001			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	490,022	24,595	—	514,617
Inter-segment revenue (Note iii)	—	3,657	(3,657)	—
	<u>490,022</u>	<u>28,252</u>	<u>(3,657)</u>	<u>514,617</u>
Results				
Segment results	(109,321)	13,500	—	(95,821)
Inter-segment transactions	(3,657)	3,657	—	—
	<u>(112,978)</u>	<u>17,157</u>	<u>—</u>	<u>(95,821)</u>
Unallocated costs				(1,472)
Operating loss				<u>(97,293)</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) 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.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of the associated companies for the year amounted to HK\$4,729,000 (2001: net profit after taxation of HK\$3,849,000), which has not been included in the segment results shown above.

Geographical segments

A geographical analysis of the Group's turnover and segment results is as follows:

	Turnover		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
North America	424,500	432,413	3,375	(106,934)
Europe	27,364	47,842	1,154	(1,792)
Asia Pacific	33,205	32,888	17,259	12,891
Others	192	1,474	19	14
	<u>485,261</u>	<u>514,617</u>	<u>21,807</u>	<u>(95,821)</u>

3 Profit/(loss) before taxation

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Charging:		
Cost of inventories sold	183,972	222,853
Depreciation of fixed assets	30,100	35,593
Loss on disposal of fixed assets	236	59
Outgoings in respect of investment properties	3,075	1,708
Interest on bank loans and overdrafts	9,846	15,995
Net unrealised loss on other investments	<u>12,102</u>	<u>1,572</u>
Crediting:		
Net realised gain on other investments	17,001	13,862
Interest income from bank deposits	2,647	7,851
Dividend income from listed investments	<u>1,080</u>	<u>198</u>

4 Taxation (charge)/credit

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong profits tax		
Current year	(351)	(1,373)
Prior years	<u>26</u>	<u>6,084</u>
	<u>(325)</u>	<u>4,711</u>
Overseas taxation		
Current year	—	(94)
Prior years	<u>—</u>	<u>203</u>
	<u>—</u>	<u>109</u>
Share of taxation attributable to associated companies	<u>(636)</u>	<u>338</u>
	<u>(961)</u>	<u>5,158</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

5 Dividends

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
2001 final dividend paid of HK\$nil (2001: 2000 final dividend paid of HK\$0.01) per share	<u>—</u>	<u>10,091</u>

The directors do not recommend the payment of a final dividend for the current year.

6 Earnings/(loss) per share

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit/(loss) attributable to shareholders for the purpose of calculating basic and diluted earnings/(loss) per share	<u>1,272</u>	<u>(86,799)</u>
	<u>Number of shares</u>	
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	1,141,201,081	940,863,630
Number of potential ordinary shares issuable under share options	<u>286,560</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<u>1,141,487,641</u>	<u>N/A</u>

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

7 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 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Message from the Chairman

Turnover for the year ended 31 December 2002 was HK\$485,261,000, a 5.7% decrease compared to HK\$514,617,000 for the year ended 31 December 2001. Profit attributable to the shareholders was HK\$1,272,000, compared to a loss of HK\$86,799,000 in 2001.

I am pleased to report that the company has overcome the challenging business environment in 2002 and is well positioned to further enhance profitability in the year ahead.

The year 2002 saw leading economies around the world struggling to emerge from recession. In the US, the major market of our toy business, the real threat of military conflict in the Middle East and the West Coast dock strike conspired to dampen retail performance of all toy manufacturers' products in the important closing months of the year.

In such a difficult environment, we steered a prudent course of managing our businesses while selectively pursuing major strategic initiatives. Determined and sustained actions were taken to enhance bottom line performance through reduction of operating and administrative costs, improvement in supply chain efficiency, development of toy products with long term branding potential and maximization of higher gross margin domestic US distribution.

During 2002, record sales levels were achieved for Playmates Toys' *Disney*® and *The Simpsons*™ brands. The *Disney*® brand was successfully extended with the introduction of several new product segments that broadened the scope of our licence agreement with The Walt Disney Company. Additionally, sales increases in the *Waterbabies*® brand of dolls were spurred by the introduction of a *Disney*® licensed segment which will be expanded in 2003 and enhanced with the addition of *Care Bears* and *Clifford The Big Red Dog*™.

In 2003, several innovative and strategically well positioned product lines will be added to Playmates Toys' portfolio of established brands. These new initiatives include *Speedeez*™, an extensive line of micro scale vehicles powered by a patented *Turbo Ball*™ technology and the return of the *Teenage Mutant Ninja Turtles*® with an all new line of action figures, vehicles and accessories. These products, inspired by an all new animated television series, are currently performing exceptionally well in the US market.

Trade responses during the international toy fairs held earlier this year have been overwhelmingly positive and the initial retail performance of our Spring product introductions have exceeded our expectations.

The 2002 results also reflected positive contributions from property investments. Property rental and management income in 2002 grew by 8.6% to HK\$30,683,000 compared to the previous year. The property portfolio was enhanced upon completion in July 2002 of the acquisition of the factory building at No. 1 Tin Hau Road, Tuen Mun, New Territories, Hong Kong. Despite the continued downward pressure on rental rates in the Hong Kong market, rental yield of our investment properties during the year was 5.5% (5.2% in 2001). The increase in yield was mainly due to an improvement in the occupancy rate from 89% in 2001 to 95% in 2002. It is expected that contributions from property and other investments will continue to augment our core toy business.

Product review and prospects

During 2002 significant progress was made in building profitable, multi-year brands. In 2003 Playmates Toys will continue to focus its product selection and development efforts on the development and growth of promotional brands offering strong margin and exceptional play value.

The growth in sales of *Disney*® products in 2002 exceeded expectations. The *Before Once Upon a Time Little Princesses* collection of *Disney*® Princess toddler dolls launched to immediate success and established a new key segment in the *Disney*® product lineup. The 2003 collection will be expanded to feature *Little Sleeping Beauty* and *Little Snow White*. The *Disney*® *Waterbabies*® business is another segment of the brand that experienced substantial growth in 2002 and will be extended with new classic *Disney*® characters in 2003. The lead promoted *Disney*® Princess doll for 2003, *Dancing Cinderella*, comes to life in a magical and visual way when activated by the little girl. New categories of products will be introduced in 2003. *Stylin' Fun Princesses*™ capture the beauty of the *Disney*® Princesses and offer endless hair styling and magical color change make-up play. *Perfectly Princess*™ is the first collection of *Disney*® Princess dolls, fashions and furniture accessories to be executed entirely in soft materials with a new, stylized look for little girls to create the perfect royal story and play environment.

The classic **Waterbabies**[®] business had another remarkable year in 2002 with aggregate sales over eleven years in excess of 14 million dolls. 2003 will see the introduction of Waterbabies[®] associated with new licensed characters including **Care Bears** and **Clifford The Big Red Dog**[™].

Playmates once again raises the bar in the doll category with the introduction this Fall of **Baby Bright Eyes**[™]. Baby Bright Eyes[™] is the first doll to feature patented **NanoMuscle**[™] technology that brings this beautiful doll's eyes to life with highly realistic, fluid and magical movements and expressions. Baby Bright Eyes[™] responds with her eyes and baby sounds as little girls play with her.

The Simpsons[™] line of collectible products recorded record sales in 2002. New figures and playsets based on the 20th Century FOX prime time animated series, celebrating its 14th season and 300th episode in 2003, will be released in the year ahead. The line will be extended with new products, including a new "voice recognition" figure assortment, that will appeal to broader consumer demography. **ProZone**[®], a line of collectible sports figures and electronic environments utilizing Playmates Toys' proprietary **Intelli-tronic**[™] technology established with The Simpsons[™] products, has been launched in spring 2003 to positive trade support.

Also in spring 2003, Playmates Toys led the market to fill a void in the micro scale vehicle category with the introduction of **Speedeez**[™]. The Speedeez[™] vehicles come built-in with a patented **Turbo Ball**[™] propulsion system that enables speed and performance never before possible in the micro scale. This brand represents the strategic initiative to capture and build a sustainable position in the important vehicle category.

Throughout 2002 Playmates Toys partnered with Mirage Studios and 4Kids Entertainment in the development of a new, updated version of the **Teenage Mutant Ninja Turtles**[®]. The first episode of a planned 52-episode series aired on 8 February 2003 on **FOX BOX**, a Saturday morning slate of boys-targeted action programming on the US national FOX Network. Playmates Toys positioned itself to maximize the impact of this much anticipated new launch by shipping products in December 2002 so that they were displayed on retail shelves by January 2003, in advance of the February premier. Retail sales activities in January, preceding both the show and the advertising campaign, exceeded both management and trade expectations. As the master toy licensee, Playmates Toys will continue to develop products in a wide range of categories to fully exploit the multi-year, worldwide potential of this timeless property.

Playmates Toys has entered into a number of strategic partnerships outside the US with leading national or regional distributors for the global marketing and distribution of the Teenage Mutant Ninja Turtles[®]. These relationships will not only strengthen the worldwide distribution of Playmates Toys products but also facilitate the identification and joint development of new product lines.

Playmates Toys will continue to develop and market innovative, entertaining and value-priced toys, games and collectibles in a balanced portfolio of licensed and proprietary product lines, with the focus on selective and strategic investments in concepts with multi-year potential. The product portfolio will be balanced with offerings that appeal to boys, girls and the sophisticated collectors.

Liquidity and financial resources

The toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are much 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 31 December 2002, trade receivables related to toys operation were HK\$120,656,000 (2001: HK\$45,013,000) and inventories were at a seasonal low level of HK\$22,042,000 or 4.8% of turnover (2001: HK\$14,604,000 or 3.0% of turnover).

The property investment and management business generates a relatively steady income stream throughout the year. Approximately 95% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2002. Accounts receivable were minimal at HK\$597,000 as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 31 December 2002 was 33.0% compared to 29.5% at 31 December 2001. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.3 at 31 December 2002 compared to 1.2 at 31 December 2001. As at 31 December 2002, the Group's cash and bank balances were HK\$206,456,000 compared to HK\$230,233,000 at 31 December 2001.

Secured and unsecured bank loan repayable within one year are HK\$132 million and HK\$45 million respectively.

Charges on group assets

As at 31 December 2002, the Group has total banking facilities amounting to approximately HK\$526 million (2001: HK\$534 million), of which HK\$378 million (2001: HK\$287 million) were utilised. 77% (2001: 81%) of the total banking facilities are secured by pledged assets with a total value of HK\$748 million (2001: HK\$664 million).

Contingent liabilities

There was no material change in contingent liabilities compared to prior year.

Major acquisition

On 10 July 2002 the Group acquired the entire share capital of Bagnols Limited (formerly known as Rosy Way Company Limited) which is engaged in property investment and is incorporated in Hong Kong. The total consideration for the acquisition was approximately HK\$14 million and was satisfied by cash.

Employees

As at 31 December 2002, the Group had a total of 97 employees in Hong Kong and the United States of America. This compares to 104 employees as at 31 December 2001.

There was no material change in remuneration policies compared to prior year.

CLOSURE OF REGISTER OF MEMBERS AND REGISTER OF WARRANTHOLDERS

The Register of Members and Register of Warrantholders of the Company will be closed from 2 May 2003 to 9 May 2003, both days inclusive, during which period no transfer or exercise of shares, warrants or share options (as the case may be) of the Company will be effected. In order to be qualified to attend the forthcoming annual general meeting (the “Annual General Meeting”) to be held on 9 May 2003, all completed transfers accompanied by the relevant share certificates and all documents required in respect of the exercise of warrants and share options issued by the Company accompanied by full payment of the relevant exercise price must be lodged with the Company’s Branch Registrars, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 30 April 2003.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 45(1) to 45(3) 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 Hoo, Thomas
Chairman

Hong Kong, 28 February 2003

** for identification purpose only*

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Ballroom A, 2nd Floor, Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon on Friday, 9 May 2003 at 9:00 a.m. for the following purposes:-

1. To receive and consider the accounts and the reports of the directors and auditors for the year ended 31 December 2002;
2. To re-elect the retiring directors;
3. To fix the ordinary remuneration of the directors;
4. To appoint auditors and to authorise the board of directors to fix their remuneration; and
5. As special business to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:-

ORDINARY RESOLUTIONS

A. “THAT the maximum number of directors of the Company for the time being be fixed at twenty and that the directors of the Company be authorised to fill any vacancies on the board and to appoint additional directors up to such maximum number in addition to those in office at the close of this meeting.”

B. “THAT:-

(a) the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate number of shares of the Company which may be repurchased by the Company on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the entire issued share capital of the Company on the date of passing this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:-

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company’s bye-laws to be held; or

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”

C. “THAT:-

the granting of an unconditional general mandate to the directors of the Company to issue, allot and deal with unissued shares in the capital of the Company, and to make or grant offers, agreements and options or other rights, and issue warrants and other securities, which would or might require the exercise of such power, subject to the following conditions, be and is hereby generally and unconditionally approved:

- (a) such mandate shall not extend beyond the Relevant Period (as defined below) save that the directors of the Company may during the Relevant Period make or grant offers, agreements and options or other rights, and issue warrants and other securities, which would or might require the exercise of such powers after the expiry of the Relevant Period;
- (b) the aggregate number of shares allotted or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the mandate granted under this Resolution otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) any share option plan or similar arrangement of the Company from time to time adopted for the grant or issue to eligible participant under such plan and arrangement of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company; (iv) any adjustment, after the date of grant or issue of any options, warrants or other securities referred to above, in the price at which shares shall be subscribed, and/or the number of shares which shall be subscribed, on exercise of relevant rights under such options, rights to subscribe, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, warrants or other securities; or (v) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed 20 per cent. of the issued share capital of the Company as at the date of passing this Resolution, and the said approval under this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company’s bye-laws to be held; or
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company made to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory outside, Hong Kong).”

D. “THAT, conditional upon the passing of Resolution No. 5B set out in the notice convening this meeting, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot shares pursuant to Resolution No. 5C set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate number of the shares which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate, of an aggregate number of shares of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 5B set out in the notice convening this meeting, provided that such number shall not exceed 10 per cent. of the issued share capital of the Company as at the date of passing this Resolution.”

By order of the Board
Tracy Fong
Secretary

Hong Kong, 28 February 2003

Notes :

- (1) Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be delivered to the Company's Branch Registrars, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
- (3) The register of members and register of warrant holders of the Company will be closed from 2 May 2003 to 9 May 2003, both days inclusive, during which period no transfer or exercise of shares, warrants or share options (as the case may be) of the Company will be effected. In order to be qualified to attend the Meeting, all transfers accompanied by the relevant share certificates and all documents required in respect of the exercise of warrants and share options issued by the Company accompanied by full payment of the relevant exercise price must be lodged with the Company's Branch Registrars, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 30 April 2003.