

## Results

The Directors of Playmates Toys Holdings Limited (the "Company") announce that the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 1999, together with the comparative figures for the corresponding period in 1998, are as follows:—

	6 months ended 30 June 1999		6 months ended 30 June 1998 (restated, note 1)	
	Hong Kong Dollars \$'000	US Dollars Equivalent \$'000 (note 4)	Hong Kong Dollars \$'000	US Dollars Equivalent \$'000 (note 4)
<b>Turnover</b>	<b>299,654</b>	<b>38,665</b>	257,500	33,312
<b>Operating loss</b>	<b>(45,903)</b>	<b>(5,923)</b>	(6,091)	(788)
Share of results of an associated company	6,665	860	(907)	(117)
<b>Loss before taxation</b>	<b>(39,238)</b>	<b>(5,063)</b>	(6,998)	(905)
Taxation (note 2)	4,518	583	15,406	1,993
<b>(Loss) / Profit attributable to Shareholders</b>	<b>(34,720)</b>	<b>(4,480)</b>	8,408	1,088
	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>	<i>US\$</i>
<b>(Loss) / Earnings per share (note 3)</b>	<b>(5.25 cents)</b>	<b>(0.68 cents)</b>	1.27 cents	0.16 cents

Notes :—

(1) Change in accounting policy:

Effective from 1 January 1999, expenses incurred on toy fairs are deferred and amortized on a straight line basis over the year to match the pattern in which the related economic benefits are recognized.

This represents a change in accounting policy from that adopted in previous years when toy fair expenses were charged to the profit and loss account as incurred. The effect of this change on the results for the six-month period ended 30 June 1999 was to defer toy fair expenses of HK\$9,091,000 (1998: HK\$7,253,000) to the second half-year. The comparative figures for the six-month period ended 30 June 1998 have been restated as if the new policy was adopted during that period. The change does not affect the full year results of the Group.

The Directors are of the opinion that the new policy better reflects the benefits accruing from toy fairs in the Group's interim results during the financial year.

(2) Taxation comprises the following credit and (charges) :—

	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Company and subsidiaries :		
Hong Kong profits tax	<b>(6)</b>	(541)
Overseas taxation	<b>5,568</b>	16,975
Deferred taxation	<b>(101)</b>	(1,028)
	<b>5,461</b>	15,406
Associated company :		
Hong Kong profits tax	<b>(943)</b>	—
	<b>4,518</b>	15,406

Hong Kong profits tax is calculated at the rate of 16% (1998: 16%) on the estimated assessable profits for the period. Overseas taxation is calculated on the results of the overseas operations in accordance with the tax laws of the relevant jurisdictions.

As disclosed in the Group's 1998 Annual Report, the Inland Revenue Department ("IRD") in Hong Kong is conducting a review of the profits tax affairs of a subsidiary company in respect of the year of assessment 1997/8. At this stage, it is not practicable to determine the likely outcome of IRD's review or to estimate the amount of any additional tax assessment that may arise. Under the circumstances, no provision has been made in the accounts for this event.

The IRD also issued an additional tax assessment of HK\$13,674,000 for the year of assessment 1992/3 relating to the subsidiary company's claim that certain of its profits were sourced offshore and thus not assessable to Hong Kong profits tax. The offshore claim has been reviewed and accepted by IRD in the past and the Directors consider the additional assessment to be without merit, and will resist it. Accordingly, no provision has been made in the accounts for the additional assessment.

- (3) The calculation of loss/earnings per share is based on the loss attributable to the Shareholders of HK\$34,720,000 (1998: restated profit of HK\$8,408,000, see note (1) above) and the weighted average of 661,065,673 (1998: 661,065,673) shares in issue during the period. There was no potential dilution of earnings per share during the period.
- (4) U.S. dollars equivalent : These are shown for illustrative purposes only and have been derived at the rate of HK\$7.75 to US\$1 (1998: US\$1=HK\$7.73).

## Dividend

The Directors do not recommend the payment of an interim dividend for 1999 (1998: 3 cents per share).

## Business Review

Turnover for the six months to 30 June 1999 was HK\$299,654,000, compared to HK\$257,500,000 of the corresponding period in 1998. The Group reported a loss attributable to Shareholders of HK\$34,720,000 in the first half year of 1999 as compared to a profit of HK\$8,408,000 for the same period last year.

The first six-month results reflected a higher level of retail sales activities year-on-year across the categories of toys in which the Group competes as well as a higher level of investments in new products. Under the Playmates Electronix™ banner, the friend.link™ e-messaging, friend-finding gadget was, according to industry statistics, among the top-3 best selling electronic handheld games in the US this past Spring. Equally successful and appealing to a wide range of interests are the series of virtual-sport handheld games. New games launched during the first half of 1999 included Real Bow Hunting™ and Reel Game Fishing™. In the large doll category, the new Talking Potty Dotty™ was amongst the top-10 selling dolls. The intelligent Amazing Amy™ also maintained her place in the top-10 selling list, paving the way for the launch of her smarter sister Ally later in the year. After 10 successful years, the classical Waterbabies® keep on enjoying full trade support. In the collectible action figures arena, Lara Croft™ of Tomb Raider® fame has become one of the most sought-after characters in Europe, even surpassing her popularity in North America. Loyal fans continued to support the Group's new Star Trek® products.

## **Prospects**

The development and introduction of the remaining new products for this year have been generally on time and proceeding according to plan. Most of them have been or will be shipped to the market during the third quarter. It is expected that the Group's shipments during the second half of 1999 will follow the seasonal pattern of the market and further reflect the improved level of retail activities compared to last year. The Group continues to pursue the strategy of investing in new products and markets with specific focus on three key areas.

### ***Multimedia Entertainment***

The Group remains committed to be a major player in licensing and continues to actively seek out meaningful opportunities to exploit entertainment concepts with general toy applications, or specific product applications. A number of new entertainment-based product lines are being planned for launching in late 1999 and 2000. Tech Deck™ is a line of action figure, vehicle and handheld game planned for a late 1999 launch based on the market leading and fastest growing brand in collectible miniature skateboards. The Group has obtained the master toy license for Monster Rancher™, a TV cartoon series that will premier in the US in late August this year. For year 2000 and beyond, the Group has recently entered into an agreement with 20th Century Fox for the master toy license for the animated television series The Simpsons™. Agreement has also been reached with Dreamworks SKG on the terms of the master toy license for the animated feature film Chicken Run™. Chicken Run™ will premier in June 2000 and is the first full length feature film from Aardman Animation, the producers of the critically acclaimed Wallace & Gromit™ series. The Group has acquired the rights to market electronic games that re-enact

the dare-devil stunts of Robbie Knievel, the world's most famous motorcyclist who has recently accomplished the record setting jump of the Grand Canyon, and son of the legendary Evel Knievel.

### ***Promotional Dolls***

Promotional dolls will continue to play a significant part in the Group's product strategy. Two major new dolls have been or will be introduced in the second half of 1999. Shipment of the new Shop 'n Bop Baby™ has started in July. The development of the sophisticated Amazing Ally™ doll has been completed successfully. Shipment to retail customers will begin in August. A number of other new doll projects are under development.

### ***Interactive Electronic Toys***

New virtual-sport games will be added to this established series of electronic handheld games. New games to be shipped during the second half of 1999 include Real Shootin' Pool™ and Real Jet Attack™. The much awaited OOglies™, "the wacky aliens from outer space", have arrived and are beginning to make appearances on retail shelves. A number of other new electronix projects are being planned for late 1999 and 2000 introduction.

### **New Business Development**

The Group has started up new business units that will develop toy products under new brand identities in addition to Playmates®. Those new business units are expected to launch new products in the year 2000 and beyond. The Group has also allocated additional resources to more fully exploit the potential of its products in the global market.

### **Year 2000**

Many of the world's computer systems and software programs currently in use would not be able to properly recognize and process date-sensitive information pertaining to the year 2000 and beyond, and could result in miscalculation or system failure (the "Year 2000 Issue").

The Group has disclosed in its previous results announcements a plan to implement a new fully integrated, Year 2000 compliant, enterprise solution software and to install new hardware equipment to cater for the Group's future computing needs. To date, the Group has substantially completed this plan and the new enterprise solution software became operative in mid-July this year. So far, it is handling the Group's critical functions satisfactorily.

The total cost authorized for the plan was approximately HK\$21 million. As at 30 June 1999, HK\$20 million was contracted and HK\$18 million incurred. This cost, which has been incurred for enhancing the Group's operating facilities, is treated as a capital expenditure and is being amortized over the estimated useful lives of the software and hardware of three to five years.

While the Group remains confident in its computer systems being Year 2000 compliant before the end of 1999, alternative contingency procedures are being developed

to ensure continuous operation of the Group's critical functions in the event of unexpected system failure at the turn of the Millennium. The Group has enquired its major vendors of their progress of Year 2000 readiness and responses have been positive. The Group's major customers are listed companies in the US and are required to disclose periodically to the public their state of Year 2000 readiness. Nothing has come to the Group's attention that might suggest any of its major customers would not be Year 2000 ready.

## Directors' and Chief Executive's Rights to Acquire Shares

Details of share options granted to the Directors and Chief Executive, pursuant to the Company's Share Option Plan, are as follows:—

Name of Directors	Date of Grant	Exercise Price HK\$	No. of Options
To Shu Sing,	26 August 1998	0.586	800,000
Sidney	27 May 1999	0.558	600,000
Li, Irene	26 August 1998	0.586	800,000
Suk Kay			

The options are exercisable in stages in accordance with the terms of the Share Option Plan after the date of granting and expire ten years after the date of granting. No options were exercised during the period.

Apart from the aforesaid, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Chief Executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' and Chief Executive's Interests in Shares of the Company

As at 30 June 1999, the interests of Directors and Chief Executive of the Company in the shares of the Company as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and other interests of Directors in the Company were as follows:—

Name of Directors	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Chan Chun Hoo, Thomas	—	—	—	(Note a)
To Shu Sing, Sidney	10,000	—	—	—
Yu Hon To, David	—	—	(Note b)	—
Lee Peng Fei, Allen	345,000	—	—	—
Lo Kai Yiu, Anthony	550,000	—	—	—
Tsim Tak Lung, Dominic	200,000	20,000	—	—

Notes:

- (a) 312,107,572 shares of the Company were beneficially owned by Chansam Investments Limited ("CIL"). 85.19% of the issued share capital of CIL is beneficially owned by a private company which is wholly owned by the trustees of a discretionary trust established for the benefit of Mr. Chan Chun Hoo, Thomas and his family; and
- (b) 3,500,000 shares of the Company were held by a private company in which Mr. Yu Hon To, David and a member of his family have a controlling interest.

Apart from the above, none of the Directors and Chief Executive (including their spouse and children under 18 years of age) had any beneficial interests or other interests in the shares of the Company.

### **Substantial Shareholders' Interest in the Share Capital of the Company**

Other than the interests disclosed above in respect of Directors and Chief Executive, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company at 30 June 1999 had been notified by Mr. Chan Chun Wai and a company controlled by him that he was interested, in aggregate, in 123,079,201 shares of the Company.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

### **Audit Committee**

An Audit Committee comprising Mr. Tsim Tak Lung, Dominic as Chairman, Mr. Lee Peng Fei, Allen and Mr. Lo Kai Yiu, Anthony as members was formed in May 1999. Its function is to assist the Board of Directors in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company.

### **Compliance with the Code of Best Practice of the Listing Rules**

The Code of Best Practice has been complied with by the Company except that Non-executive Directors are not appointed for a specific term as recommended under the Listing Rules Appendix 14 Guidelines. According to the bye-laws of the Company, Non-executive Directors of the Company will retire by rotation on average every three years and their appointments will be reviewed when they are due for re-election. In the opinion of the Company this meets the same objective as the Code of Best Practice.

By Order of the Board  
**Chan Chun Hoo, Thomas**  
*Chairman*

Hong Kong, 27 August 1999