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BRITISH TOY &
HOBBY ASSOCIATION
LIMITED
(by guarantee)

Year ended
31 December 1998

**THE COUNCIL OFFICERS
AND ADVISERS**

President I H Scott
Chairman N J Austin
Vice-President A E Munn
Vice-Chairman J D Hunter

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K G Lister
M H Loveland
A R Sanderson
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**The Council,
officers and
advisers**

Director General and Secretary D L Hawtin FCIS

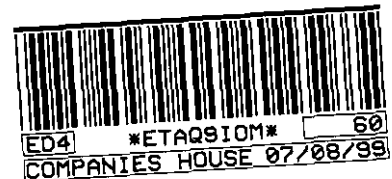
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**Chairman's
statement**

IN 1998 THE ASSOCIATION MADE A COMMITMENT TO A WIDER RANGE OF SERVICES TO members including market research and training. To this end two detailed research studies were commissioned which had as their aim to throw more light on the changing patterns of business within the toy industry. A particular focus was given to competition from other product areas for children's attention and expenditure. The alarming, but not wholly unexpected, conclusion reached was that the market for traditional toys is declining whilst spending on children is on the increase thus throwing out a challenge to Association members to respond to ever accelerating changes in consumer needs.

The research identified time spent by six to eleven year olds on leisure activities and how toys featured within that leisure time. The research also looked at how much money was spent on six to eleven year olds and on what type of products.

Hopefully this research will assist members in the formulation of new strategies that will collectively enable the toy industry to restore, and ultimately expand, its share of children's leisure expenditure. In 1999 we plan to build further on our members' knowledge of changes in the children's leisure market as it is clear that we have to face and respond to massive competitive challenges if we are to stay relevant and prosperous.

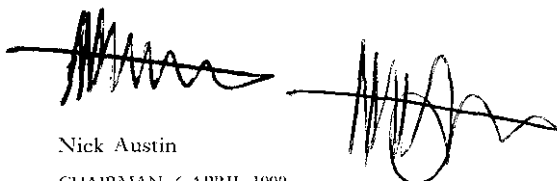
One of the great strengths of any trade association is its facility for pooling resources within an industry and adopting a common approach to the problems facing that industry. For years we have been concerned to display a responsible and caring approach in regard to the safety of our products and of the children who play with them. As environmental issues such as PVC and packaging move ever higher up the political agenda, the need for a common approach by toy manufacturers and retailers becomes ever more obvious. To this end we will be liaising even more closely in future with key retail groups and associations on these issues of mutual concern to enable industry-wide consensus to be established and presented to government and to appropriate interest groups.

That is why the Association has sent to each member the BTHA Communications Manual which ensures that all members have at their finger tips the latest information on matters of fundamental concern to the toy industry. The manual is regularly updated so that members are able to have constantly on hand the industry's common position on any topic of importance.

We thank those many industry experts who assist the Association in its daily work particularly in the technical work required in the field of toy safety.

Since we depend upon children for our living, special thanks are due to the members of the Association's Charity Committee and all those companies and individuals who have now supported the Toy Trust to the tune of £1.2 million. This is a magnificent achievement and has meant that the toy industry has been able to give something back to needy children through donations to hundreds of charities both at home and overseas. I hope you will continue to support us strongly in this mission.

The BTHA continues to be recognised as the authoritative voice of the toy industry in the UK. It enjoys an enviable high reputation in government circles and among key opinion formers. It also enjoys a high repute overseas, particularly in Brussels in conjunction with Toy Industries of Europe. Because it is seen as professional, efficient and effective, it is one of the more successful toy manufacturers' associations in representing members' desires to trade responsibly and effectively in an increasingly complex marketplace.



Nick Austin

CHAIRMAN, 6 APRIL 1999

Principal activities

The principal activities of the Association are to represent the toy industry to the UK government, public bodies, the media and opinion formers and to promote the industry and its products, more particularly by means of an annual toy fair.

Accounts

The annual accounts for the calendar year 1998 show a retained surplus of £164,189 compared with a surplus in the previous year of £384,394. This result was obtained after certain items of expenditure which were expressly designed to keep members informed and to defend the toy industry's interests. The first category covers the very successful and well attended toy industry induction seminar held at the NEC on 23 April, the Trading in France and Germany seminar held jointly with the DTI on 20 October and the members' research conference held on 19 June at Stratford-upon-Avon. Research specially commissioned by the BTHA provides hard evidence of how low down toys have slipped in the ranking of children's interests and desire for gifts and helps to explain why the toy markets in Europe are stagnating.

In defence of members' interests, the BTHA has continued to be extremely active within TIE especially following the attacks by Greenpeace. The Association has maintained its policy of not increasing the subscription rates and has donated 10% of the prior year surplus to benefit the industry's charity, the Toy Trust.

Particular attention must be drawn to an exceptional item of £232,639 on the Consolidated Income and Expenditure account which relates to a number of investments held by the Association at 31 December 1998 being valued at below their cost price. This exceptional item has had a material effect on the retained surplus.

Directors' shareholdings

With the exception of shares in subsidiary companies held by Mr. I H Scott as nominee for the Association, no director holds any shares in the group.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Auditors

The company's auditors, Coopers & Lybrand merged with Price Waterhouse on 1 July 1998, Coopers & Lybrand resigned as auditors and the directors appointed the new firm PricewaterhouseCoopers. A resolution to reappoint PricewaterhouseCoopers, as auditors to the company, will be proposed at the Annual General Meeting.

Toy Fair

The 46th British International Toy & Hobby Fair successfully took place at Olympia between 30 January and 3 February 1999. 375 exhibitors occupied 19,109m² of space compared with 389 and 19,765m² respectively in 1998. 15,802 buyers were registered compared with 15,954 at the 1998 fair.

Buyer reaction to the fair both in terms of exhibits and the organisation of the fair was very positive with many favourable comments about the excellent atmosphere at Olympia. The new CD which accompanied the fair catalogue was well received.

The fair was also successful in achieving for exhibitors a good attendance by the media. Overall media interest in the fair was excellent with 831 registered attendees compared with 817 in the previous year.

Exports

The recent toy fair at Olympia registered 2,137 overseas buyers from 62 countries. The steady attendance of overseas buyers at Olympia makes the fair important for those British toy manufacturers who seek fresh trading opportunities in overseas markets.

The BTHA organised on behalf of the DTI a group to the Nürnberg and New York toy fairs thus providing small manufacturers in particular with an excellent opportunity of either testing the waters in overseas markets or consolidating an already established position. The opportunity was taken to update the Association's "British Toys Abroad" export publication. More information for buyers was added, together with text in English, French and German.

Public Relations

The key elements of play value and toy safety remain central to the Association's PR activities. The Association is committed to providing on behalf of members a varied and integrated PR programme which aims to increase the understanding of the work of the BTHA and the industry issues concerned with it. The PR activities provide an efficient means of transmitting the industry's message to prime targets namely legislators and professionals such as trading standards officers, retailers, toy manufacturers themselves and, through third party endorsement of the industry's position, the consumer.

The message that the toy industry is a responsible and caring industry is at the centre of the public relations programme. Since the launch of the Lion Mark scheme in 1987, public understanding of the toy industry's activities has improved immeasurably. The fact that there is a strict BTHA code of practice which covers important issues such as compliance with toy safety regulations, observance of the codes applicable to television advertising, the toy gun marking requirement together with the recommendation to members to use their best endeavours to comply with the Association's Vendor and Subcontractor Code of Conduct, has all redounded to the industry's credit.

Relatively little compared with a decade ago is heard in the weeks before Christmas with regard to dangerous toys. Encouraged by the Association, trading standards officers, together with the media, are more inclined to offer guidance to consumers as to choosing and using toys carefully. Particular emphasis has been placed on the need to observe the safety indications provided by toy manufacturers particularly on toys intended for children under 36 months.

Despite a negative report published in November on the subject of labour and working conditions in China, the response from the media and the public as a whole has generally been muted. The BTHA video

showing conditions in a number of toy factories in China and Thailand has continued to be helpful in illustrating the industry's position for concerned members of the public.

The single most significant issue during the year has been the Greenpeace campaign to force the toy industry to switch from PVC in the manufacture of toys. In practical terms there has been no government relations issue within the UK since the DTI has been pragmatic and supported the toy industry position. The same cannot be said of the situation in countries such as Austria, Denmark and Sweden.

The Association has taken care to provide major British toy retailers with regular updates on the PVC and phthalate plasticiser issue as the debate has continued in Brussels and elsewhere over the past two years.

The risk to children from the phthalates used in soft PVC toys has been described by an eminent British toxicologist as "vanishingly small". However, the possibility remains that during 1999 some restrictions on the use of phthalates in toys intended to be put into the mouth will be introduced.

Sponsored by the BTHA, the Pre-School Learning Alliance has been able to launch a video for the first time in its 37 year history. The video is about the PLA charity work with under-fives and their families. At the beginning of 1997, the Toy Trust adopted the Pre-School Learning Alliance as the main beneficiary of charitable funds over three years. Over that period a total of £240,000 is being made available to pre-schools in need.

The Association has been glad to receive from Professor Jeffrey Goldstein, of the University of Utrecht, academic guidance on a wide range of issues of concern to the toy industry. Professor Goldstein has now taken on the task of chairing the National Toy Council and has also written its latest leaflet on the subject of "Intergenerational Play". The leaflet challenges the adult notion that play is only for children. Play has psychological and health benefits - it promotes relaxation, keeping the serious demands of life in perspective, thereby reducing stress. According to studies, play is especially good for the elderly.

Toy Safety, Environmental & Technical Matters

After considerable delays arising from problems with the translations into French and German, CEN has now published the revised version of EN71/1. The Association decided to help with the dissemination of the new standard to members by buying the standard in bulk from BSI and making it available at half price.

At a meeting between the BTHA and a number of major toy retailers, the retailers stated that, as a general rule, from 1st January 2000 only products in compliance with the new standard would be accepted. The retail aim was to try as far as possible to have non compliant stock out of the retail system by February 2001.

In view of the several relaxations in the new standard compared with its predecessor, it was not clear to the Association that there was a particular safety issue apart from acoustics which made the setting of such a deadline necessary. As was the case in 1990 when the directive and the CE marking requirement appeared, the Association recommends to its members that a stock take of non-compliant product be made at the end of 2000 when the two year period before the old standard is withdrawn expires. The local trading standards officer should be informed accordingly.

With regard to the new acoustical requirements of clause 4.20, it is considered that the most significant problems will be encountered by suppliers of cap firing toys. An amendment has been proposed to reduce the period of time during which the current noise limit for cap firing toys is allowed from three years to two and an adjustment to the C-weighted peak emissions sound pressure level from 125dB to 120dB. With regard to other toys, it is possible that extremely noisy toys might be challenged by trading standards officers. Early

attention to such products is strongly recommended.

As a result of laboratories updating their test procedures, a number of shortcomings have been identified in the new standard. One of particular concern relates to a requirement for cords on toys that such cords shall have a thickness of 1.5mm or more which would effectively ban the use of ribbons on toys for children under 36 months because most ribbons have a thickness of less than 1.5mm. Using the Unique Acceptance Procedure, the CEN toy safety committee decided in early November to rectify the errors.

CEN continues to review its work on toy safety and a new part to EN71 dealing with organic chemicals is under way. This will not include a reference to phthalates since this subject is being dealt with directly by the Commission. There are revisions in progress for Part 2 (flammability), Part 3 (toxicity), Part 5 (chemical toys) and a separate part to cover finger paints. The Association will continue to monitor all these issues.

The Association noted with concern the Austrian ban on the use of phthalates in teethingers and a Danish notification to the Commission for proposals for a ban on certain phthalates. Unfortunately for the toy industry, progress on developing an acceptable test method for phthalates to be used on a harmonised basis throughout the EU has been agonisingly slow. Towards the end of the year, the Laboratory of the Government Chemist (an independent UK laboratory) announced two new test methods to be considered alongside one prepared as a result of a Dutch initiative. An agreed method is vital to the ability of manufacturers to show compliance with the limits for phthalate use now recommended by the Commission's own scientific committee.

During the year the Association decided to prepare guidance documents to help members with two compliance issues. A guidance document on face paints has been drawn up in the light of a DTI report which recommended that the toy industry should adopt approved labelling of face paints and that manufacturers should use cosmetic-grade ingredients and avoid the use of irritant chemicals and known allergens. Face paints are toys and are also cosmetics. They must therefore comply not only with the requirements of the toy safety regulations of 1995 but also with the UK cosmetic products regulations of 1996 and their subsequent amendments. The guidelines provide information about the use of appropriate colouring agents and the avoidance of preservatives which are not suitable for contact with mucous membranes.

To assist members, a guidance document was also drawn up covering LEDs in toys. At the end of 1997 a small range of toy products placed on the market had been found to fail the maximum exposure levels as determined in the safety of laser standard EN60825:1. This standard refers to light emitting diodes. These products were considered not to comply with the General Product Safety Directive.

The aim of the guidance document is the production of safe toys without a strict need to meet the requirements of a standard which has been based on the working environment and which needs to be amended to take account of foreseeable use by children. Unnecessary testing costs can accordingly be reduced.

The Association expressed grave concern to the DTI about the proposed amendment of Directive 91/157/EEC covering batteries and accumulators. The deadline has now been extended to January 2000 at which time the marketing of all batteries and accumulators, except for button cell batteries and accumulators composed of button cells, which contain more than 0.0005% of mercury by weight would be prohibited. Button cell batteries and accumulators composed of button cells would be limited to no more than 2% of mercury by weight at that time.

During the year the BTHA's panel of toy safety experts has been busy monitoring developments over an apparently ever-expanding scope ranging from electrical toy safety, EMC, safety of pen caps, child-appeal-

ing luminaires, slides, swings and other outdoor equipment, packaging waste, electronic waste, the ISO toy safety standard and ethical issues such as labour and working conditions specifically as they relate to factory inspections.

Toy Industries of Europe

Intellectual property rights

The TIE committee on intellectual property rights has been active and successful in encouraging the development throughout the European Union of better and more effective legislation for the protection of toy manufacturers against pirated toys. Directive 98/71/EEC on the legal protection of designs was formally adopted on 13 October 1998. Member States must transpose the directive into national law by 28 October 2001. The directive harmonises national rules in respect to the legal protection of designs. It does not set out a legal framework whereby design protection for the whole of the EU can be obtained by a single registration. However, a regulation for the establishment of a Community Design is expected to be adopted by the Commission early in 1999.

Proposals have been submitted to DGXV on the Green Paper on counterfeiting. TIE's position paper emphasised the need to include unfair competition law within the scope of the Green Paper and the establishment of a right to information.

Supported by representations at Member State level by national associations, TIE has been working hard to ensure that toys and games are clearly brought within the scope of the proposed Utility Models Directive. The toy industry suffers acutely from counterfeiting as it produces highly fashionable products which often have a relatively short life-cycle due to rapidly changing consumer trends. The fact that toys are often short-lived does not allow the right holder to obtain the necessary IPR protection in time (in particular with regard to patents and designs) to allow for the effective prosecution of counterfeiters. TIE regards utility model protection as the solution to this problem by conferring rapid IPR protection.

Marketing and communications

Formerly known as the Broadcasting committee, the title of the committee was changed in 1998 to reflect current trends in the market place including the rapid spread of electronic commerce. Efforts have been focused in particular on the advertising restrictions in Greece and Sweden. The threat is that such restrictions will be copied by other countries, for example Poland.

Greece is just one example of the European Commission's failure to resolve cases involving the freedom to communicate across borders. The issue has become increasingly mired in bureaucracy, such that the European Parliament is now criticising the lack of transparency in the Commission's handling of the Greek case. Greece is being permitted to perpetuate a national rule on toy advertising which, fundamentally, is protectionist of the indigenous Greek toy industry and which clearly contravenes the Single Market system of the EU.

TIE has now laid a complaint against the Commission with the European Ombudsman for maladministration of the Greek infringement case. A final ruling by the European Ombudsman is expected in April 1999.

On 20 November 1998 the Swedish Market Court finally gave its ruling in the De Agostini case. As expected it was ruled that advertising on the Swedish terrestrial channel TV 4 remained illegal under current Swedish legislation. However, advertising on the UK-based satellite channel TV 3 was considered to be

allowed as it falls within the scope of the EU Broadcasting Directive. TIE is now planning to draft a second complaint to the Ombudsman about the Commission's failure to follow up on TIE's complaint about the Swedish advertising ban on domestic television which infringes the principle of free movement of goods and services.

The TIE success in obtaining a favourable verdict for the toy industry on satellite broadcasting from one Member State to another and the strategies employed by TIE to ensure that the toy industry's voice on such issues is clearly heard and understood by the European authorities is now being studied with keen interest by advertisers outside the toy industry. Toy manufacturers can now look forward to enjoying rather more support from other industries than has been the case until recently.

TIE is monitoring closely developments in the European Parliament and the Council related to growing scepticism about electronic commerce to children.

Towards the end of 1998, the Commission adopted a proposal for a directive on certain legal aspects of electronic commerce covering issues such as establishment criteria, on-line commercial communications, the law applicable to on-line contracts, liability for on-line content and dispute settlement procedures.

As is the case with the EU Broadcasting Directive, the principle of "country of origin" has been established. However, Member States may further apply "country of destination" for reasons relating to public policy, for example the protection of minors, as long as these restrictions are necessary and proportionate.

Consumer associations are likely to advocate country of destination control. In the case of Sweden this could mean that all electronic commerce directed to children should comply with the Swedish Market law which bans advertising to children.

TIE is now preparing a position paper on some of the controversial issues which are likely to come up such as the exposure of children to commercial messages on the Internet and parental supervision, how to distinguish editorial and commercial messages on-line and, finally, the question of data collected from children.

Safety, environmental and technical matters

As was the case in 1997, the defence of the European toy industry against attacks by Greenpeace on the PVC issue has been the most important single issue handled by the committee during the year. Despite the repeated calls by Greenpeace and some consumer bodies for immediate bans on the use of phthalates in toys, the scientific community appears determined to continue its work in order to get to the bottom of the matter. Indeed, the latest opinion of the EU scientific committee published on 30 November was modified in view of work which had been carried out in Austria and the Netherlands. Two main conclusions were reached.

First, although the safety margin for DEHP has been reduced (and DEHP is not thought to be widely used in toys), the safety margin for the most common phthalate, DINP, was increased from 8,8 to 75.

Secondly, the Dutch test should be validated as soon as possible and further studies carried out on child mouthing behaviour.

Eventually some kind of restriction on phthalates can be expected by the European toy industry but perhaps not before the validation of the Dutch test method which is expected some time during the first quarter of 1999.

The revised standard EN71-1:1998 was published by CEN on 31 July but publication in the Official Journal has been delayed because of a safeguard clause request related to percussion caps. The objection is

to clause 4.20.d on the basis that the sound emissions for toys using percussion caps are too high at 140dB and should be lowered to 120dB with no transition period.

TIE has made representations to the European Commission in connection with a proposed Belgian law on noise levels from tape recorders with head/earphones which specifies lower noise levels than those laid down in the revised EN71-1.

Also at international level, a meeting of ISO/TC181 held in Thailand in December agreed upon the first part of a global toy safety standard. The clauses relating to acoustics in EN71-1 are to be included as an informative annex in the global toy safety standard until such time as an ISO working group has reviewed them. It is not expected that the ISO standard will impact on the legal situation in either the EU or the USA.

The CENELEC committee TC61 has continued work on a modified draft standard covering electromagnetic compatibility in toys.

Successful representations by TIE have resulted in an extension to the time Member States have to transpose a technical amendment to the batteries directive which prohibits the marketing of batteries and products incorporating batteries containing more than 0.0005% mercury. Originally scheduled for 1 January 1999, transposition of the amendment can now be delayed by Member States until 1 January 2000. A new and more radical amendment to the batteries and accumulators directive is expected in the near future.

TIE has been monitoring progress on the second draft proposal for a directive on waste from electrical and electronic equipment. The draft directive is considered to be extreme. It proposes to place the full burden of collection, treatment, re-use and recycling of waste from electrical and electronic equipment on the first supplier. Also there are provisions for phasing out substances such as lead and cadmium, the reduction in the use of the number of different types of plastics, the use of recycled materials and plastics, the labelling of electrical and electronic waste with the wheeled bin symbol and the provision of market-sensitive information to the enforcement authorities.

The toy industry continues to be troubled by national interpretations of EU requirements. For example the Italian authorities now require toys with radiographic devices to bear the CE mark on the product whereas the CE marking directive allows the producer to put the CE mark only on the packaging.

In France, the authorities have started to demand that a precise specification of the small parts risk appears either on the packaging or the product. The TIE view is that reference to "contains small parts" is sufficiently precise. Moreover, whilst choking on small parts may be the main hazard, it is by no means the only one posed by small parts.

After much discussion, CEN/TC252 has now approved the draft mandate for safety standards for infant care articles.

Trade

The trade committee has adopted a working programme on trade barriers in which priority will be given to eliminating trade barriers first within Europe, followed by the Far East and, finally, South America.

This move comes in the wake of the abolition of Chinese toy quotas during the summer. Quotas on certain products originating in China were introduced in March 1994 and a vigorous campaign for their abolition had been waged by TIE ever since.

TIE was also successful in its representations to have all toy categories removed from the hit list of toys

targeted for US retaliation against the EU banana regime. However, there is still concern that some die-cast models may reappear on the final list.

Similarly TIE has been lobbying against more general measures affecting EU exports to Argentina and Brazil who have recently introduced new, cumbersome test and certification requirements for imported toys.

The question of labour and working conditions in Asian toy factories appeared to be more of an issue in Germany and in Ireland than in other European countries. For the toy industry, concern was directed towards satisfying the needs of those who wished to be assured of an effective audit programme as well as meeting the concerns of factories who in many cases were being subjected to multiple inspections carried out against conflicting audit requirements. In particular, some major retailers have expressed their concern that the ICTI code may be insufficient for their present needs.

As a long term strategy to aid the development of business in Eastern Europe, TIE will participate in the organisation of EU-funded workshops with industry in new EU applicant countries. The objective will be to enable local industry to adopt EU rules and business practice especially in toy safety, IPR and communication issues.

Charity - The Toy Trust

During 1998 the BTIAA was proud to be able to announce that the industry's charity, the Toy Trust, has now raised over £1.2 million for charities both large and small, at home and abroad. All the charities supported are for disadvantaged or under-privileged children.

The Association is extremely grateful to everyone who helped raise this tremendous sum over the past eight years.

During the year the Trustees disbursed approximately £250,000. The largest donations were as follows:

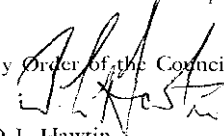
Pre-School Learning Alliance	£80,000	Africa Now	£6,000
National Association of		WRVS	£5,500
Toy & Leisure Libraries	£20,000	Clover House	£5,150
Toy Box	£15,000	Bless the Children	£5,000
Shelter	£6,715	Family Service Unit	£5,000
Wirral Autistic Society	£6,542	Hope House Children's Hospice	£5,000
National Asthma Campaign	£6,500	NICHS	£5,000
Kent Adventure Club for the disabled	£5,000		

Lifetime Achievement Awards

Nearly 200 members of the toy industry worldwide packed the Great Hall at Lincoln's Inn on Saturday 30 January 1999 to witness the presentation of Lifetime Achievement Awards to Richard Beecham of Dunbee Combex Marx and Ralph Ehrmann of the Airfix company.

The citation for Ralph Ehrmann was made by Alan Munn whilst Peter Brown made the citation for Richard Beecham. A special citation for both honorees was made by Alan Hassenfeld.

By Order of the Council


D L Hawtin

SECRETARY, 6 APRIL 1999

BRITISH TOY &
HOBBY ASSOCIATION
LIMITED

Year ended
31 December 1998

	Notes	1998 £	Restated 1997 £
Turnover	2	2,298,017	2,406,137
Cost of sales	2	(1,326,289)	(1,457,980)
Gross profit		971,728	948,157
Administrative expenses	3	(864,964)	(791,299)
Exceptional item	3	(232,639)	-
Profit on sale of investments	3	231,791	131,316
Total operating expenses		(865,812)	(659,983)
Operating surplus		105,916	288,174
Interest receivable and other similar income	4	159,892	188,900
Surplus on ordinary activities before tax	5	265,808	477,074
Tax charge on surplus on ordinary activities	6	(101,619)	(92,680)
Surplus for the year	16/20	164,189	384,394

**Consolidated
income and
expenditure
account**

All items dealt with in arriving at the surplus
on ordinary activities relate to continuing operations.

The notes on pages 15 to 22 form
part of these accounts.

Auditors' report on page 23

BRITISH TOY &
HOBBY ASSOCIATION
LIMITED

Year ended
31 December 1998

**Note of
historical
cost surpluses
and losses**

	1998	1997
	£	£
Reported surplus on ordinary activities before taxation	265,808	477,074
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	4,000	3,000
Historical cost surplus on ordinary activities before taxation	<u>269,808</u>	<u>480,074</u>
Historical cost surplus for the year after taxation	<u>168,189</u>	<u>387,394</u>

**Total
recognised
gains and
losses**

	1998	1997
	£	£
Surplus attributable to members	164,189	384,394
Unrealised surplus on revaluation of property	62,000	-
Total recognised gains for the year	<u>226,189</u>	<u>384,394</u>

The notes on pages 15 to 22 form
part of these accounts.

Auditors' report on page 23

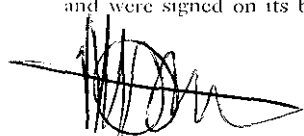
BRITISH TOY &
HOBBY ASSOCIATION
LIMITED

Year ended
31 December 1998

	Notes	1998 £	1998 £	1997 £	1997 £
Fixed assets					
Tangible assets	10		243,015		199,905
Current assets					
Debtors	12	1,188,730		1,071,924	
Investments	13	2,434,214		2,865,133	
Deposits		776,673		259,651	
Cash at bank and in hand		549,590		703,664	
		<u>4,949,207</u>		<u>4,900,372</u>	
Creditors					
Amounts falling due within one year	14	<u>(2,166,024)</u>		<u>(2,300,268)</u>	
Net current assets			<u>2,783,183</u>		<u>2,600,104</u>
Total assets less current liabilities			<u>3,026,198</u>		<u>2,800,009</u>
Reserves					
Income and expenditure account	16		2,830,198		2,662,009
Revaluation reserve	17		<u>196,000</u>		<u>138,000</u>
Members' funds	20		<u>3,026,198</u>		<u>2,800,009</u>

**Consolidated
Balance
sheet**

The financial statements were approved
by the board of directors on 9 March 1999
and were signed on its behalf by:



N. J. Austin
MEMBER OF COUNCIL

The notes on pages 15 to 22 form
part of these accounts.

Auditors' report on page 23

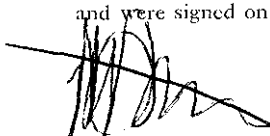
BRITISH TOY &
HOBBY ASSOCIATION
LIMITED

Year ended
31 December 1998

**Company
Balance
sheet**

	Notes	1998 £	1998 £	1997 £	1997 £
Fixed assets					
Tangible assets	10		243,015		199,905
Investments	11		<u>200</u>		<u>200</u>
			243,215		200,105
Current assets					
Debtors	12	1,188,730		1,071,924	
Investments	13	2,434,214		2,865,133	
Deposits		776,673		259,651	
Cash at bank and in hand		<u>549,590</u>		<u>703,664</u>	
		4,949,207		4,900,372	
Creditors					
Amounts falling due within one year	14	<u>(2,982,159)</u>		<u>(3,116,403)</u>	
Net current assets			1,967,048		1,783,969
Total assets less current liabilities			<u>2,210,263</u>		<u>1,984,074</u>
Reserves					
Income and expenditure account	16		2,014,263		1,846,074
Revaluation reserve	17		<u>196,000</u>		<u>138,000</u>
Members' funds			<u>2,210,263</u>		<u>1,984,074</u>

The financial statements were approved by
the board of directors on 9 March 1999
and were signed on its behalf by:


N J Austin

MEMBER OF COUNCIL

The notes on pages 15 to 22 form
part of these accounts.

Auditors' report on page 23

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING

The consolidated financial statements are prepared from the audited financial statements of the parent company, the British Toy and Hobby Association Limited, and of its two wholly-owned subsidiaries, which are dormant and have not been audited, British Toy Fairs (International) Limited and British Toy Council Limited. The accounting reference date for all these companies is 31 December.

RESTATEMENT OF COMPARATIVES

Several of the comparatives have been restated to reflect a more appropriate categorisation of income and expenditure and to remove previous netting off.

TURNOVER

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the invoiced value of goods and services supplied.

Members' subscriptions are included in the financial statements on an accruals basis.

DEFERRED INCOME AND PREPAID EXPENSES

Exhibition space, related costs and other income at the Olympia, Nuremberg and New York toy fairs are included in the financial statements on an accruals basis with the exception that the administration costs, including salaries, are charged to the Income and Expenditure account as incurred.

Income from the toy fairs to be held after the year end and their related costs are included in the financial statements as "Deferred Income" and "Prepayments" respectively, to be credited and charged to the Consolidated Income and Expenditure account in the following year's financial statements.

The 1997 income and expenditure account has been restated to gross up total income and expenditure. In previous years, the surplus/deficit was reflected in other net operating income.

FIXED ASSETS

Freehold property is stated at a valuation. The basis of valuation is explained in note 10(b). The cost of other fixed assets is their purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated on the straight line basis, to write off the cost or value of fixed assets over their estimated useful lives.

Rates adopted are:

Motor vehicles	25% per annum
Furniture and fittings	10% per annum
Office equipment	20% per annum
Freehold property	2% per annum
Computer equipment	33% per annum

LISTED INVESTMENTS

Listed investments are stated at the lower of cost and market value for each individual shareholding.

INVESTMENT INCOME

Investment income from listed investments is treated on a receipts basis. Interest on money market deposits is treated on an accruals basis.

**Notes to the
financial
statements**

OPERATING LEASES

Costs in respect of operating leases are charged on a straight line basis over the lease term.

PENSION SCHEME ARRANGEMENTS

The company operates a defined benefits pension scheme which is contracted out of the state scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

TAXATION

The charge for taxation is based on the result for the year as adjusted for disallowable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to apply when the liability or asset is expected to crystallise.

CASH FLOW STATEMENT

The group qualifies as a small group under the terms of Section 247 of the Companies Act 1985. As a consequence it is exempt from the requirement to publish a cash flow statement.

2 Segmental analysis

The analysis by class of the group's turnover is set out below:

	1998	1997 restated
	£	£
Toy fairs	1,840,129	1,957,174
Publications	91,690	95,249
Members' subscriptions	366,198	353,714
	<u>2,298,017</u>	<u>2,406,137</u>

The analysis by class of the group's cost of sales is set out below:

	1998	1997 restated
	£	£
Toy fairs	1,267,056	1,385,609
Publications	59,233	72,371
	<u>1,326,289</u>	<u>1,457,980</u>

**Notes to the
financial
statements**

3 Other net operating income and administrative expenses

	1998	1997
	£	£
Administrative expenses		
Public relations	153,228	157,407
Toy Industries of Europe	36,967	35,327
International Council of Toy Industries	9,620	13,257
Toy safety	46,778	49,771
Marketing programme	100,537	-
Toy Industry Action Programmes	347,130	255,762
Salaries	195,838	188,139
Toy Trust fundraising income	(128,549)	(146,712)
Toy Trust fundraising expenses	105,955	105,481
Donations - Toy Trust	90,126	113,793
Donations - other	(10)	1,000
Profit on sale of assets	-	(2,000)
Telephone and postage	21,117	24,836
General administrative expenses	35,065	27,972
Stationery and printing	26,375	32,652
Sundry expenses	13,786	9,171
Office expenses	21,460	30,062
Auditors' remuneration	7,800	7,500
Professional charges	80,682	96,254
Depreciation	28,239	26,865
Computer installation and consultancy	19,950	20,524
	<u>864,964</u>	<u>791,299</u>
Profit/(loss) on investments	1998	1997
	£	£
Profit on sale of investments	231,791	131,316
Diminution in value of investments	<u>(232,639)</u>	<u>-</u>

The diminution in value of the investments is shown as an exceptional item due to its material effect on the retained surplus. The diminution in value arises due to a number of investments held by the company at 31 December 1998 being valued at below their cost price.

4 Interest receivable and similar income

	1998	1997
	£	restated £
Income from listed investments	106,872	121,403
Interest receivable	53,020	45,489
Compensation from Morgan Grenfell	-	22,008
	<u>159,892</u>	<u>188,900</u>

BRITISH TOY &
HOBBY ASSOCIATION
LIMITED

Year ended
31 December 1998

Notes to the
financial
statements

5 Surplus on ordinary activities before taxation

The surplus on ordinary activities before taxation arises after charging:

	1998	1997
	£	£
Depreciation of owned assets	28,239	26,865
Auditors' remuneration		
Audit work	7,800	7,500
Non audit work	3,850	3,750
Operating lease rentals for furniture, fittings and office equipment	2,140	2,199
	<u>101,619</u>	<u>92,680</u>

6 Tax charge on surplus on ordinary activities

The tax charge on surplus on ordinary activities for the year is analysed as below:

	1998	1997
	£	£
United Kingdom corporation tax at 24.77% (1997: 24%):		
Current	83,219	71,580
Overprovision in respect of prior years:		
Current	(20)	(100)
Tax attributable:		
United Kingdom investment income	18,420	21,200
	<u>101,619</u>	<u>92,680</u>

7 Surplus for the year

Of the group surplus of £164,189 (1997: £384,394), a surplus of £164,189 (1997: £384,394) is accounted for in the accounts of the parent company.

8 Employee information

The average weekly number of persons employed by the group in 1998 was 8 (1997: 9) (all administrative).

	1998	1997
	£	£
Aggregate gross wages and salaries	175,626	169,027
Employer's national insurance contributions	16,297	15,533
Employer's pension contributions	3,915	3,579
	<u>195,838</u>	<u>188,139</u>

9 Directors' emoluments and transactions with directors

The directors did not receive any emoluments as directors during the year. However, Mr I H Scott received £25,500 (1997: £24,600), excluding expenses, for consultancy services rendered to the Association in respect of toy safety.

**Notes to the
financial
statements**

10 Tangible fixed assets

Group and company:

	Freehold property £	Motor vehicles £	Furniture, fittings and office equipment £	Computer equipment £	Total £
Cost or valuation					
At 1 January 1998	150,000	23,144	60,875	37,215	271,234
Additions	-	-	6,515	2,834	9,349
Revaluation	50,000	-	-	-	50,000
At 31 December 1998	<u>200,000</u>	<u>23,144</u>	<u>67,390</u>	<u>40,049</u>	<u>330,583</u>
Depreciation					
At 1 January 1998	12,000	13,085	29,370	16,874	71,329
Charge for the year	4,000	4,484	8,559	11,196	28,239
Revaluation	(12,000)	-	-	-	(12,000)
At 31 December 1998	<u>4,000</u>	<u>17,569</u>	<u>37,929</u>	<u>28,070</u>	<u>87,568</u>
Net book value					
At 31 December 1998	<u>196,000</u>	<u>5,575</u>	<u>29,461</u>	<u>11,979</u>	<u>243,015</u>
At 31 December 1997	<u>138,000</u>	<u>10,059</u>	<u>31,505</u>	<u>20,341</u>	<u>199,905</u>

a) No fixed assets are held by either of the subsidiary companies. b) The freehold property was revalued at an open market value of £200,000 on 1 May 1998 by an independent firm of chartered surveyors, Andrews and Robertson. The historical cost of the building is £103,041.

11 Fixed asset investments

	1998		1997	
	Group	Company	Group	Company
	£	£	£	£
Shares in group companies	<u>-</u>	<u>200</u>	<u>-</u>	<u>200</u>

SHARES IN GROUP COMPANIES

The company had the following subsidiaries at 31 December 1998, both of which are incorporated in Great Britain and registered in England and Wales:-

	Class of share held	% of class of shares	Shares at cost £
British Toy Fairs (International) Limited (dormant)	Ordinary	100	100
British Toy Council Limited (dormant)	Ordinary	100	100

Notes to the
financial
statements

12 Debtors

Amounts falling due within one year:

	1998	1997
	Group and	Group and
	company	company
	£	£
Trade debtors	472,980	344,763
Prepayments (see note 1)	672,738	702,113
Other prepayments	43,012	25,048
	<u>1,188,730</u>	<u>1,071,924</u>

13 Current asset investments

	1998	1997
	Group and	Group and
	company	company
	£	£
UK listed investments at cost	2,666,853	2,865,133
Diminution in value	(232,639)	-
	<u>2,434,214</u>	<u>2,865,133</u>
UK listed investments at market value	<u>3,943,775</u>	<u>4,150,454</u>

The diminution in value of the assets is shown as an exceptional item due to its material effect on the retained surplus. The diminution in value arises due to a number of the investments held by the company at 31 December 1998 being valued at below the cost price of the shares.

14 Creditors: amounts falling due within one year

	1998		1997	
	Group	Company	restated Group	restated Company
	£	£	£	£
Amounts owed to subsidiary companies	-	816,135	-	816,135
Other creditors	446	446	162,450	162,450
Other taxation and social security	112,419	112,419	138,624	138,624
UK corporation tax	83,219	83,219	71,580	71,580
Accruals and deferred income (see note 1)	<u>1,969,940</u>	<u>1,969,940</u>	<u>1,927,614</u>	<u>1,927,614</u>
	<u>2,166,024</u>	<u>2,982,159</u>	<u>2,300,268</u>	<u>3,116,403</u>

15 Taxation including deferred taxation

There is no potential liability to deferred taxation.

16 Income and expenditure account

The movement on the consolidated income and expenditure account is analysed below:

	British Toy and Hobby Association Limited	Subsidiary companies	Total
	£	£	£
At 1 January 1998	1,846,074	815,935	2,662,009
Surplus for the year	164,189	-	164,189
Transfer from revaluation reserve	4,000	-	4,000
At 31 December 1998	<u>2,014,263</u>	<u>815,935</u>	<u>2,830,198</u>

Notes to the financial statements

17 Revaluation reserve

	Group and company
	£
At 1 January 1998	138,000
Revaluation surplus on the freehold property	62,000
Transfer to income and expenditure account	(4,000)
At 31 December 1998	<u>196,000</u>

18 Lease commitments

The group has financial commitments in respect of non-cancellable operating leases of furniture, fittings and office equipment. The rentals payable under these leases in the next year are as follows:

	1998	1997
		Restated
	£	£
Date of lease termination:		
Between two and five years	<u>2,140</u>	<u>2,140</u>

The company entered into an annual commitment in 1994 of £500,000, increasing each year in line with the retail price index, under a lease in respect of the rental of 13,000 square metres at Olympia. The licence expires in over five years, but is cancellable by the company giving notice, such notice to take effect immediately after the end of the period of licence for the second year following that in which notice is given. The 2000 commitment is for £589,000.

**Notes to the
financial
statements**

19 Pensions and similar obligations

The company participates in a pension scheme operated by The Scottish Life Assurance Company providing benefits based on the members' earnings close to retirement. The assets of the scheme are held separately from those of the company.

The total pension cost for the company was £3,915 (1997: £3,579). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the "Aggregate Method". The latest actuarial valuation of the scheme was at 1 January 1996 and indicated a surplus of funds. A valuation is being carried out as at 1 January 1999, however, at the time of signing the financial statements this had not been finalised.

The actuarial assumptions that have the most significant effect on the valuation are those relating to the future pattern of interest rates and to the rate of increase in members' pensionable earnings. It was assumed that the future pattern of interest rates will be equivalent to an average level rate of interest of 8.5% per annum compound and that members' pensionable earnings will increase at the rate of 7% per annum compound over the projected period. The value of the fund (excluding additional voluntary contributions) at 1 January 1996 was £361,794.

20 Reconciliation of movements in members' funds

	1998	1997
	£	£
Opening members' funds	2,800,009	2,415,615
Surplus for the financial year	164,189	384,394
Surplus on the revaluation	62,000	-
Closing members' funds	<u>3,026,198</u>	<u>2,800,009</u>

We have audited the financial statements on pages 11 to 22 which have been prepared under the historical cost convention as modified by the revaluation of the freehold property and the accounting policies set out on pages 15 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you, if in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and group at 31 December 1998 and of the surplus of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

LONDON, 6 APRIL 1999

**Report of the
auditors**

Year ended
31 December 1998

**Notice of
annual
general
meeting**

NOTICE IS HEREBY GIVEN that the FIFTY FIFTH ANNUAL GENERAL MEETING OF THE ASSOCIATION is appointed to be held at Hagley Hall, Hagley, Worcestershire DY9 9LG at 9.15 a.m. on Thursday 29 April 1999, to transact the following business:

1. To receive and, if approved, adopt the Report and Accounts for the year to 31 December 1998.
2. To elect members of Council.

It is provided in the Articles of Association that the Council shall consist of such number of Members of Council as the Council for the time being shall determine (the number at present being twenty) and that at the Annual General Meeting to be held each year, one-third of the Council (or if their number is not a multiple of three then the number nearest to but not exceeding one third) shall retire from office.

The following are the names of the members of Council who retire on this occasion:

Mr G Benison	(Mattel UK Ltd)
Mr M J Bucher	(Leisure Trends Ltd)
Mr G P Carpenter	(Lego UK Ltd)
Mr H L Cooper	(Chelful Ltd)
Mr B J Ellis	(Hasbro UK Ltd)
Mr M Loveland	(Playmates Toys (UK) Ltd)

With the exception of Mr. Cooper, who has resigned from the Council, they are eligible and stand for re-election.

There are three vacancies arising from the resignations of Mr R F Body and Mr H L Cooper and the retirement of Mr I H Scott.

NOTE: Article 43 reads "No person not being a member of Council retiring at the meeting shall, unless recommended by the Council for election, be eligible for office on the Council at any General Meeting, unless within the prescribed time before the day appointed for the meeting there shall have been given to the Secretary notice in writing, by some member duly qualified to be present and vote at the meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing, signed by the person to be proposed, of his willingness to be elected. The prescribed time above mentioned shall be such that, between the date when the notice is served or deemed to be served, and the day appointed, there shall be to less than seven or more than fourteen intervening days".

3. To re-appoint the auditors, PricewaterhouseCoopers, in accordance with section 384 of the Companies Act, 1985 (as amended by the Companies Act, 1989) (having previously been appointed by the Council to fill the casual vacancy arising by reason of the resignation of Coopers & Lybrand), to hold office until the conclusion of the next general meeting at which the accounts are laid before the company and to authorise the Council to fix their remuneration.
4. To transact any other business

By Order of the Council

D I. Hawtin

SECRETARY, 6 APRIL 1999