



PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 635)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2008	2007
For the six months ended 30 June	HK\$'000	HK\$'000
Group turnover	279,598	389,337
– from property investments & associated businesses	47,502	41,758
– from toy business	232,096	347,579
Gross profit	128,827	198,234
Revaluation surplus on investment properties	151,243	105,474
Operating profit	108,676	105,247
Profit before taxation	13,744	145,089
Profit attributable to shareholders	43,896	119,162
	HK\$	HK\$
Earnings per share		
– Basic	0.20	0.60
– Diluted	0.20	0.59
Interim dividend per share	0.10	0.20

Property Investments and Associated Businesses

The property market in Hong Kong continued to strengthen in the first half of 2008 enabling the Group to achieve growth in rental income and to record a further increase in capital value of its properties portfolio. Segment operating profit grew by 40.8% to HK\$176 million (including revaluation surplus of HK\$151 million), compared to HK\$125 million in operating profit (including revaluation surplus of HK\$105 million) for the same period last year.

(a) Leasing Business

The Toy House

Rental income generated by The Toy House before intra-group elimination was HK\$20 million, a growth of 5.3%, compared to the same period last year. The increment in rental income was mainly attributable to the overall higher rental rates achieved for both new leases and renewals. In the first half of 2008, The Toy House secured an up-market beauty spa salon and a luxury wine bar club as new retail tenants. Both tenants commenced business as scheduled in the third quarter of 2008 which will further enrich the tenant mix of The Toy House. A food and beverage tenancy was renewed with substantial rental growth. Looking ahead, the pace of growth in rental rate is slowing. However, with the prime location of The Toy House, we remain cautiously optimistic about the earning outlook of this core investment property in the foreseeable future.

Hillview Apartment Units

Mainly attributable to higher occupancy and rental rates boosted by strong and persistent demand for luxury residential accommodation, rental income generated by the residential apartment units at Hillview recorded a growth of 55.2% to HK\$7 million in the first half of the year.

Playmates Factory Building

Rental income generated by Playmates Factory Building was HK\$4 million, a growth of 9.4% as compared to the same period last year. The increment was primarily driven by renewals with rental increases.

The Group has adopted the fair value method for its property investments. As at the end of the period under review, the Group's investment properties were revalued by an independent professional surveyor. A valuation surplus of HK\$151 million was reported in the consolidated income statement of the Group for the period.

(b) Property Management Business

The Group is engaged in managing and providing a full range of building services to The Toy House, Playmates Factory Building and Hillview. Income from the property management business segment before intra-group elimination for the period grew by 17.2% to HK\$8 million as compared to the same period last year.

(c) Food & Beverage Business

With established good reputation for quality and value and favourable location in a leisure and recreational destination for up-market customers, the restaurants the Group invested in reported continued growth in performance. Income from food and beverage business segment for the period under review grew by 13.8% to HK\$13 million.

Toy Business

Playmates Toys worldwide sales during the first half of 2008 were HK\$232 million, a decrease of 33% over the same period last year. This decrease was primarily attributable to the slowdown in economic activities in major markets causing consumers to curtail spending on discretionary purchases, including toys, and unlike the first half of last year when there was a major entertainment event driving sales of the Group's licensed brands. According to trade statistics, year-to-date (June 2008) industry retail dollar sales in the U.S. decreased 4%, with a corresponding decrease in unit sales of 9%. U.S. industry retail sales were down in all categories except plush, building sets, and action figures and accessories, where growth was driven by new theatrical releases.

Gross profit ratio on toy sales was 38% (47% during the same period in 2007). Lower gross profit percentage for the period is attributed to lower unit sales in relation to the same level of development costs as last year and higher discounted sales due to accelerated adoption of new safety regulations by U.S. retailers.

Consistent with Playmates Toys low overhead operating strategy, recurring operating expenses were managed to a level below last year primarily with reductions in co-op advertising and professional expenses. Playmates Toys reported a net loss after tax of HK\$42 million (compared to a net loss after tax of HK\$14 million for the same period in 2007) as a result of decreased sales, partially offset by lower selling, distribution and administrative expenses for the period.

In the second half of 2008, we expect a continuing challenging environment. The economic slowdown in the U.S. appears to be spreading to other developed markets around the world; consumer confidence hovers at record low levels under the continued pressures of inflation, tight credit and rising unemployment; retailers remain cautious on building inventory for the holiday season, and input costs inflation continues to put pressure on profit margin.

In spite of these challenges, Playmates Toys remains focused on its long term strategy of growing its core business and expanding its presence in targeted growth categories.

Treasury Investment

As at 30 June 2008, the market value of the Group's investment portfolio was HK\$581 million. The Group incurred a net loss (including realised and unrealised loss) of approximately HK\$96 million from investments in the first six months of 2008. With continuing volatility in the global capital and debt markets, the Group will remain vigilant in closely monitoring and adjusting the investment portfolio.

CONDENSED FINANCIAL INFORMATION

Condensed consolidated income statement

For the six months ended 30 June 2008

	Note	Unaudited		
		Six months ended 30 June		
		2008	2008	2007
		US\$'000	HK\$'000	HK\$'000
		(Note 9)		
Turnover	2	35,846	279,598	389,337
Cost of sales		(19,330)	(150,771)	(191,103)
Gross profit		16,516	128,827	198,234
Marketing expenses		(9,678)	(75,492)	(79,525)
Selling, distribution and administration expenses		(12,295)	(95,902)	(118,936)
Revaluation surplus on investment properties		19,390	151,243	105,474
Operating profit		13,933	108,676	105,247
Non-operating income/(expenses)				
Interest expense and bank charges		(584)	(4,551)	(3,948)
Other revenues		971	7,577	6,528
Net (loss)/gain on investments		(12,285)	(95,826)	37,528
		2,035	15,876	145,355
Share of losses of an associated company		(273)	(2,132)	(266)
Profit before taxation	3	1,762	13,744	145,089
Taxation credit/(charge)	4	1,279	9,976	(25,927)
Profit for the period		3,041	23,720	119,162
Attributable to:				
Equity holders of the Company		5,628	43,896	119,162
Minority interest		(2,587)	(20,176)	–
		3,041	23,720	119,162
Dividend	5	2,868	22,372	44,501
		US\$	HK\$	HK\$
Earnings per share	6			
Basic		0.03	0.20	0.60
Diluted		0.03	0.20	0.59

Condensed consolidated balance sheet

As at 30 June 2008 and 31 December 2007

	Unaudited 30 June 2008 US\$'000 (Note 9)	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Non-current assets			
Fixed assets			
– Investment properties	216,808	1,691,100	1,539,800
– Other property, plant and equipment	4,754	37,083	38,149
– Prepaid premium on leasehold land held for own use under an operating lease	<u>6,155</u>	<u>48,011</u>	<u>48,597</u>
	227,717	1,776,194	1,626,546
Goodwill	766	5,976	5,976
Interest in an associated company	2,943	22,958	25,090
Deferred tax assets	<u>15,624</u>	<u>121,865</u>	<u>91,976</u>
	247,050	1,926,993	1,749,588
Current assets			
Inventories	4,592	35,819	33,368
Trade receivables	7	8,655	67,509
Other receivables, deposits and prepayments	12,878	100,447	80,172
Taxation recoverable	295	2,303	3,177
Financial assets at fair value through profit or loss	74,545	581,451	567,943
Cash and bank balances	<u>28,256</u>	<u>220,394</u>	<u>375,215</u>
	129,221	1,007,923	1,239,667
Current liabilities			
Bank loans	31,204	243,389	160,275
Trade payables	8	6,548	51,072
Other payables and accrued charges	9,657	75,325	160,415
Provisions	2,311	18,028	35,798
Taxation payable	<u>701</u>	<u>5,468</u>	<u>5,856</u>
	50,421	393,282	438,371
Net current assets	<u>78,800</u>	<u>614,641</u>	<u>801,296</u>

	Unaudited	Unaudited	Audited
	30 June	30 June	31 December
	2008	2008	2007
<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 9)</i>		
Total assets less current liabilities	325,850	2,541,634	2,550,884
Non-current liabilities			
Deferred tax liabilities	<u>21,948</u>	<u>171,198</u>	<u>154,109</u>
Net assets	<u>303,902</u>	<u>2,370,436</u>	<u>2,396,775</u>
Capital and reserves			
Share capital	2,868	22,372	222,523
Reserves	283,966	2,214,934	1,987,780
Proposed dividend	5 <u>2,868</u>	<u>22,372</u>	<u>184,502</u>
Total equity attributable to equity holders of the Company	289,702	2,259,678	2,394,805
Minority interests	<u>14,200</u>	<u>110,758</u>	<u>1,970</u>
Total equity	<u>303,902</u>	<u>2,370,436</u>	<u>2,396,775</u>

Notes:

1 Basis of preparation and accounting policies

This condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2007 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2007.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

2 Segment information

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

Business segments

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

	Six months ended 30 June 2008			
	Property investments and associated businesses HK\$'000	Toy business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	47,502	232,096	–	279,598
Inter-segment revenue (<i>Note iii</i>)	166	–	(166)	–
	<u>47,668</u>	<u>232,096</u>	<u>(166)</u>	<u>279,598</u>
Results				
Segment results	175,694	(68,229)	–	107,465
Inter-segment transactions	166	(166)	–	–
	<u>175,860</u>	<u>(68,395)</u>	<u>–</u>	<u>107,465</u>
Unallocated income and expenses, net				<u>1,211</u>
Operating profit				<u>108,676</u>
Six months ended 30 June 2007				
	Property investments and associated businesses HK\$'000	Toy business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	41,758	347,579	–	389,337
Inter-segment revenue (<i>Note iii</i>)	185	–	(185)	–
	<u>41,943</u>	<u>347,579</u>	<u>(185)</u>	<u>389,337</u>
Results				
Segment results	125,225	(9,433)	–	115,792
Inter-segment transactions	185	(185)	–	–
	<u>125,410</u>	<u>(9,618)</u>	<u>–</u>	<u>115,792</u>
Unallocated income and expenses, net				<u>(10,545)</u>
Operating profit				<u>105,247</u>

Notes:

- (i) **Property investments and associated businesses** refers to the leasing of commercial, industrial and residential premises to generate rental income, the provision of property management services and the operation of restaurants.
- (ii) **Toy business** refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (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.

Geographical segments

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

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Asia Pacific	56,293	63,725
Americas		
– U.S.A.	151,951	224,418
– Others	8,677	29,906
Europe	58,512	70,680
Others	4,165	608
	<u>279,598</u>	<u>389,337</u>

3 Profit before taxation

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

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging:		
Cost of inventories sold	125,257	163,086
Product development costs	4,628	7,173
Royalties paid	25,520	33,549
Allowance for customer concession	284	4,390
Staff costs	53,234	51,449
Depreciation of fixed assets	4,052	4,121
Loss on disposal of fixed assets	54	8
	<u>54</u>	<u>8</u>
Crediting:		
Bank interest income	3,366	5,280
Dividend income from investments	4,211	1,248
	<u>4,211</u>	<u>1,248</u>

4 Taxation credit/(charge)

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period. 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.

The taxation credit/(charge) in the condensed consolidated income statement comprises:

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Current taxation		
Hong Kong profits tax	(2,507)	(2,035)
Overseas taxation	(318)	–
Over-provision in prior years	–	289
	<u>(2,825)</u>	<u>(1,746)</u>
Deferred taxation		
Decrease in tax rate	9,068	–
Origination and reversal of temporary differences	<u>3,733</u>	<u>(24,181)</u>
	<u>12,801</u>	<u>(24,181)</u>
	<u>9,976</u>	<u>(25,927)</u>

5 Dividend

At a meeting held on 10 March 2008 the Directors proposed a final dividend of HK\$0.25 which was paid on 13 May 2008 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2008.

At a meeting held on 21 August 2008 the Directors declared an interim dividend of HK\$0.1 (2007: HK\$0.2, restated) per share to be paid on 24 September 2008 to shareholders on the Company's Register of Members on 17 September 2008. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2008.

6 Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Profit attributable to equity holder of the Company for the purpose of calculating basic and diluted earnings per share	<u>43,896</u>	<u>119,162</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	223,586,000	198,972,900
Number of potential ordinary shares issuable under share options	<u>134,000</u>	<u>2,784,800</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>223,720,000</u>	<u>201,757,700</u>

7 Trade receivables

The normal trade terms with toys business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investments and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables at the balance sheet date:

	30 June	31 December
	2008	2007
	HK\$'000	HK\$'000
0 – 30 days	65,971	178,256
31 – 60 days	658	261
Over 60 days	<u>880</u>	<u>1,275</u>
	<u>67,509</u>	<u>179,792</u>

8 Trade payables

The following is an aging analysis of trade payables at the balance sheet date:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
0 – 30 days	41,404	34,166
31 – 60 days	7,717	41,391
Over 60 days	1,951	470
	<hr/> 51,072 <hr/>	<hr/> 76,027 <hr/>

9 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 ruling at 30 June 2008.

10 Comparative figures

In accordance with the change in the Group's internal financial reporting, the Group has determined the operation of restaurants to be included in the property investments and associated businesses segment. As a result, certain comparative figures of turnover and revenue, costs of sales and selling, distribution and administration expenses have been re-classified to conform to current years' presentation.

FINANCIAL ANALYSIS

The property investments and associated businesses generated a relatively steady income stream throughout the period. Approximately 88% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2008. Accounts receivables were minimal as at the period end.

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those 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 season. As at 30 June 2008, trade receivables related to toy business were HK\$66,954,000 (31 December 2007: HK\$179,272,000) and inventories were HK\$35,666,000 (31 December 2007: HK\$33,274,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2008 was 8.3% compared to 5.4% at 31 December 2007. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.6 at 30 June 2008 compared to 2.8 at 31 December 2007.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. After considering the operating cash flow and liquidity requirements, a portion of cash on hand may be invested from time to time in various types of financial instruments including fixed income, equity, derivatives and managed funds with a view to enhance overall return. The selection and allocation of such yield enhancement investments are regularly reviewed to ensure that an acceptable risk-and-return profile is maintained and the liquidity requirements of the Group are served. As at 30 June 2008, the Group's cash and bank balances were HK\$220,394,000 (31 December 2007: HK\$375,215,000), and the amount invested in various securities was HK\$581,451,000 (31 December 2007: HK\$567,943,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining and ensuring high standards of corporate governance. The Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2008, except for the deviation from provision A.2.1 of the Code in respect of segregation of the roles of chairman and chief executive officer.

The Chairman and chief executive officer of the Company is Mr. Chan Chun Hoo, Thomas. This deviates from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board comprises three Executive Directors (one of whom is the Chairman) and five Non-executive Directors. Of the five Non-executive Directors, three are Independent Non-executive Directors. Mr. Chan Chun Hoo, Thomas focuses on Group strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner; whereas responsibilities for running of the business operation of the Group are delegated to different designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive directorship element on the Board and a clear division of responsibility in running the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 September 2008 to 17 September 2008, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 12 September 2008.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 21 August 2008

As at the date hereof, the Board of Directors of the Company comprises the following Directors:

Mr. Chan Chun Hoo, Thomas (*Chairman and Executive Director*); Mr. Cheng Bing Kin, Alain (*Executive Director*); Mr. Ip Shu Wing, Charles (*Non-executive Director*); Mr. Lee Peng Fei, Allen (*Independent Non-executive Director*); Mr. Lo Kai Yiu, Anthony (*Independent Non-executive Director*); Mr. To Shu Sing, Sidney (*Executive Director*); Mr. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)

* *For identification purpose only*