



PLAYMATES TOYS LIMITED
彩星玩具有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 869)

ANNOUNCEMENT OF ANNUAL RESULTS
YEAR ENDED 31 DECEMBER 2007

RESULTS

The Directors of Playmates Toys Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 as follows:

Consolidated Income Statement

For the year ended 31 December 2007

	<i>Note</i>	2007 <i>US\$'000</i> <i>(Note 10)</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	3	116,542	909,030	1,127,997
Cost of sales		(64,483)	(502,967)	(586,826)
Gross profit		52,059	406,063	541,171
Marketing expenses		(31,535)	(245,976)	(296,536)
Selling, distribution and administration expenses		(27,425)	(213,919)	(216,662)
Restructuring expenses	1	(1,912)	(14,913)	–
Operating (loss)/profit		(8,813)	(68,745)	27,973
Non-operating income/(expenses)				
Interest expense and bank charges		(523)	(4,079)	(5,877)
Other revenue		601	4,688	5,131
(Loss)/profit before taxation	4	(8,735)	(68,136)	27,227
Taxation credit/(charge)	5	4,430	34,551	(4,033)
(Loss)/profit attributable to shareholders		(4,305)	(33,585)	23,194
Dividends	6	4,700	36,660	–
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	7			
Basic		(0.87)	(6.78)	4.69

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 US\$'000 (Note 10)	2007 HK\$'000	2006 HK\$'000
Non-current assets				
Property, plant and equipment		723	5,642	5,904
Interest in an associated company		3,217	25,090	–
Deferred tax assets		11,762	91,747	80,077
		<u>15,702</u>	<u>122,479</u>	85,981
Current assets				
Inventories		4,266	33,274	49,353
Trade receivables	8	22,983	179,272	353,212
Other receivables, deposits and prepayments		9,430	73,556	59,759
Amount due from a fellow subsidiary		32	246	244
Amount due from an intermediate holding company		167	1,303	93
Taxation recoverable		385	3,005	1,043
Cash and bank balances		10,512	81,995	90,541
		<u>47,775</u>	<u>372,651</u>	554,245
Current liabilities				
Bank loans		–	–	66,500
Trade payables	9	9,472	73,881	91,041
Other payables and accrued charges		11,652	90,889	122,976
Amount due to a fellow subsidiary		1,012	7,892	–
Amount due to the ultimate holding company		346	2,702	19,942
Provisions		4,589	35,798	49,260
Taxation payable		317	2,472	755
		<u>27,388</u>	<u>213,634</u>	350,474
Net current assets		<u>20,387</u>	<u>159,017</u>	203,771
Total assets less current liabilities		<u>36,089</u>	<u>281,496</u>	289,752
Non-current liabilities				
Deferred tax liabilities		31	240	181
Net assets		<u>36,058</u>	<u>281,256</u>	<u>289,571</u>
Capital and Reserve				
Share capital		635	4,950	93
Reserves		35,423	276,306	289,478
Total equity		<u>36,058</u>	<u>281,256</u>	<u>289,571</u>

Notes:

1. Basis of presentation

The Company was incorporated in Bermuda on 11 April 2005 under the Companies Act 1981 of Bermuda (as amended).

Playmates Holdings Limited (“PHL”), the ultimate holding company underwent a reorganisation in May 2007 to effectively consolidate the toy business under the Company (the “Reorganisation”). Pursuant to the Reorganisation, all the interests in the companies operating the toy business were transferred to the Company and the Company became the holding company of the subsidiaries now comprising the Group. The application of the Company for a separate listing on The Stock Exchange of Hong Kong Limited was approved in January 2008. Public trading of the shares of the Company commenced on 1 February 2008. HK\$14,913,000 had been incurred for the legal and professional services provided in respect of the listing of the Company’s shares and the whole amount was charged to the income statement in the current year.

The Reorganisation has been reflected in the financial statements by regarding the Group now comprising the Company and the subsidiaries as a continuity entity. The financial statements for the year ended 31 December 2007 have been prepared using the principles of merger accounting as set out in Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and consolidated results include the results of the subsidiaries now comprising the Group as if the current structure had been in existence through the period presented. The comparative figures in respect of the year ended 31 December 2006 have been prepared on the same basis.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong. These financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted in the current year are consistent with those of the previous year except the Group has adopted the HKAS 1 (Amendment): Capital Disclosure and HKFRS 7 – Financial Instruments – Disclosure. The adoption of these standards did not have significant effects on the financial statements of the Group and the Company.

3. Turnover and segment information

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

	2007 <i>HK\$’000</i>	2006 <i>HK\$’000</i>
Turnover		
Sales of toys	<u>909,030</u>	<u>1,127,997</u>

Business segments

No business segment analysis is shown as the Group's principal activities of the business segment is design, development, marketing and distribution of toys and toy and family entertainment activity products.

Geographical segments

The geographical analysis of the Group's turnover is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Americas		
– U.S.A.	607,169	847,355
– Others	62,395	81,408
Europe	203,291	154,278
Asia Pacific	34,435	41,415
Others	1,740	3,541
	<u>909,030</u>	<u>1,127,997</u>

4. (Loss)/profit before taxation

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cost of inventories sold	434,258	522,981
Product development costs	24,668	22,073
Royalties paid	93,370	102,488
Provision for customer concession	12,304	14,823
Unutilised provision for customer concession	(1,301)	(1,656)
Provision for customer and supplier claims	42,661	52,288
Unutilised provision for customer and supplier claims	(2,097)	(3,133)
Depreciation of property, plant and equipment	2,678	2,810
Staff costs, including directors' remuneration	85,047	84,503
Operating leases expense on office and warehouse facilities	10,289	12,987
Loss on disposal of property, plant and equipment	97	69
Interest on bank loans and overdrafts, wholly repayable within five years	118	1,337
Interest income	<u>(4,688)</u>	<u>(5,131)</u>

5. Taxation credit/(charge)

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Overseas, mainly the U.S., 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. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable income. The tax rate for federal tax is 34% (2006: 35%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2006: 8.46%).

The amount of taxation credited/(charged) to the consolidated income statement represents:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	(1,934)	(2,363)
Overseas taxation	–	(62)
Overseas tax refunded (<i>Note</i>)	22,879	–
Over/(under) provision in prior years – Hong Kong	106	(94)
Over provision in prior years – overseas	1,889	4,048
	<u>22,940</u>	<u>1,529</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>11,611</u>	<u>(5,562)</u>
	<u>34,551</u>	<u>(4,033)</u>

Note: These relate to the examination by the U.S. Tax Authority of certain returns of the U.S. subsidiaries of the Group.

The California Franchise Tax Board (“FTB”) had completed its examination of the state tax returns of the Group for the tax years 1988 through 1990 and had proposed adjustments to the Group's apportionment of income to the State of California for these tax years.

The Group has settled all their tax liabilities regarding the tax case in 2006. However, the Group continued to pursue its refund claim through litigation with the FTB. In July 2007, the Group and the FTB agreed in principle to an out-of-court settlement, which resulted in a refund of tax, interest and penalties of approximately HK\$22,879,000.

6. Dividends

During the year, a subsidiary of the Group, solely for the purpose of effecting the Reorganisation, proposed and then paid a dividend of HK\$36,660,000 to an intermediate holding company of the Company.

Directors do not recommend the payment of final dividend.

7. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to the Company's equity holders for each of the years presented and on the 495,000,000 ordinary shares issued as if these shares had been in issue on 1 January 2006.

No diluted (loss)/earnings per share have been presented as there are no dilutive potential shares.

8. Trade receivables

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. The following is an aging analysis of trade receivables at the balance sheet date:

	2007 HK\$'000	2006 <i>HK\$'000</i>
0-30 days	177,805	342,115
30-60 days	240	4,291
Over 60 days	1,227	6,806
	179,272	353,212

9. Trade payables

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

	2007 HK\$'000	2006 <i>HK\$'000</i>
0-30 days	32,672	53,216
30-60 days	40,739	37,380
Over 60 days	470	445
	73,881	91,041

10. US dollars 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 31 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Group turnover for the year ended 31 December 2007 was HK\$909 million (2006: HK\$1,128 million). Operating loss was HK\$69 million (2006: operating profit was HK\$28 million), and net loss attributable to shareholders was HK\$34 million (2006: net profit attributable to shareholders was HK\$23 million). Basic loss per share was HK cents 6.78 (2006: earnings per share was HK cents 4.69).

In 2007, the toy industry was affected by several high profile product recalls resulting from concerns over product safety. Despite the fact that Playmates Toys has always been committed to full compliance with industry standard testing and thus maintained an excellent safety record for over four decades; U.S. sales were significantly affected by general market concerns over those widely publicized product recalls. The major impact on Playmates Toys U.S. business was felt in the fourth quarter, the prime holiday season, which normally accounts for approximately 50% of annual sales. Toy manufacturers and retailers, as well as certain government bodies, have responded in various ways, principally by instigating more stringent and more frequent testing requirements. Accordingly, Playmates Toys has implemented additional testing procedures and is working with its suppliers to meet its continued commitment to provide high quality, safe toys.

The toy industry experienced another year of negative growth in 2007. U.S. toy retail sales were down by 2% compared to 2006. Global sales for Playmates Toys were down by 19% compared to 2006; due to lower U.S. sales, which were only partially offset by strong growth in other non-U.S. markets. Although U.S. sales were below anticipated levels, sales in the non-U.S. markets continued to grow, as 2007 was another year of expansion of our extensive distributor network and saw the development of new markets; with emerging markets figuring prominently in the growth of our business outside the U.S.. During the fourth quarter of the year, in response to the negative general market concerns in the U.S. over the product recalls, Playmates Toys focused on reducing inventory exposure at the expense of potential incremental sales opportunities. These efforts resulted in our continuing brands experiencing a clean sell through and being well positioned for 2008.

The Group recorded a loss of HK\$34 million for the year. Profitability was significantly affected by the decline in U.S. sales and strong cost pressures from China manufacturers. Escalating raw materials, labor and other input costs combined with the introduction of new testing requirements in China resulted in increased product cost, and negatively impacted our gross profit. Margins were also adversely affected by the higher proportion of lower margin sales to international distributors when compared to the reduced level of direct to customer sales, at higher domestic margins in the U.S.. This shift in the mix of sales resulted in lower overall gross margins. Increased non-recurring professional expenses associated with our public listing further burdened profitability.

Playmates Toys growth strategy continues to focus on portfolio expansion and category diversification, while simultaneously exploring new strategic opportunities. In 2007, several major new licenses were acquired and two new products lines were developed in the targeted youth electronics category that will contribute to growth in future. Playmates Toys is actively engaged in expanding its presence beyond toy merchandising. Its longer term strategy calls for building on established partnerships in specific emerging regions outside the U.S., including the growing potential in China and Eastern Europe, to more fully exploit

growth in toys sales and non toy merchandising opportunities. A further building block will be the creation, acquisition and development of intellectual property to support our merchandising efforts. Supplementing our internal growth strategy, we look to identify and acquire complementary product lines and companies that can contribute to the overall growth of our business.

Boys Toys

Playmates Toys' evergreen core action figure brand *Teenage Mutant Ninja Turtles*[®] delivered impressive growth behind the March 2007 release of "T.M.N.T.: The Movie"; in a year of strong competition from other major male action properties. The movie had a measurable impact on revitalizing and growing the brand in 2007, as we experienced sales growth in the U.S., and internationally, in both established and emerging markets. Building on the brand awareness created by the theatrical release, weekly episodic programming on 4Kids[®] Fox TV Network[™] in the U.S. and major networks outside the U.S., contributed to the brand's resurgence. In 2007, the brand experienced sales growth with a clean retail sell through and is well positioned with broad retail support for 2008. New *TMNT* episodic TV programming is being introduced in 2008.

Eon Kid[®], an action-packed animated T.V. series airing on Warner *Brothers*[™] Network in the US, brings Playmates Toys another opportunity to expand its action figure portfolio in 2008. *Eon Kid*[®] has an empowering young hero, a strong "good vs. evil" storyline, and all the key elements to translate to a broad toyetic action figure line.

Girls Toys

In 2007, Playmates Toys girls' business encountered competitive pressures that impacted our doll sales. Overall the U.S. retail sales for the doll category were down by 8% when compared to 2006. *Disney*[®] *Princess* and *Strawberry Shortcake*[™] brands performed, but sales fell short of plan due primarily to the difficult fourth quarter retail environment. In the 4th quarter, retailers adopted a conservative inventory posture and focused only a select number of top brands, causing traditional brands, like *Disney*[®] *Princess* and *Strawberry Shortcake*[™], to experience compressed sales. In 2008, these brands will be an integral part of Playmates Toys continuing business, with new product introductions and key promotional drivers. *Popples*[™], a new plush line from American Greetings[®] met with limited success in the U.S., but was well received in major European markets. *Popples*[™] will continue as an international brand in 2008. Despite the weakness experienced in the girls business in the U.S., internationally the *Disney*[®] *Princess*, *Strawberry Shortcake*[™] and Playmates interactive plush products: *Cold Nose Puppy*[™], *Love 'n Licks*[™] Puppy and *Love 'n Blush*[™] puppy, all experienced strong growth in 2007.

In 2007, Playmates Toys introduced a new line of products based on characters and environments featured in *Disney Fairies*[®], a new *Disney*[®] Global Brand initiative. With new entertainment and broad promotional efforts planned for fall 2008 and beyond, there are high expectations, and a renewed interest by retailers.

In select markets other new brands introduced in late 2007 and early 2008 included *Land Before Time*[®], a line of licensed preschool toys based on the classic animation franchise, and *Struts*[™], a proprietary brand designed to capture girls' affection for ponies.

New Categories

Category expansion, a strategic growth initiative, is realized in 2008 with the introduction of two new product lines in the youth electronics segment. Playmates Toys will introduce “**Draw and Dream™**”, a proprietary, extendable platform aimed at creating a fully interactive art studio experience. The product line will be supported by a broad array of popular licensed software titles including **Batman™**, **Scooby Doo™**, **Hello Kitty®**, **Madagascar II™**, **Kung Fu Panda™** and **Shrek™**. The new platform provides hours of entertainment with a 4-in-1 play function that allows kids to draw it, create it, make it and play it. Each cartridge comes with licensed music and tutorials to help kids draw, create, make and play with their favorite characters and games.

“**My Life™**”, a portable virtual experience targeted at the female “tween” market, is Playmates Toys’ second platform introduction. The base handheld unit offers a large, color LCD screen and comes with a preprogrammed virtual world to explore with your personalized and customized avatar. The goal is to keep your avatar happy and healthy, by playing games, doing chores, working, or going to school to collect points, which then allows you to go shopping, buy and care for a pet, buy a vehicle, travel and experience many other adventures. It’s like your second life, on the go, in the palm of your hand.

Playmates Toys is back in the “**Star Trek™**” business. Twelve years after a strong 7-year run we are again part of the organization reinventing the franchise for a new generation. The **Star Trek™** franchise affords us the opportunity to provide both mass and collector based product to a broader age demographic. With a solid foundation of consumer awareness, and a loyal fan base, (40 years, 10 movies, 6 TV Series and extensive merchandising track record) **Star Trek™** is positioned for another multi-year run. Paramount Studios™ has Hollywood’s most talented at the movie’s helm including the writers of **Transformers®**, JJ Abrams directing (the creator of **Lost®** and **Alias®**) and ILM special effects. It’s an early summer 2009 release date that offers Playmates a solid three quarters of sales in 2009.

“**Terminator™**” is considered a cultural icon and part of our vernacular with a three movie franchise (1984, 1991, and 2003) now spanning 24 years with over US\$1 billion in box office revenue worldwide. Playmates Toys has acquired worldwide master toy rights to the latest film. With **Terminator Salvation™** having an expected first time PG-13 rating and a Warner Bros.™ summer 2009 film release, we believe that we are well situated to capture substantial toy and collector business.

Playmates Toys is consistently pursuing its long-term growth strategy by investing in entertainment-driven properties, franchise acquisition, the development of proprietary intellectual property and category expansion. In addition to the two highly popular, heritage entertainment franchises that will drive strong business in 2009 and 2010, **Star Trek™** and **Terminator™**, on the television front we have acquired **Yugioh!®**, a brand that has generated over US\$5 billion in retail sales over the last five years and which is introducing a new episodic TV series on the Warner Brothers™ TV Network, starting Fall 2008. The Company’s TV roster for boy’s action in 2009 and 2010 also includes **Dinosaur King®**, a Sega® property with a highly-rated TV series currently being broadcast in major markets, including the U.S. and **Huntik™**, an animated action-series from Rainbow Studios® and Upper Deck®, launching TV programming in spring

2009 on the Warner Brothers™ TV Network. On the girls' front, continued development of branded broad based proprietary and entertainment driven extendable product lines in dolls and plush remains a strategic priority. We continue our alliance with Disney®, with expectations that *Disney Fairies*® will become a major franchise with worldwide appeal, driven by a slate of exceptional entertainment.

The building of strategic alliances continues as a key initiative for the Company. We have developed partnerships with Microsoft®, Upper Deck®, 4Kids®, Giochi Preziosi®, and most recently Sega® and Konami®, that will provide a strong footing for Playmates Toys to acquire and develop new licenses and continue to build all our businesses.

The Stock Exchange of Hong Kong Limited approved the application of Playmates Holdings Limited, the ultimate holding company, to spin-off the Company in July 2007, and approved the application of the Company for a separate listing in January 2008. Public trading of the shares of the Company commenced on 1 February 2008.

FINANCIAL ANALYSIS

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 31 December 2007, trade receivables related to toy operation were HK\$179,272,000 (2006: HK\$353,212,000) and inventories were at a seasonal low level of HK\$33,274,000 or 3.7% of turnover (2006: HK\$49,353,000 or 4.4% of turnover).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2007 was nil compared to 10.4% at 31 December 2006. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.7 at 31 December 2007 compared to 1.6 at 31 December 2006.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2007, the Group's cash and bank balances were HK\$81,995,000 (2006: HK\$90,541,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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 as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited since the Company's public listing on 1 February 2008.

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 financial statements for the year ended 31 December 2007.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 10 March 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. Chow Yu Chun, Alexander (Independent Non-executive Director), Mr. Lee Ching Kwok, Rin (Independent Non-executive Director), Mr. Novak, Lou Robert (Executive Director), Mr. Soong, Ronnie (Executive Director), Mr. Yang, Victor (Independent Non-executive Director)

** For identification purpose only*