



PLAYMATES TOYS LIMITED

彩星玩具有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 869)

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 |
| Turnover | 232,096 | 347,579 |
| Gross profit | 89,306 | 164,325 |
| Operating loss | (68,395) | (9,618) |
| Profit/(loss) before taxation | (71,184) | (8,815) |
| Profit/(loss) attributable to shareholders | (41,860) | (14,152) |
| | HK cents | HK cents |
| Earnings/(loss) per share – basic | (8.46) | (2.86) |

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.

Brand Overview

Most brands reported lower sales when compared to the same period last year. *Teenage Mutant Ninja Turtles*® (“Turtles”) encountered competition from new action figure properties introduced in the first half of 2008 and supported by theatrical releases, as well as from established competitive franchises in this category. *EON Kid*®, a new animated episodic TV property, failed to perform in the U.S., but will continue to be distributed in international markets in fall 2008. *Disney*® *Princess* sales were ahead of last year, but *Disney Fairies*® sales for the first half of 2008 are only modest due to the repositioning of the brand as a retailer exclusive for spring 2008, in anticipation of full national distribution for the fall of 2008. Sales in *Strawberry Shortcake*™ were weak, offsetting gains in other girls brands.

As we look forward to fall 2008, activities surrounding the upcoming Turtles 25th Anniversary celebration in 2009 are expected to create new excitement around the brand. Plans are in place to begin shipping a new kid’s product line along with a “retro” collector’s line in late 2008. All new animated television episodes, “Back to the Sewer”, are scheduled to premier on both the CW Network® (formerly WBKids!™) and 4Kids TV network® this fall.

Disney Fairies®, Disney® Consumer Products’ most important new initiative, takes center stage this fall with a US\$150 million marketing program in support of the entertainment release of “*Tinker Bell*®,” a platinum DVD, in October. National TV, radio, outdoor, print and on-line advertising will all play an important part in getting the “*Fairies*®” story out to young girls. Playmates Toys, with national retail support, will launch an extensive line of dolls and accessories in multiple scales.

This fall Playmates Toys will introduce *My Life*™, a handheld platform for tween girls aged 7-12. The portable handheld unit lets girls create and customize their own avatar and experience a virtual world. “My stuff” software offers endless opportunities to expand the virtual world experience. The product line is being launched nationally in the U.S. and Canada, following its successful launch in several European markets.

*Night Guardians*TM, “the defenders of dreamtime” brand, was developed with the objective of helping young children overcome their fear of the dark. “Skye” and “Thayer”, bedtime heroes, will provide kids with a sense of empowerment and security at bedtime. In the U.S., the product line will be initially launched with the support of direct response TV marketing, followed by national distribution in 2009. Internationally, the product line is being distributed in key markets.

For 2009, Playmates Toys pipeline of brands has expanded with the addition of several marquee licenses. The boys business will be driven by two major franchise brands supported with new theatrical releases in May 2009 – “*Terminator Salvation*TM” and “*Star Trek*TM”. *Terminator Salvation*TM is being developed as the first in a trilogy of films that further expands the *Terminator*TM franchise that generated a worldwide box office of over US\$1.4 billion for the first 3 films. *Star Trek*TM, directed by J.J. Abrams, joins the classic franchise with a 40 year plus history supported by 10 theatrical releases. *Yu-Gi-Oh!*, *5 D's*[®] and *Dinosaur King*[®], two new boys brand introductions will be supported by episodic TV broadcast in major markets worldwide.

The girls’ and youth electronics business will see the introduction of several new properties in 2009. *Rainbow Brite*[®], a heritage girls’ brand from Hallmark[®], will be redesigned and repositioned collaboratively with Playmates Toys.

In July, Playmates Toys entered into a joint venture with Giochi Preziosi S.p.A. Group to market, sell and distribute the *Gormiti*[®] product line in the U.S. and Canada. The brand has been successfully launched in Europe, principally in Italy, Spain and the Nordic countries and was recently introduced in the UK and France. The product line is scheduled to be launched in North America in spring 2009.

Playmates Toys international division continues to exploit new growth opportunities in both traditional European markets as well as in emerging markets. To this end, the division has introduced *EON Kid*[®], an action figure property, *Land Before Time*[®], a Universal Studios[®] preschool brand and will also distribute *Night Guardians*TM to these markets in fall 2008. The international division will continue to ship the Amazing Brand of dolls: *WOW Pals*TM, Playmates Toys’ line of interactive plush; *Popples*TM, a plush brand from American Greetings[®] and *Struts*TM, Playmates Toys’ line of fashion fillies.

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 | 29,755 | 232,096 | 347,579 |
| Cost of sales | | (18,306) | (142,790) | (183,254) |
| Gross profit | | 11,449 | 89,306 | 164,325 |
| Marketing expenses | | (9,678) | (75,492) | (79,525) |
| Selling, distribution and administration expenses | | (10,540) | (82,209) | (94,418) |
| Operating loss | | (8,769) | (68,395) | (9,618) |
| Non-operating income/(expenses) | | | | |
| Interest expense and bank charges | | (155) | (1,208) | (1,618) |
| Other revenues | | 71 | 551 | 2,421 |
| | | (8,853) | (69,052) | (8,815) |
| Share of loss of an associated company | | (273) | (2,132) | – |
| Loss before taxation | 3 | (9,126) | (71,184) | (8,815) |
| Taxation credit/(charge) | 4 | 3,759 | 29,324 | (5,337) |
| Loss attributable to shareholders | | (5,367) | (41,860) | (14,152) |
| Dividend | 5 | – | – | 36,660 |
| | | <i>US cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Loss per share | | | | |
| – Basic | 6 | (1.08) | (8.46) | (2.86) |
| – Diluted | 6 | N/A | N/A | N/A |

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 | | | |
| Property, plant and equipment | 712 | 5,556 | 5,642 |
| Interest in an associated company | 2,943 | 22,958 | 25,090 |
| Deferred tax assets | 15,586 | 121,565 | 91,747 |
| | <u>19,241</u> | <u>150,079</u> | 122,479 |
| Current assets | | | |
| Inventories | 4,573 | 35,666 | 33,274 |
| Trade receivables | 8,584 | 66,954 | 179,272 |
| Other receivables, deposits and prepayments | 11,993 | 93,545 | 73,556 |
| Amount due from a fellow subsidiary | – | – | 246 |
| Amount due from an intermediate holding company | – | – | 1,303 |
| Taxation recoverable | 295 | 2,303 | 3,005 |
| Cash and bank balances | 6,606 | 51,530 | 81,995 |
| | <u>32,051</u> | <u>249,998</u> | 372,651 |
| Current liabilities | | | |
| Bank loans | 6,172 | 48,143 | – |
| Trade payables | 6,057 | 47,243 | 73,881 |
| Other payables and accrued charges | 5,762 | 44,941 | 90,889 |
| Amount due to a fellow subsidiary | 85 | 663 | 7,892 |
| Amount due to the ultimate holding company | – | – | 2,702 |
| Provisions | 2,311 | 18,028 | 35,798 |
| Taxation payable | 71 | 552 | 2,472 |
| | <u>20,458</u> | <u>159,570</u> | 213,634 |
| Net current assets | <u>11,593</u> | <u>90,428</u> | 159,017 |
| Total assets less current liabilities | <u>30,834</u> | <u>240,507</u> | 281,496 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 31 | 240 | 240 |
| Net assets | <u>30,803</u> | <u>240,267</u> | <u>281,256</u> |
| Capital and reserves | | | |
| Share capital | 635 | 4,950 | 4,950 |
| Reserves | 30,168 | 235,317 | 276,306 |
| Total equity | <u>30,803</u> | <u>240,267</u> | <u>281,256</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, other than during the period the Group has adopted its own equity-settled, share-based compensation plan. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. Proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. Prior to the adoption, share-based compensation recorded was related to share options granted by the ultimate holding company.

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 the design, development, marketing and distribution of toys and family entertainment activity products.

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 family entertainment activity products.

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 |
| | HK\$'000 | HK\$'000 |
| Americas | | |
| – U.S.A. | 151,951 | 224,418 |
| – Others | 8,677 | 29,906 |
| Europe | 58,512 | 70,680 |
| Asia Pacific | 8,791 | 21,967 |
| Others | 4,165 | 608 |
| | <u>232,096</u> | <u>347,579</u> |

3 Loss before taxation

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

| | Six months ended 30 June | |
|---|--------------------------|--------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| Charging : | | |
| Cost of inventories sold | 121,112 | 159,436 |
| Product development costs | 4,628 | 7,173 |
| Royalties paid | 25,520 | 33,549 |
| Allowance for customer concession | 284 | 4,390 |
| Staff costs | 44,173 | 42,051 |
| Depreciation of property, plant and equipment | 1,213 | 1,417 |
| Loss on disposal of property, plant and equipment | <u>61</u> | <u>7</u> |
| Crediting : | | |
| Bank interest income | <u>551</u> | <u>2,421</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, 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% (2007: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.628% (2007: 8.84%).

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

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| Current taxation | | |
| Hong Kong profits tax | (177) | (356) |
| Overseas taxation | <u>(318)</u> | <u>—</u> |
| | <u>(495)</u> | <u>(356)</u> |
| Deferred taxation | | |
| Origination and reversal of temporary differences | <u>29,819</u> | <u>(4,981)</u> |
| | <u>29,324</u> | <u>(5,337)</u> |

5 Dividend

The Directors do not recommend the payment of a dividend.

6 Loss per share

The calculation of loss per share is based on the Company's loss attributable to shareholders of HK\$41,860,000 (2007: HK\$14,152,000) and the weighted average number of ordinary shares of 495,000,000 (2007: 495,000,000) in issue during the period. No diluted loss per share has been presented for the current period as the exercise of share options would be anti-dilutive. No diluted loss per share has been presented for the period ended 30 June 2007 as there was no dilutive potential shares.

7 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:

| | 30 June 2008 HK\$'000 | 31 December 2007 HK\$'000 |
|--------------|--------------------------------------|---------------------------------|
| 0 – 30 days | 65,477 | 177,805 |
| 31 – 60 days | 636 | 240 |
| Over 60 days | 841 | 1,227 |
| | <u>66,954</u> | <u>179,272</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 | 37,578 | 32,672 |
| 31 – 60 days | 7,717 | 40,739 |
| Over 60 days | 1,948 | 470 |
| | <u>47,243</u> | <u>73,881</u> |

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.

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 30 June 2008, trade receivables 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 12.0% compared to 0.0% at 31 December 2007. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.6 at 30 June 2008 compared to 1.7 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. As at 30 June 2008, the Group's cash and bank balances were HK\$51,530,000 (31 December 2007: HK\$81,995,000).

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and United States dollars is controlled within a tight range.

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 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 unaudited condensed consolidated financial information for the six months ended 30 June 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. Chow Yu Chun, Alexander (*Independent Non-executive Director*); Mr. Lee Ching Kwok, Rin (*Independent Non-executive Director*); Mr. Novak, Lou Robert (*Executive Director*); Mr. To Shu Sing, Sidney (*Executive Director*) and Mr. Yang, Victor (*Independent Non-executive Director*)

* *For identification purpose only*