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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 2008

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 2008 as follows:

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 US\$'000 (Note 9)	2008 HK\$'000	2007 HK\$'000
Turnover	2	90,205	703,596	909,030
Cost of sales		(55,657)	(434,123)	(502,967)
Gross profit		34,548	269,473	406,063
Marketing expenses		(27,733)	(216,319)	(245,976)
Selling and distribution expenses		(7,134)	(55,647)	(71,391)
Administration expenses		(17,462)	(136,201)	(142,528)
Restructuring expenses		–	–	(14,913)
Operating loss		(17,781)	(138,694)	(68,745)
Non-operating income/(expenses)				
Interest expense and bank charges		(649)	(5,058)	(4,079)
Other income		108	844	4,688
		(18,322)	(142,908)	(68,136)
Share of profit of an associated company		67	523	–
Share of loss of a jointly controlled entity		(168)	(1,313)	–
Loss before taxation	3	(18,423)	(143,698)	(68,136)
Taxation (charge)/credit	4	(6,002)	(46,818)	34,551
Loss attributable to equity holders of the Company		(24,425)	(190,516)	(33,585)
Dividends	5	–	–	36,660
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	6			
Basic		(4.93)	(38.49)	(6.78)
Diluted		N/A	N/A	N/A

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 US\$'000 (Note 9)	2008 HK\$'000	2007 HK\$'000
Non-current assets				
Property, plant and equipment		1,296	10,111	5,642
Interest in an associated company		3,284	25,613	25,090
Interest in a jointly controlled entity		1,094	8,534	–
Deferred tax assets		5,879	45,856	91,747
		<u>11,553</u>	<u>90,114</u>	<u>122,479</u>
Current assets				
Inventories		2,496	19,469	33,274
Trade receivables	7	9,903	77,240	179,272
Other receivables, deposits and prepayments		9,947	77,585	73,556
Amount due from a fellow subsidiary		–	–	246
Amount due from an intermediate holding company		–	–	1,303
Taxation recoverable		289	2,255	3,005
Cash and bank balances		6,274	48,939	81,995
		<u>28,909</u>	<u>225,488</u>	<u>372,651</u>
Current liabilities				
Bank loans		5,349	41,721	–
Trade payables	8	12,288	95,842	73,881
Other payables and accrued charges		7,042	54,929	90,889
Amount due to a fellow subsidiary		141	1,103	7,892
Amount due to the ultimate holding company		–	–	2,702
Provisions		3,785	29,520	35,798
Taxation payable		52	406	2,472
		<u>28,657</u>	<u>223,521</u>	<u>213,634</u>
Net current assets		<u>252</u>	<u>1,967</u>	<u>159,017</u>
Total assets less current liabilities		<u>11,805</u>	<u>92,081</u>	<u>281,496</u>
Non-current liabilities				
Deferred tax liabilities		–	–	240
Net assets		<u>11,805</u>	<u>92,081</u>	<u>281,256</u>
Capital and reserve				
Share capital		635	4,950	4,950
Reserves		11,170	87,131	276,306
Total equity		<u>11,805</u>	<u>92,081</u>	<u>281,256</u>

Notes:

1. 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 Hong Kong Institute of Certified Public Accountants and 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 current year are consistent with those of the previous year except the Group has adopted HK (IFRIC) – Int 11: HKFRS 2: Group and Treasury Share Transactions and HKAS 39 & HKFRS 7 (Amendments): Reclassification of Financial Assets. The adoption of these amendments did not have significant effects on the financial statements of the Group and the Company.

2. Turnover and segment information

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

	2008 <i>HK\$’000</i>	2007 <i>HK\$’000</i>
Turnover		
Sales of toys	<u>703,596</u>	<u>909,030</u>

Business segments

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

Geographical segments

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

	2008 <i>HK\$’000</i>	2007 <i>HK\$’000</i>
Americas		
– U.S.A.	458,776	607,169
– Others	50,021	62,395
Europe	165,603	203,291
Asia Pacific	17,254	34,435
Others	<u>11,942</u>	<u>1,740</u>
	<u>703,596</u>	<u>909,030</u>

3. Loss before taxation

Loss before taxation is stated after charging/(crediting) the following:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	374,659	434,258
Write-down of inventories	3,803	3,288
Product development costs	15,798	24,668
Royalties paid	74,204	93,370
Provision for customer concession	5,380	12,304
Unutilised provision for customer concession	(1,761)	(1,301)
Reversal of provision for doubtful debts	–	(1,591)
Provision for customer and supplier claims	28,346	42,661
Unutilised provision for customer and supplier claims	(6,328)	(2,097)
Depreciation of property, plant and equipment	2,765	2,678
Staff costs, including directors' remuneration	87,699	85,047
Operating leases expense on office and warehouse facilities	9,301	10,289
Loss on disposal of property, plant and equipment	61	97
Interest on bank loans and overdrafts, wholly repayable within five years	1,999	118
Bank interest income	(844)	(4,688)

4. Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 profit. 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 8.84% (2007: 8.84%).

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	(1,446)	(1,934)
Overseas tax refunded (<i>Note</i>)	–	22,879
Over provision in prior years – Hong Kong	71	106
Over provision in prior years – overseas	208	1,889
	<u>(1,167)</u>	<u>22,940</u>
Deferred taxation		
Decrease in tax rate	8	–
Origination and reversal of temporary differences	(45,659)	11,611
	<u>(45,651)</u>	<u>11,611</u>
	<u><u>(46,818)</u></u>	<u><u>34,551</u></u>

Note: This relates to the examination by the U.S. Tax Authority, the California Franchise Tax Board (“FTB”) of certain state tax returns of the U.S. subsidiaries of the Group for the tax years 1988 through 1990. The Group settled all the tax liabilities regarding the tax case in 2006. However, the Group pursued refund claim through litigation with the FTB. In 2007, the Group and FTB agreed in principle to an out-of-court settlement which resulted in a refund of approximately HK\$22,879,000.

5. Dividends

No dividend was paid or proposed during the year ended 31 December 2008.

During the year ended 31 December 2007, a subsidiary of the Group, solely for the purpose of effecting a reorganisation in May 2007 to effectively consolidate the toy business under the Company by the ultimate holding company (the “Reorganisation”), paid a dividend of HK\$36,660,000 to an intermediate holding company.

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of HK\$190,516,000 (2007: HK\$33,585,000) and on the 495,000,000 (2007: 495,000,000 pursuant to the Reorganisation as if the shares had been in issue on 1 January 2007) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2008 was not presented because the impact of the exercise of the share options was anti-dilutive. No diluted loss per share was presented for the year ended 31 December 2007 as there were 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:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 – 30 days	70,257	177,805
31 – 60 days	1,738	240
Over 60 days	<u>5,245</u>	<u>1,227</u>
	<u>77,240</u>	<u>179,272</u>

8. Trade payables

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 – 30 days	73,051	32,672
31 – 60 days	19,994	40,739
Over 60 days	<u>2,797</u>	<u>470</u>
	<u>95,842</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 31 December 2008.

10. Comparative figures

Certain comparative figures of selling, distribution and administration expenses have been re-classified to conform to current year's presentation. Management believes that the reclassification of these operating expenses is a fairer presentation of the Group's activities.

11. Post balance sheet event

In order to enable the Company to renew the relevant expiring banking facilities given to the Group and/or allow the Group to continue utilising the relevant subsisting banking facilities given to the Group, the Company and Playmates Holdings Limited ("PHL") entered into a conditional agreement on 4 February 2009 under which PHL agreed to procure its subsidiary to provide the charge on deposit ("Charge on Deposit") to the relevant bankers in connection with the banking facilities of the Group. The maximum amount of deposits to be charged pursuant to the Charge on Deposit shall be up to HK\$80 million. PHL shall charge the Company a fee equivalent to 1% per annum on the amount of HK\$80 million for the provision of the Charge on Deposit. The provision of the Charge on Deposit by PHL has been approved by the shareholders of PHL pursuant to an ordinary resolution passed on 3 March 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

As anticipated in the management discussion and analysis in the Company's 2008 Interim Report, the negative macroeconomic environment in which the Group operated, persisted in the second half of 2008 and in fact worsened towards the end of the third quarter, exacerbated by a series of high profile failures of a number of major U.S. and European financial institutions. By the end of the year, the economic slowdown which started in the U.S. had spread to Europe and other regions of the world, deteriorating into a deepening recession on a global scale.

Reacting to the rapid economic downturn in the third quarter, major mass retailers further tightened inventory and purchasing policies in anticipation of weak consumer demands in the 2008 holiday season. Nevertheless the retail sector reported early casualties: a major U.S. national toy specialty retail chain and a century-old U.K. national high street merchant filed for bankruptcy just weeks before Christmas. Industry statistics reported that in 2008 year-on-year U.S. toy retail sales were down about 3% in dollar terms with a corresponding decrease in unit sales of about 5%.

In this challenging environment, Playmates Toys Group worldwide turnover for the year ended 31 December 2008 was HK\$704 million, a decrease of 23% over the same period last year. Despite decreased sales, Playmates Toys recorded a clean retail sell through for its major brands and managed its year end inventory to the lowest level in recent years. The Group reported an operating loss of HK\$139 million (2007: HK\$69 million), and a net loss attributable to shareholders of HK\$191 million (2007: HK\$34 million). Basic loss per share was HK cents 38.49 (2007: HK cents 6.78).

Year-on-year sales in the U.S. decreased by 24%, and in all other markets decreased by 19%. The sales decreases in developed markets, notably the U.S. and the E.U. countries, reflected the difficult economic environment. On the other hand, Playmates Toys continued to achieve sales growth in 2008 in a number of emerging markets, including Russia and many other Eastern European countries.

Gross profit ratio on toy sales was 38% (2007: 45%). Lower gross profit percentage was attributable to increase in closeout sales, higher development expenses as a percent of sales, lower margins on electronic toy products and reduced pricing on non-continuing brands. On a positive note, gross margins on continuing brands were maintained at 2007 levels as a result of price increases compensating for higher input costs. Input costs in China began to stabilize during the fourth quarter of 2008. The increase in closeout sales was a direct result of the legislation of more stringent safety standards in the U.S. for materials acceptable in the manufacture of toys, and retailers' accelerated adoption of these standards prior to the enforcement date of the new standards. In anticipation of this action by retailers, Playmates Toys moved early to conform to the new standards and disposed of excess inventory. Product development expenses, although lower in 2008 compared to 2007, were higher as a percentage of sales, due to lower sales. Group operating expenses were managed to a level below last year, with reductions in advertising expenditures and professional fees.

In 2009, the operating environment for the toy industry is expected to continue to be difficult. As of yet there is no sign of an economic recovery and consumer confidence remains depressed. To prevail in this difficult environment and exploit available new opportunities, Playmates Toys is re-doubling its risk management efforts, while simultaneously pursuing its long term growth strategy with a commitment to its core competency. Expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs. Targeted new property acquisitions are focused on Boy's action and Girl's doll categories, the Group's strong suits. While the economies in the emerging markets will be affected by the global recession in the short run, there remains significant opportunities for long term growth and the Group will continue to nurture and expand its distribution network in those markets.

In spite of the prevailing difficult macroeconomic environment, Playmates Toys enters 2009 with cautious optimism. While fully cognizant of the economic and financial challenges and uncertainties confronting its suppliers, customers and consumers around the world, Playmates Toys expects to achieve sales growth and improved operating results in 2009 on the strength of its product portfolio and streamlined operating structure. Two major marquee brands supported by worldwide theatrical releases will be launched in the first half of the year. Preliminary indications in terms of customer feedback support these expectations.

Boy's Toys

Playmates Toys' evergreen Boy's action brand *Teenage Mutant Ninja Turtles*[®] performed well in 2008, but achieved a lower level of sales compared to last year due to the economic downturn coupled with the absence of any major entertainment event in 2008 (sales in 2007 were lifted by "TMNT the Movie"). The new 25th Anniversary *Teenage Mutant Ninja Turtles*[®] product introductions for 2009 have been well received and shipments commenced in December 2008. *EON Kid*[®], a Boy's action brand supported by episodic TV, and *Land Before Time*[®], a line of preschool toys based on a classic animation franchise, performed below expectations and will not carry forward into 2009.

Playmates Toys' portfolio of Boy's brands has expanded in 2009 with the addition of several marquee licenses. The Boy's business is expected to grow significantly with the launch of extensive product lines based on two major franchise brands supported by 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, which generated worldwide box office receipts of over US\$1.4 billion for the first 3 films. *Star Trek*TM, directed by J.J. Abrams, joins the classic franchise with its 40 years plus history supported by 10 previous theatrical releases. *Yu-Gi-Oh! 5D's*[®] and *Dinosaur King*[®], two new Boy's action brand introductions will be supported by episodic TV broadcast in major markets.

In July 2008, 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 is one of the leading Boy's action brands in Italy, Spain and the Nordic countries and was recently introduced in the U.K. and France. The *Gormiti*[®] product line is being launched in the U.S. in spring 2009.

Girl's Toys

The *Disney Fairies*® brand supported by “*Tinker Bell*®”, an animated film released direct-to-DVD in October 2008, was a major contributor to Girl's sales in 2008. Both *Disney*® *Princess* and *Strawberry Shortcake*™ brands reported decreases in sales compared to 2007, however, retail sell through for both brands was excellent, due largely to the “value pricing” strategy implemented early in the year. *My Life*™, a new handheld platform for tween girls (aged 7-12), did not perform up to expectations. The difficult economic environment was not conducive to the timing of the launch of an electronic product at a relatively high retail price point. Sales were disappointing and the product line will not carry forward into 2009.

The Amazing brand, a line of large feature dolls; *Night Guardian*™, a line of interactive plush; *Struts*™, a line of fashion ponies; and *Popples*™, a line of feature plush based on a classic American Greetings® franchise, all met with limited success. In 2009 these brands will continue to be distributed in several emerging markets.

In 2009, Playmates Toys Girl's business segment will be strengthened by the introduction of two Nickelodeon® properties, *iCarly*® and *H2O*®. *iCarly*®, Nickelodeon®'s top rated tween franchise supported by a live-action TV series on the adventures of Carly Shay, a 13 year old girl and her friends who create a homemade show called *iCarly*® that airs on the web. Multiple times per week episodic TV broadcast will support Playmates Toys' launch of the complete line of dolls, playsets and electronic based toys in the Fall of 2009. Playmates Toys further extends its partnership with Nickelodeon® by launching a line of fashion dolls and playsets based on one of Nickelodeon®'s new and exciting live-action TV series, *H2O*®. *H2O*® revolves around three teenage girls facing everyday teen problems with an added twist – they are “mermaids with magical powers over water”! The *H2O*® product line will debut in Fall 2009. *Tinker Bell*® and her friends return in a second direct-to-DVD release “*Tinker Bell*® and the Lost Treasure”, which will be brought to life in Playmates Toys' *Disney Fairies*®, a continuing line of dolls and playsets based on the adventure.

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 2008, trade receivables were HK\$77,240,000 (2007: HK\$179,272,000) and inventories were at a seasonal low level of HK\$19,469,000 or 2.8% of turnover (2007: HK\$33,274,000 or 3.7% of turnover).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2008 was 13.2% compared to 0.0% at 31 December 2007. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.0 at 31 December 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 31 December 2008, the Group's cash and bank balances were HK\$48,939,000 (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 the 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 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 2008.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 13 March 2009

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*