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## 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 2009

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Highlights

	<b>2009</b>	2008
<b>For the six months ended 30 June</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	<b>335,638</b>	232,096
Gross profit	<b>169,775</b>	89,306
Operating profit/(loss)	<b>12,800</b>	(68,395)
Profit/(loss) before taxation	<b>4,428</b>	(71,184)
Profit/(loss) attributable to equity holders of the Company	<b>1,613</b>	(41,860)
	<b>HK cents</b>	<b>HK cents</b>
Earnings/(loss) per share - basic	<b>0.33</b>	(8.46)

Playmates Toys worldwide sales during the first half of 2009 were HK\$336 million, an increase of 45% over the same period last year. U.S. sales increased by 44% and international sales were up 146% over the same period last year. Sales of boys brands worldwide increased during the period due to strong initial sell-in of toy lines based on two major theatrical releases in May: *Star Trek*<sup>TM&©</sup> and *Terminator: Salvation*<sup>TM&©</sup>. Sales in key European markets also benefited from the introduction of *Dinosaur King*<sup>©</sup> action figures and accessories. Sales of girls brands increased as a result of the continued strength of the *Disney Fairies*<sup>©</sup> brand following the release of the “*Tinker Bell*<sup>©</sup>” DVD last fall.

Gross profit ratio on toy sales was 51% (38% during the same period in 2008). Higher gross profit percentage for the period is attributed to a more profitable product mix of sales, relatively stable input costs and less discounted sales on discontinued products.

Administration expenses were reduced by 30% when compared to the same period last year, consistent with our stated operating priority in 2009 to cut costs and tightly control expenses in response to the global economic recession. Playmates Toys reported a net profit after tax for the period of about HK\$2 million (compared to a net loss after tax of about HK\$42 million for the same period in 2008) as a result of increased sales, higher gross margin and lower administration expenses for the period.

For the industry as a whole, year-to-date (end of June 2009) retail toy sales in the US decreased by 2% in dollar terms, and a corresponding decrease of 3% in unit sales. The global economic recession has cooled toy sales worldwide, as consumers cut back on discretionary purchases and retailers kept a tight rein on inventory. U.S. retail industry in general is reducing shelf space for toys and limiting brand selection. International markets have also been significantly impacted by the economic slowdown.

We expect the challenging environment to continue in the second half of 2009. Consumer confidence remains weak and retailers continue to tightly control inventory and limit their support for those brands that are not category leaders. Since the retail sell through of **Terminator: Salvation**<sup>TM & ©</sup> and **Star Trek**<sup>TM & ©</sup> toys were below expectation, retail shelf space for both brands have been reduced which will negatively impact our boys toy sales in the second half of the year. Accordingly we are adjusting our outlook for the second half of the year although we remain cautiously optimistic that an improvement in operating results for the full year may still be achievable.

Cognizant of the continued challenges, Playmates Toys will continue to pursue tight expense control, while focusing on acquiring new licenses and exploiting opportunities in categories of our core competence.

## **Brand Overview**

**Star Trek**<sup>TM & ©</sup> performed well as a movie at the box office, yet under performed in toy sales. **Terminator: Salvation**<sup>TM & ©</sup> performed below expectations both at the movie box office as well as in toy sales and it is not expected to contribute significant sales in the second half of the year. Sales of the new 25<sup>th</sup> Anniversary **Teenage Mutant Ninja Turtles**<sup>®</sup> products were on plan though total sales of the brand were below same period last year. For fall 2009, **Star Trek**<sup>TM & ©</sup>, **Teenage Mutant Ninja Turtles**<sup>®</sup>, **Dinosaur King**<sup>®</sup> and **Yu-Gi-Oh!**<sup>®</sup> are expected to be the sales contributors for boys brands. Our joint venture with Giochi Preziosi S.p.A. introduced the **Gormiti**<sup>®</sup> action figure and accessory line as planned in spring 2009 in the United States, establishing kids' interest and brand presence and securing full retail support for a fall 2009 launch.

In fall 2009, Playmates Toys will introduce a new line of dolls, playsets and kid directed electronic gadgets based on the popular *iCarly*<sup>®</sup> TV show, Nickelodeon<sup>®</sup>'s top-rated live action tween franchise, which encourages self expression and creative empowerment in the blogosphere. Walt Disney Pictures<sup>®</sup> will release "*Tinker Bell and the Lost Treasure*<sup>®</sup>", the second DVD based on the adventures of the *Disney Fairies*<sup>®</sup> in October 2009. Playmates Toys will expand the *Disney Fairies*<sup>®</sup> line of dolls and accessories with the support of all major US retail customers and an extensive and integrated marketing program. A new addition to Playmates Toys fall 2009 portfolio of girls brands is "*H2O, Just Add Water*<sup>®</sup>", a line of fashion dolls and accessories based on a live action TV series about teen girls who transform into mermaids with magical powers, currently being broadcast on Nickelodeon<sup>®</sup>.

For 2010, Playmates Toys product portfolio continues to expand with the addition of two new girls brands: *Rainbow Brite*<sup>®</sup>, a heritage girls brand from Hallmark<sup>®</sup>, and *My Pixies*<sup>™</sup> line of toddler dolls. The *Rainbow Brite*<sup>®</sup> product line will feature a family of fashion dolls, horses and plush "Sprite" characters. *My Pixies*<sup>™</sup>, a proprietary brand of themed whimsical fairies, will deliver value in a traditional play pattern.

New boys brands will include: *Hero 108*<sup>®</sup>, a Cartoon Network<sup>™</sup> and Moonscoop Entertainment<sup>®</sup> property with animation developed for episodic TV, scheduled to air on Cartoon Network<sup>™</sup> in early 2010, supported by a multi-platform promotional campaign and a robust MMOG. Playmates Toys will introduce a line of collectable figures with game cards and playsets. Playmates Toys also plans to re-enter the vehicle category with *Inazuma-Oh*<sup>™</sup>, a unique line of vehicles and track sets that can be customized for speed and performance. In addition, Playmates Toys recently acquired the license for *The World of Shrek*<sup>™ & ©</sup>, a highly popular franchise of DreamWorks Animation SKG<sup>™ & ©</sup> that includes "*Shrek Forever After*<sup>™ & ©</sup>", the fourth theatrical release scheduled for a May 2010 worldwide premier. Playmates Toys plans to launch an extensive product line that will capture the humor and fun of the *Shrek*<sup>™ & ©</sup> experience.

## CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Note	Unaudited		
		Six months ended 30 June		
		2009	2009	2008
		US\$'000	HK\$'000	HK\$'000
		(Note 9)		
<b>Revenue</b>	2	<b>43,308</b>	<b>335,638</b>	232,096
Cost of sales		<u>(21,402)</u>	<u>(165,863)</u>	(142,790)
<b>Gross profit</b>		<b>21,906</b>	<b>169,775</b>	89,306
Marketing expenses		(10,577)	(81,971)	(75,492)
Selling and distribution expenses		(3,855)	(29,877)	(17,438)
Administration expenses		<u>(5,822)</u>	<u>(45,127)</u>	(64,771)
<b>Operating profit/(loss)</b>		<b>1,652</b>	<b>12,800</b>	(68,395)
Other income		11	89	551
Finance costs		(410)	(3,175)	(1,208)
Share of loss of an associated company		(249)	(1,927)	(2,132)
Share of loss of a jointly controlled entity		<u>(433)</u>	<u>(3,359)</u>	-
<b>Profit/(loss) before taxation</b>	3	<b>571</b>	<b>4,428</b>	(71,184)
Taxation (charge)/credit	4	<u>(363)</u>	<u>(2,815)</u>	29,324
<b>Profit/(loss) attributable to equity holders of the Company</b>		<b>208</b>	<b>1,613</b>	(41,860)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Earnings/(loss) per share</b>	6			
Basic		<u>0.04</u>	<u>0.33</u>	(8.46)
Diluted		<u>N/A</u>	<u>N/A</u>	N/A

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Unaudited		
	Six months ended 30 June		
	2009	2009	2008
	US\$'000	HK\$'000	HK\$'000
	(Note 9)		
<b>Profit/(loss) for the period</b>	<u>208</u>	<u>1,613</u>	<u>(41,860)</u>
<b>Other comprehensive expense:</b>			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	<u>(69)</u>	<u>(533)</u>	<u>-</u>
<b>Total comprehensive income/(expenses) for the period attributable to equity holders of the Company</b>	<u><u>139</u></u>	<u><u>1,080</u></u>	<u><u>(41,860)</u></u>

## Condensed Consolidated Balance Sheet

As at 30 June 2009

	Unaudited 30 June 2009 <i>Note</i> <i>US\$'000</i> <i>(Note 9)</i>	Unaudited 30 June 2009 <i>HK\$'000</i>	Audited 31 December 2008 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	1,126	8,726	10,111
Interest in an associated company	3,056	23,686	25,613
Interest in a jointly controlled entity	716	5,551	8,534
Deferred tax assets	5,556	43,061	45,856
	<u>10,454</u>	<u>81,024</u>	<u>90,114</u>
<b>Current assets</b>			
Inventories	3,519	27,271	19,469
Trade receivables	7 4,851	37,592	77,240
Other receivables, deposits and prepayments	6,831	52,939	77,585
Taxation recoverable	229	1,776	2,255
Cash and bank balances	6,362	49,309	48,939
	<u>21,792</u>	<u>168,887</u>	<u>225,488</u>
<b>Current liabilities</b>			
Bank loans	4,516	35,000	41,721
Trade payables	8 5,110	39,603	95,842
Other payables and accrued charges	7,591	58,830	54,929
Amount due to a fellow subsidiary	238	1,843	1,103
Provisions	2,723	21,101	29,520
Taxation payable	5	39	406
	<u>20,183</u>	<u>156,416</u>	<u>223,521</u>
<b>Net current assets</b>	<u>1,609</u>	<u>12,471</u>	<u>1,967</u>
<b>Net assets</b>	<u>12,063</u>	<u>93,495</u>	<u>92,081</u>
<b>Capital and reserves</b>			
Share capital	638	4,950	4,950
Reserves	11,425	88,545	87,131
<b>Total equity</b>	<u>12,063</u>	<u>93,495</u>	<u>92,081</u>

## Notes to the Condensed Consolidated Financial Information

### 1 Basis of preparation and accounting policies

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

This condensed consolidated financial information should be read in conjunction with the 2008 annual financial statements.

The accounting policies 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 2008, except that the Group has applied for the first time the following new and revised Hong Kong Financial Reporting Standards (the “new HKFRSs”) (which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost on an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs 2008

Other than as noted below, the adoption of these new HKFRSs had no impact on how the results and financial position for the current and prior period have been prepared and presented.

- HKAS 1 (Revised), “Presentation of Financial Statements”. As a result of the adoption of HKAS 1 (Revised), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income.

The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- HKFRS 8, “Operating Segments”. The adoption of HKFRS 8 has not affected the identified and reportable operating segment for the Group. However, reportable segment information is now based on internal management reporting information that is regularly reviewed by the Group’s senior executive management. In the previous annual financial statements, segments were identified by reference to the nature of the products or services provided by the Group. Comparatives have been restated on a basis consistent with the new standard.

## 2 Segment information

The Group manages its business by divisions, which are organised by services and products. In a manner consistent with the way in which information is reported internally to the Group’s senior executive management for the purposes of resources allocation and performance assessment, no reportable segment analysis is presented as there is only a single business division focusing on design, development, marketing and distribution of toys and family entertainment activity products.

The following table sets out information about the geographical location of (i) the Group’s revenue and (ii) the Group’s property, plant and equipment, and interest in an associated company and a jointly controlled entity (“specified non-current assets”). The geographical location of customers is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of property, plant and equipment, and the location of operation in case of interest in an associated company and a jointly controlled entity.

	Revenue		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2009	2008	2009	2008
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Hong Kong (place of domicile)	-	-	<b>27,005</b>	29,591
Americas				
- U.S.A.	<b>218,604</b>	151,951	<b>10,632</b>	14,515
- Others	<b>21,226</b>	8,677	-	-
Europe	<b>74,928</b>	58,512	-	-
Asia Pacific other than Hong Kong	<b>19,274</b>	8,791	<b>326</b>	152
Others	<b>1,606</b>	4,165	-	-
	<b>335,638</b>	232,096	<b>10,958</b>	14,667
	<b>335,638</b>	232,096	<b>37,963</b>	44,258

The Group’s customer base is diversified and includes three (2008: two) customers with each of whom transactions have exceeded 10% of the Group’s total revenue. Aggregate revenue from sales to these customers amounted to approximately HK\$176 million (2008: HK\$76 million).

### 3 Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging the following:

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Cost of inventories sold	145,575	121,112
Product development costs	4,994	4,628
Royalties paid	46,994	25,520
Provision for customer concession	4,946	284
Staff costs	35,099	44,173
Depreciation of property, plant and equipment	1,691	1,213
Loss on disposal of property, plant and equipment	43	61

### 4 Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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 profit. The tax rate for federal tax is 34% (2008: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2008: 8.628%).

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	-	(176)
Overseas taxation	(478)	(318)
Over provision in prior years	166	-
	<u>(312)</u>	<u>(494)</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>(2,503)</u>	<u>29,818</u>
	<u>(2,815)</u>	<u>29,324</u>

## 5 Dividend

The directors do not recommend the payment of a dividend.

## 6 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK\$1,613,000 (2008: loss of HK\$41,860,000) and the 495,000,000 (2008: 495,000,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the periods ended 30 June 2009 and 2008 were not presented as there was no dilutive effect on the outstanding share options.

## 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 ageing analysis of trade receivables at the balance sheet date:

	<b>30 June 2009 HK\$'000</b>	31 December 2008 HK\$'000
0 – 30 days	35,891	70,257
31 – 60 days	228	1,738
Over 60 days	<u>1,473</u>	<u>5,245</u>
	<b><u>37,592</u></b>	<b><u>77,240</u></b>

## 8 Trade payables

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

	<b>30 June 2009 HK\$'000</b>	31 December 2008 HK\$'000
0 – 30 days	27,824	73,051
31 – 60 days	9,353	19,994
Over 60 days	<u>2,426</u>	<u>2,797</u>
	<b><u>39,603</u></b>	<b><u>95,842</u></b>

## **9 US dollar equivalents**

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 30 June 2009.

## **10 Comparative figures**

As a result of the application of HKAS 1 "Presentation of Financial Statements" and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

## **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 2009, trade receivables were HK\$37,592,000 (31 December 2008: HK\$77,240,000) and inventories were HK\$27,271,000 (31 December 2008: HK\$19,469,000).

The associated company and jointly controlled entity both reported losses for the period. As at 30 June 2009, the interest in an associated company and the interest in a jointly controlled entity were HK\$23,686,000 (31 December 2008: HK\$25,613,000) and HK\$5,551,000 (31 December 2008: HK\$8,534,000) respectively.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2009 was 14.0% compared to 13.2% at 31 December 2008. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.1 at 30 June 2009 compared to 1.0 at 31 December 2008.

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 2009, the Group's cash and bank balances were HK\$49,309,000 (31 December 2008: HK\$48,939,000).

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 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 applied the principles and 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 throughout the six months ended 30 June 2009.

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 2009.

On behalf of the Board  
**CHAN Chun Hoo, Thomas**  
*Chairman*

Hong Kong, 21 August 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*