



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 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2007	2006
For the six months ended 30 June	HK\$'000	HK\$'000
Group turnover	376,133	338,837
– from toy business	347,579	317,579
– from property investment & associated business	28,554	21,258
Gross profit	192,879	165,327
Revaluation surplus on investment properties	105,474	167,931
Operating profit	105,056	135,585
Profit before taxation	145,089	142,432
Profit attributable to shareholders	119,162	125,105
Earnings per share	HK cents	HK cents
– Basic	5.99	6.69
– Diluted	5.91	6.64
Interim dividend per share	2.00	2.00

Toy Business

Playmates Toys worldwide sales during the first half of 2007 were HK\$348 million, an increase of 9% over the same period last year. The increase was attributable to a 42% growth in our international business, realized through the continued expansion into Latin America and Eastern Europe combined with growth in *Teenage Mutant Ninja Turtles*® (“*Turtles*”) worldwide. According to trade statistics, overall industry year-to-date (June 2007) retail sales in the U.S. increased by 3% over 2006, led by strong growth in the vehicle, plush, arts and crafts, and youth electronics categories. Industry sales in the doll category were flat, while those in the action figure category was down by 4%. For the first half of 2007, Playmates Toys’ U.S. sales were flat compared to the same period last year.

Gross profit ratio on toy sales was 47% during the first half of 2007 (45% during the same period in 2006). This increase is attributable to sales mix favoring higher margin products, and lower research and development expenses during the period. Consistent with Playmates Toys' operating strategy, recurring operating expenses were maintained at similar levels as the same period last year. Segment operating loss was HK\$10 million, a HK\$22 million improvement over the same period last year, resulting from the increase in sales, higher gross profit and lower marketing expenditure.

Strong worldwide sales of *Turtles*, propelled by the launch of the movie *TMNT*, drove the first half sales increase. This increase was partially offset by the discontinuation of the *King Kong*® and *Battle Dice*™ product lines which had contributed to sales in the first half of 2006. Overall sales of Playmates Toys' girls brands, including *Strawberry Shortcake*™, *Disney*® *Princess* and *Disney Fairies*®, although lower than the same period last year, remained strong and were in line with the current year plan of launching major brand extensions in the fall.

New brand introductions and major brand extensions scheduled for the fall include *Popples*™, the well-recognized American Greetings® brand; *Land Before Time*®, a Universal Studios® preschool brand that has entertained kids worldwide for over a decade; an expanded *Amazing* family of dolls, and *WOW Pals*™, Playmates Toys' proprietary feature plush brand.

Brand Overview

The successful *TMNT* movie launch, together with the ongoing programming of new episodes of the *Fast Forward* animated television series, combined with the anticipated DVD release of the *TMNT* feature film in the fall of 2007 are expected to maintain continued interest in the *Turtles* franchise.

This fall, new girls toy introductions will be led by extensions to the successful *Amazing* family of dolls and *WOW Pals*™ feature plush brand. The *Amazing* brand will grow with the introduction of *Amazing McKayla*™, a smart baby doll and *Amazing Lexie*™, a unique talking fashion puppy. Internationally, by fall 2007, *Amazing Amanda*™ will be available in eleven different languages, including Mandarin for the Mainland China market. A new *Blade, the Skate 'n Tricks Puppy*™ joins the other *WOW Pals*™ this fall, further expanding our proprietary feature plush brand of one-of-a-kind play pals.

Since the introduction of our new-look *Strawberry Shortcake*™ line of dolls in 2006, distribution has expanded both in the U.S. and internationally. Twentieth Century Fox™ plans to release three additional direct-to-video DVDs in 2007. These are expected to continue to drive this ever-popular girl's brand.

Our line of *Disney*® *Princess* dolls and accessories are joined this fall by *Tea Time Belle*®, an interactive *Princess Belle*® that plays tea party with the little girl. This unique feature position will be television advertised and be the driver for the brand in 2007.

In 2006, Disney® Consumer Products appointed Playmates Toys as their master toy partner for their newest girls publishing and entertainment franchise, **Disney Fairies**®. Disney® has identified **Disney Fairies**® as one of their most important new girls branding initiatives. Disney® plans to release four new **Disney Fairies**® films/DVDs beginning in 2008 with **Tinker Bell**®, the fairy recognized worldwide, and her friends.

This fall, Playmates Toys will introduce the revitalized **Popples**™ brand from American Greetings®, a category leader in the mid-1980s. Playmates Toys will be adding new character designs along with interactive elements to contemporize and broaden the brand's appeal. Also in fall 2007, Playmates Toys will enter the preschool category by launching **Land Before Time**®, a classic preschool franchise from Universal Studios® built on a strong heritage of twelve years of home video entertainment, and all-new animated television programming on Cartoon Network™.

Playmates Toys' long term growth strategy of portfolio expansion and category diversification remains in place. In the second half of 2007, Playmates Toys will expand its offerings in feature plush and preschool, while in 2008 Playmates Toys will introduce new action figure brands, expand into the girls fashion doll segment and enter the youth electronics category, under the **Playmates Electronics**™ banner. We are finalizing our 2008 product line to be introduced at the annual October toy fairs to be held in Hong Kong and Dallas.

Proposed Spin-Off and Separate Listing

The Board of Directors of the Company considered that it is in the best interest of the Company to pursue a spin-off and separate listing of its toy business, which could bring a number of benefits to the Group, including the facilitation of market valuation of the Group's principal business segments, and the enhancement of the profile of the Group's toy business as a standalone public group and its ability to pursue its strategic plans.

The Board announced on 27 April 2007 that it is proposing a possible spin-off and separate listing of the toy business of the Group on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and had submitted on that day a proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules.

A further announcement was made by the Board on 23 July 2007 that the Stock Exchange has granted its approval to the Company to proceed with the proposed spin-off and on 20 July 2007, Playmates Toys Limited, as the holding company of the Group's toy business, had submitted an advance booking form for an application for the listing of, and permission to deal in, the shares of Playmates Toys Limited on the Main Board of the Stock Exchange.

As the listing of the shares of Playmates Toys Limited pursuant to the proposed spin-off is subject to, amongst other things, the approval of the Listing Committee of the Stock Exchange, the final decision of the Board and the board of directors of Playmates Toys Limited, the proposed spin-off may or may not proceed, and shareholders of the Company and public investors are advised to exercise caution when dealing in the securities of the Company.

Further announcements will be made to update shareholders of the Company and public investors on the proposed spin-off as and when appropriate.

Property and Other Investments

Rental and management income from the Group's investment properties for the period was HK\$29 million, an increase of 34% from the same period a year ago. Segment operating profit was HK\$124 million (including revaluation surplus of HK\$105 million), compared to HK\$181 million (including revaluation surplus of HK\$168 million) in the same period last year. The overall occupancy rate maintained at a high level during the period under review.

Rental income generated by the principal property at 100 Canton Road recorded a growth of approximately 25% during the period. The significant increase in rental income was attributable to higher average rental rates for leases signed in the second half of 2006 and early 2007 than the rates of expired leases. During the period, one floor previously occupied by office tenant was leased to a beauty and skin treatment specialist and further expanded the spectrum of spa and beauty services at 100 Canton Road. With the completion of the enhancement program, management is confident to optimize and further improve the tenant mix of this principal investment property.

Rental income generated by the residential properties at MacDonnell Road recorded a growth of 85% during the period. The significant increase in rental income was mainly due to the improvement in rental yields from new leases as a result of the ongoing refurbishment and upgrade program carried out since the acquisition in 2006.

The Group has adopted the fair value method for its investment properties. As at the end of the period under review, the investment properties of the Group were revalued by an independent professional surveyor. A valuation surplus of HK\$105 million was reported in the consolidated income statement of the Group for the period.

With the continued growth of the local and regional economy, management remains confident in the medium to long term prospects of its property investment and associated business which will continue to form an important segment of the activities of the Group.

The Group's other investment activities include managing a portfolio of cash, bank deposits and various financial instruments. As at 30 June 2007, the aggregate value of the Group's investment portfolio was approximately HK\$821 million (31 December 2006: HK\$501 million), a high proportion of which, HK\$299 million (31 December 2006: HK\$170 million) was cash and bank deposits, and total outstanding bank loan was approximately HK\$61 million (31 December 2006: HK\$108 million). Net contributions from interest income, interest expense and bank charges, dividend income from investments and net gain on investments during the period was approximately HK\$40 million compared to HK\$7 million during the same period last year. Going forward, however, and in view of the volatility in capital markets across the globe, future earnings from investments may be uncertain.

CONDENSED FINANCIAL INFORMATION

Condensed consolidated income statement

For the six months ended 30 June 2007

		Unaudited		
		Six months ended 30 June		
		2007	2007	2006
	Note	US\$'000	HK\$'000	HK\$'000
		(Note 9)		
Turnover	2	48,222	376,133	338,837
Cost of sales		(23,494)	(183,254)	(173,510)
Gross profit		24,728	192,879	165,327
Marketing expenses		(10,195)	(79,525)	(92,840)
Selling, distribution and administration expenses		(14,586)	(113,772)	(104,833)
Revaluation surplus on investment properties		13,522	105,474	167,931
Operating profit		13,469	105,056	135,585
Non-operating income/(expenses)				
Interest expense and bank charges		(481)	(3,750)	(2,012)
Other revenues		836	6,521	7,602
Net gain on investments		4,811	37,528	1,056
		18,635	145,355	142,231
Share of profits less losses of associated companies		(34)	(266)	201
Profit before taxation	3	18,601	145,089	142,432
Taxation	4	(3,324)	(25,927)	(17,327)
Profit attributable to shareholders		15,277	119,162	125,105
Dividend	5	5,705	44,501	37,399
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6			
Basic		0.77	5.99	6.69
Diluted		0.76	5.91	6.64

Condensed consolidated balance sheet
As at 30 June 2007 and 31 December 2006

		Unaudited 30 June 2007 US\$'000 (Note 9)	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Non-current assets				
Fixed assets				
– Investment properties		166,128	1,295,800	1,198,700
– Other property, plant and equipment		5,756	44,893	37,117
– Prepaid premium on leasehold land held for own use under an operating lease		7,917	61,755	48,102
		179,801	1,402,448	1,283,919
Goodwill		766	5,976	5,976
Investment in associated companies		4,253	33,170	34,836
Deferred tax assets		9,489	74,017	80,152
		194,309	1,515,611	1,404,883
Current assets				
Inventories		6,271	48,917	49,470
Trade receivables	7	15,615	121,794	353,999
Other receivables, deposits and prepayments		9,449	73,699	65,492
Taxation recoverable		404	3,151	2,023
Financial assets at fair value through profit or loss		66,964	522,320	331,204
Cash and bank balances		38,310	298,821	170,015
		137,013	1,068,702	972,203
Current liabilities				
Bank loans		7,796	60,808	107,542
Trade payables	8	6,309	49,209	92,585
Other payables and accrued charges		11,572	90,263	163,906
Provisions		3,433	26,780	49,260
Taxation payable		386	3,009	1,317
		29,496	230,069	414,610
Net current assets		107,517	838,633	557,593
Total assets less current liabilities		301,826	2,354,244	1,962,476
Non-current liabilities				
Bank loans		–	–	276
Deferred tax liabilities		14,535	113,376	94,090
		14,535	113,376	94,366
Net assets		287,291	2,240,868	1,868,110
Financed by:				
Share capital		28,526	222,504	187,108
Reserves		253,060	1,973,863	1,587,448
Proposed dividend	5	5,705	44,501	93,554
Shareholders' funds		287,291	2,240,868	1,868,110

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 2006 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 2006.

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, and property investment and management.

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 2007			
	Toy business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	347,579	28,554	–	376,133
Inter-segment revenue (<i>Note iii</i>)	–	185	(185)	–
	<u>347,579</u>	<u>28,739</u>	<u>(185)</u>	<u>376,133</u>
Results				
Segment results	(9,412)	123,607	–	114,195
Inter-segment transactions	(185)	185	–	–
	<u>(9,597)</u>	<u>123,792</u>	<u>–</u>	<u>114,195</u>
Unallocated costs				(9,139)
Operating profit				<u>105,056</u>

	Six months ended 30 June 2006			
	Toy business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	317,579	21,258	–	338,837
Inter-segment revenue (<i>Note iii</i>)	–	341	(341)	–
	<u>317,579</u>	<u>21,599</u>	<u>(341)</u>	<u>338,837</u>
Results				
Segment results	(31,719)	180,717	–	148,998
Inter-segment transactions	(341)	341	–	–
	<u>(32,060)</u>	<u>181,058</u>	<u>–</u>	<u>148,998</u>
Unallocated costs				(13,413)
Operating profit				<u>135,585</u>

Notes:

- (i) **Toy business** refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and associated business** refers to the leasing of commercial, industrial and residential premises to generate rental income, and the provision of property management services.
- (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	
	2007	2006
	HK\$'000	HK\$'000
Americas		
– U.S.	224,418	231,030
– Others	29,906	28,049
Europe	70,680	42,707
Asia Pacific	50,521	35,967
Others	608	1,084
	<u>376,133</u>	<u>338,837</u>

3 Profit before taxation

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	159,436	143,563
Allowance for customer concession	4,391	2,557
Staff costs	50,122	45,142
Depreciation of fixed assets	4,121	3,794
Loss on disposal of fixed assets	8	39
Crediting:		
Interest income	5,273	6,558
Dividend income from investments	1,248	1,044
Unutilised allowance for customer concession	<u>—</u>	<u>1,532</u>

4 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 charge/(credit) in the condensed consolidated income statement comprises:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	2,035	392
Overseas taxation	(1,240)	(10,793)
Over-provision in prior years	<u>(289)</u>	<u>(3,558)</u>
	<u>506</u>	<u>(13,959)</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>25,421</u>	<u>31,286</u>
	<u>25,927</u>	<u>17,327</u>

5 Dividend

At a meeting held on 12 March 2007 the Directors proposed a final dividend of HK cents 3.0 and a special dividend of HK cents 2.0 per share for the year ended 31 December 2006, which was paid on 18 May 2007 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2007.

At a meeting held on 17 August 2007 the Directors declared an interim dividend of HK cents 2.0 (2006: HK cents 2.0) per share for the year ending 31 December 2007 to be paid on 19 September 2007 to shareholders on the Company's Register of Members on 12 September 2007. 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 2007.

6 Earnings per share

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>119,162</u>	<u>125,105</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,989,729,000	1,868,725,000
Number of potential ordinary shares issuable under share options and warrants	<u>27,848,000</u>	<u>16,172,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,017,577,000</u>	<u>1,884,897,000</u>

7 Trade receivables

As at 30 June 2007, 91.6% (31 December 2006: 96.9%) of the trade receivables net of provisions were current to 30 days, 7.5% (31 December 2006: 1.2%) were 31 to 60 days and the remaining were over 60 days. The provisions included allowance on customer concession that is arrived at by using available contemporary and historical information to evaluate the exposure.

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. For property investment and associated business, no credit term is granted to tenants.

8 Trade payables

As at 30 June 2007, 91.3% (31 December 2006: 59.1%) of the trade payables were current to 30 days, 8.2% (31 December 2006: 40.4%) were 31 to 60 days and the remaining were over 60 days.

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 2007.

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 2007, trade receivables related to toy operation were HK\$121,593,000 (31 December 2006: HK\$353,212,000) and inventories were HK\$48,917,000 (31 December 2006: HK\$49,470,000).

The property investment and associated business generated a relatively steady income stream throughout the period. Approximately 92% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2007. Accounts receivables were minimal as at the period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2007 was 2.4% compared to 4.5% at 31 December 2006. The current ratio, calculated as the ratio of current assets to current liabilities, was 4.6 at 30 June 2007 compared to 2.3 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. 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 2007, the Group's cash and bank balances were HK\$298,821,000 (31 December 2006: HK\$170,015,000), and the amount invested in various securities was HK\$522,320,000 (31 December 2006: HK\$331,204,000).

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 2007, 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 six Non-executive Directors. Of the six Non-executive Directors, four are Independent Non-executive Directors; they represent more than one-third of the Board. 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 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 September 2007 to 12 September 2007, 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 10 September 2007.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 17 August 2007

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

Executive Directors:

Mr. Chan Chun Hoo, Thomas (*Chairman*), Mr. Cheng Bing Kin, Alain, Mr. To Shu Sing, Sidney

Non-executive Directors:

Mr. Tsim Tak Lung (*Deputy Chairman*), Mr. Chow Yu Chun, Alexander (*Independent*), Mr. Ip Shu Wing, Charles, Mr. Lee Peng Fei, Allen (*Independent*), Mr. Lo Kai Yiu, Anthony (*Independent*), Mr. Yu Hon To, David (*Independent*)

* *For identification purpose only*