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PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
For the six months ended 30 June		
Revenue	596,185	24,461
Gross profit	373,438	7,944
Operating profit/(loss)	200,036	(33,202)
Profit/(Loss) before income tax	195,647	(40,525)
Profit/(Loss) attributable to equity holders of the Company	211,011	(40,630)
	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share		
- Basic	18.24	(3.71)
- Diluted	18.02	(3.71)

Playmates Toys worldwide sales during the first half of 2013 were HK\$596.2 million (same period in 2012: HK\$24.5 million). Sales comparison with the same period last year primarily reflected the continued strong sales during the period of *Teenage Mutant Ninja Turtles*® (“TMNT”) products which were only launched in late June in 2012, and a significant increase in the number of markets in which our products were distributed.

Gross profit ratio on toy sales was 62.6% (same period in 2012: 32.5%). Improvement in gross profit ratio reflected more efficient utilization at higher sales volume of investments in development and tooling of new products.

Despite higher marketing and other operating expenses to support the increased sales volume, Playmates Toys reported a net profit for the period of HK\$211.0 million (same period in 2012: net loss of HK\$40.6 million) as a result of higher turnover and higher gross profit ratio.

During the period, the economic recovery in our key markets in North America and Europe showed signs of gathering strength. Consumer confidence in the US reached the highest level since the 2008 recession amidst slowly improving job market, increasing asset value and easier access to consumer credit. Retail sales for the US toy industry were strong at the beginning of the year but weaker results were reported since February. Overall US toy industry retail sales in the first six months of 2013 were up in dollar terms by about 2.2% compared to the same period last year.

We are confident that our programs during the peak selling season in the second half of 2013 will stay on course and we expect that sales of *TMNT* products, driven by sustained popularity of the Nickelodeon® TV show and introduction of innovative new products, will continue to be strong. Historically retail toy sales in the second half of the year accounted for the majority of sales for the whole year.

The Board does not recommend a dividend distribution for the first half of 2013 but remains confident that the full year results will support a dividend distribution.

Brand Overview

Nickelodeon's® CGI animated *TMNT* TV series continued to rank among the most popular kid's shows in the US. The audience reach is expected to be further boosted when Season 2 premieres in the third quarter of 2013 concurrently with daily airing of the show. The Michael Bay produced live-action movie from Paramount Pictures™ & © is scheduled for global release next year and is regarded as one of the big budget action adventure movies in 2014, featuring special effects by Industrial Light & Magic and a cast that includes Megan Fox as the lead female character, April O'Neil.

In tandem with sustained popularity of the TV show, Playmates' *TMNT* toys continued to perform well at retail. NPD, the leading provider of consumer market research data, reported that during the first half of 2013 *TMNT* maintained its position as the number one action figure brand in the US and *TMNT* products ranked as top sellers in all key subcategories. The momentum is expected to continue during the peak selling season in the second half of the year, as more new products are introduced. The planned 2014 lineup, with major new product segments and dedicated items tied to the Paramount™ & © movie, was enthusiastically received at trade previews.

Riding on Nickelodeon's® global rollout of the *TMNT* TV series, our toys had reached over 60 territories during the first half of 2013. The previously reported rapid successes in show rating and toy sales shortly after launch in the UK and Australia were likewise experienced in other major markets, including Germany, France, Italy and Spain, as well as Russia and other emerging markets in Europe. As the TV series continues to roll out across the world, distribution of our toys will be further expanded to cover more territories.

Awareness and loyal fan base continued to grow for *Hearts For Hearts Girls*®, the line of multicultural dolls with empowerment messages of helping others in need. Despite limited channels of distribution, new dolls introduced quickly sold out. The announcement of the addition in 2013 of *Mosi*, representing the Native American Nations, and *Shola* from Afghanistan had supporters anxiously awaiting their launch. More new dolls are planned for introduction in 2014.

Waterbabies®, the refreshed classic water-filled baby dolls, maintained a steady sales pace during the period. The brand is expected to further grow in Fall 2013 with a substantial expansion in distribution and the introduction of a series of collectible 6" *Wee Waterbabies*.

In addition to investing in line extensions and new product segments for our current brands, we are continuing with our focused and selective search and acquisition of new opportunities that are good fits for our core competence.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement

For the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June		
		2013 US\$'000 (Note 10)	2013 HK\$'000	2012 HK\$'000
Revenue	3	76,927	596,185	24,461
Cost of sales		(28,741)	(222,747)	(16,517)
Gross profit		48,186	373,438	7,944
Marketing expenses		(13,543)	(104,962)	(3,935)
Selling and distribution expenses		(2,522)	(19,546)	(1,290)
Administration expenses		(6,309)	(48,894)	(35,921)
Operating profit/(loss)		25,812	200,036	(33,202)
Other income		53	409	1,009
Finance costs		(397)	(3,073)	(1,120)
Changes in fair value of derivative financial instrument		-	-	(3,648)
Share of loss of an associated company		(223)	(1,725)	(3,564)
Profit/(Loss) before income tax	4	25,245	195,647	(40,525)
Income tax credit/(expense)	5	1,982	15,364	(105)
Profit/(Loss) for the period attributable to equity holders of the Company		27,227	211,011	(40,630)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share	7			
Basic		2.35	18.24	(3.71)
Diluted		2.33	18.02	(3.71)

Condensed Consolidated Statement of Comprehensive Income*For the six months ended 30 June 2013*

	Unaudited		
	Six months ended 30 June		
	2013	2013	2012
	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 10)</i>		
Profit/(Loss) for the period	27,227	211,011	(40,630)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	21	164	-
Total comprehensive income for the period attributable to equity holders of the Company	27,248	211,175	(40,630)

Condensed Consolidated Balance Sheet
As at 30 June 2013

		Unaudited	Unaudited	Audited
		30 June	30 June	31 December
		2013	2013	2012
	<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 10)</i>		
Non-current assets				
Property, plant and equipment		170	1,314	1,274
Interest in an associated company		1,287	9,976	11,701
Deferred tax assets		4,136	32,056	136
		5,593	43,346	13,111
Current assets				
Inventories		5,516	42,749	21,783
Trade receivables	8	24,805	192,241	177,304
Deposits paid, other receivables and prepayments		1,430	11,081	6,601
Taxation recoverable		4	29	173
Cash and bank balances		46,708	361,990	161,452
		78,463	608,090	367,313
Current liabilities				
Trade payables	9	8,846	68,554	46,367
Deposits received, other payables and accrued charges		19,143	148,359	128,979
Provisions		1,341	10,393	13,330
Taxation payable		805	6,237	390
		30,135	233,543	189,066
Net current assets		48,328	374,547	178,247
Net assets		53,921	417,893	191,358
Equity				
Share capital		1,508	11,690	11,533
Reserves		52,413	406,203	179,825
Total equity		53,921	417,893	191,358

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 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 (the “Stock Exchange”).

This condensed consolidated financial information should be read in conjunction with the 2012 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 2012, except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”) which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2013. Details of these changes in accounting policies are set out in note 2.

2. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

Amendments to HKAS 1	Presentation of items of other comprehensive income
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Group’s presentation of other comprehensive income has been modified accordingly.

HKFRS 10 Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12, Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those required by the respective standards. Since those disclosure requirements only apply to the annual financial statements, the Group has not made additional disclosures in this condensed consolidated financial information as a result of adopting HKFRS 12.

HKFRS 13 Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to HKFRS 7 Disclosure – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and liabilities. Those new disclosures are required for all recognised financial instruments that are set off under HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's condensed consolidated financial information because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

3. Segment information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's senior executive management for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. Based on the internal report reviewed by the senior executive management of the Group that are used to make strategic decision, the only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

3.1 Geographical information

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 ("specified non-current assets"). The geographical location of revenue 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.

	Revenue		Specified non-current assets	
	Six months ended 30 June 2013 HK\$'000	2012 HK\$'000	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Hong Kong (place of domicile)	646	41	10,435	12,167
Americas				
- U.S.A.	369,181	20,446	855	808
- Others	40,337	3,562	-	-
Europe	133,180	206	-	-
Asia Pacific other than				
Hong Kong	50,237	196	-	-
Others	2,604	10	-	-
	595,539	24,420	855	808
	596,185	24,461	11,290	12,975

3.2 Major customers

The Group's customer base is diversified and includes four (2012: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK\$156.1 million, HK\$102.5 million, HK\$73.1 million and HK\$70.9 million (2012: HK\$14.0 million, HK\$4.4 million and HK\$2.5 million) respectively.

4. Profit/(Loss) before income tax

Profit/(Loss) before income tax is stated after charging the following:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Cost of inventories sold	213,539	8,902
Product development costs	3,185	2,122
Royalties paid	75,396	1,544
Employee benefit expenses	29,981	20,698
Interest on convertible bond	-	517
Depreciation of property, plant and equipment	352	417

5. Income tax (credit)/expense

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Overseas, mainly the U.S., taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	145	105
Overseas taxation	16,411	-
	<u>16,556</u>	<u>105</u>
Deferred taxation		
Origination and reversal of temporary differences	(31,920)	-
Income tax (credit)/expense	<u>(15,364)</u>	<u>105</u>

6. Dividend

The board of directors does not recommend the payment of a dividend.

7. 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\$211,011,000 (2012: loss of HK\$40,630,000) and the weighted average number of ordinary shares of 1,157,022,000 (2012: 1,095,283,000) in issue during the period.

The calculation of diluted earnings per share for the period ended 30 June 2013 is based on the profit attributable to equity holders of the Company of HK\$211,011,000 and the weighted average number of ordinary shares of 1,170,685,000 in issue during the period, adjusted for the effects of 13,663,000 dilutive potential shares on exercise of share options.

Diluted loss per share for the period ended 30 June 2012 equals to the basic loss per share as the potential ordinary shares (share options, warrants and convertible bond) were not included in the calculation of diluted loss per share because they are anti-dilutive.

8. Trade receivables

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	192,241	178,280
Less: Allowance for customer concession	-	(976)
	192,241	177,304

The Group grants credits to retail customers to facilitate the sale of slow moving merchandise held by such customers. Such allowance for customer concession is arrived at by using available contemporary and historical information to evaluate the exposure.

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. The following is an aging analysis of trade receivables at the balance sheet date:

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	188,978	175,472
31 – 60 days	2,177	1,523
Over 60 days	1,086	309
	192,241	177,304

9. Trade payables

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

	30 June	31 December
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	60,910	37,368
31 – 60 days	6,974	7,525
Over 60 days	670	1,474
	<hr/> 68,554	<hr/> 46,367

10. 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 2013.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. In general, sales in the second half-year are 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 2013, trade receivables were HK\$192,241,000 (31 December 2012: HK\$177,304,000) and inventories were HK\$42,749,000 (31 December 2012: HK\$21,783,000). The higher trade receivables and inventories at interim period end resulted from a continued strong pickup in customer orders and shipments during the period.

The associated company reported losses for the period. As at 30 June 2013, the interest in an associated company was HK\$9,976,000 (31 December 2012: HK\$11,701,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 2.6 at 30 June 2013 compared to 1.9 at 31 December 2012.

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 2013, the Group's cash and bank balances were HK\$361,990,000 (31 December 2012: HK\$161,452,000).

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

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.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30 June 2013, except in respect of one Code Provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals.

In respect of the segregation of the roles of the chairman and chief executive officer, the Group's practice is that the Chairman also acts as chief executive officer. This allows him to focus on Group strategy and at the same time ensure that all key issues are considered by the board in a timely manner. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is suitable and effective in facilitating the operations and business development of the Company and maintaining the checks and balances between the board and the management of the business of the Group. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

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 2013.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 27 August 2013

As at the date hereof, the board of directors of the Company comprises the following directors:

Mr. Chan Chun Hoo, Thomas (*Chairman*), Mr. Cheng Bing Kin, Alain (*Executive Director*), Mr. Chow Yu Chun, Alexander (*Independent Non-executive Director*), Mr. Lee Ching Kwok, Rin (*Independent Non-executive Director*), Mr. To Shu Sing, Sidney (*Executive Director*) and Mr. Yang, Victor (*Independent Non-executive Director*)