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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 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

For the six months ended 30 June	**2012** ***HK$'000***	2011 *HK$'000*
Revenue	**24,461**	17,718
Gross profit	**7,944**	4,761
Operating loss	**(33,202)**	(43,698)
Loss before income tax	**(40,525)**	(53,046)
Loss attributable to equity holders of the Company	**(40,630)**	(53,046)
	HK cents	*HK cents*
Loss per share - basic	**(3.71)**	(5.08)

Playmates Toys worldwide sales during the first half of 2012 were HK$24.5 million (same period in 2011: HK$17.7 million). Sales comparison versus prior year reflected the combined result of continuing brand performing better than same period last year and initial shipments of new brands planned for launch in the second half of the year.

Gross profit ratio on toy sales was 32.5% (same period in 2011: 26.9%). The higher gross profit ratio was mainly the result of relatively lower level of expenses incurred on development of new products, offset by higher level of tooling expenses recognised for new products commencing shipment during the period, compared to same period last year.

Consistent with our stated operating priority to control and reduce costs, operating expenses were lower by 15.1% when compared to the same period last year. Playmates Toys reported a net loss after tax for the period of HK$40.6 million (same period in 2011: net loss after tax of HK$53.0 million) as a combined result of higher sales, higher gross profit ratio and lower operating expenses.

In the first half of 2012, our key markets in North America and Europe continued to struggle in a fragile and uncertain recovery from the 2008 recession. The lack of a resolution for the Euro zone debt crisis remained a serious threat to the global economy. In the US, consumer confidence languished at historically low levels as unemployment rate stayed high and manufacturing activities slowed. In China, where we sourced our finished products, manufacturing costs were kept high despite slower growth as a result of tight labor supply and the impact of increasingly stringent consumer safety standards on design and material requirement. Market reports indicated that retail sales in the US for the toy industry in the first half of 2012 were down in dollar terms by about 7% compared to the same period last year. The difficult macro operating environment is expected to persist in the second half of 2012.

While significant uncertainties and challenges remain in our operating environment, we maintain the cautiously optimistic outlook that new product launches in the second half of the year, notably ***Teenage Mutant Ninja Turtles***©, are expected to begin to make noticeable and positive contributions to the performance of the Group. Playmates Toys will continue to prudently invest in and manage the portfolio of new and continuing brands.

Brand Overview

Final countdown to the reboot of ***Teenage Mutant Ninja Turtles***©, a designated priority franchise of Viacom©, has begun. The all new CGI animated TV series will premiere as scheduled in the US and Canada in September 2012, to be followed shortly by global rollout on Nickelodeon© channels and in 2014 a Michael Bay-produced movie from Paramount© Pictures. The new TV series was the talk-of-the-show at major trade and fan events including the recent Las Vegas Licensing International Expo and San Diego Comic-Con International. Trade responses to the programming, marketing and merchandising plans are unanimously positive. Playmates Toys' first wave of all new ***Teenage Mutant Ninja Turtles***© toy products span the full spectrum of action figure play, from basic collectible figures to figures and vehicles with special features; role-play accessories, and a mega playset standing 42 inches tall. Initial shipments to US retailers commenced as planned in late second quarter, in time for a full national launch in the third quarter of 2012 supported by multimedia, multiplatform advertising and promotion campaign. Development works are well underway on successive waves of product line extensions planned for 2013 and beyond.

Hearts for Hearts Girls©, the line of beautiful multicultural dolls with a philanthropic and empowering theme, continued to earn positive consumer feedbacks and accolades of socially concerned groups. We support and maintain dialogue with the loyal and growing fan base through regular updates of the official website and Facebook© page. The introduction of two new dolls in 2012 is greeted with excitement by core fans.

Playmates Toys will re-launch ***Waterbabies***© in the second half of 2012. The line of unique water-filled baby dolls embodying the classic play pattern of caring and nurturing will return completely redesigned with contemporary themes and fun play features aiming at a new generation of girls.

Playmates Toys will also bring the world of ***Build-A-Bear Workshop***© closer to the hearts of little girls with a charming collection of bears and other animal characters, and play environments. The product line includes collectible figurines with interchangeable outfits, themed accessories and playsets, supported by commercials to be featured on buildabear.com©, bearville.com© and official ***Build-A-Bear Workshop***© pages on Facebook© and YouTube©.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement
For the six months ended 30 June 2012

		Unaudited		
		Six months ended 30 June		
		2012	**2012**	2011
	Note	***US$'000***	***HK$'000***	*HK$'000*
		(Note 10)		
Revenue	2	**3,136**	**24,461**	17,718
Cost of sales		**(2,118)**	**(16,517)**	(12,957)
Gross profit		**1,018**	**7,944**	4,761
Marketing expenses		**(504)**	**(3,935)**	(9,858)
Selling and distribution expenses		**(165)**	**(1,290)**	(697)
Administration expenses		**(4,605)**	**(35,921)**	(37,904)
Operating loss		**(4,256)**	**(33,202)**	(43,698)
Other income		**129**	**1,009**	348
Finance costs		**(144)**	**(1,120)**	(1,198)
Changes in fair value of derivative financial instrument	9	**(468)**	**(3,648)**	(5,116)
Share of loss of an associated company		**(457)**	**(3,564)**	(3,382)
Loss before income tax	3	**(5,196)**	**(40,525)**	(53,046)
Income tax expense	4	**(13)**	**(105)**	-
Loss for the period attributable to equity holders of the Company		**(5,209)**	**(40,630)**	(53,046)
		US cents	***HK cents***	*HK cents*
Loss per share	6			
Basic		**(0.48)**	**(3.71)**	(5.08)
Diluted		**(0.48)**	**(3.71)**	(5.08)

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	Unaudited		
	Six months ended 30 June		
	2012	**2012**	2011
	US$'000	***HK$'000***	*HK$'000*
	(Note 10)		
Loss for the period	**(5,209)**	**(40,630)**	(53,046)
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the period attributable to equity holders of the Company	**(5,209)**	**(40,630)**	(53,046)

Condensed Consolidated Balance Sheet
As at 30 June 2012

	Note	**Unaudited 30 June 2012** ***US$'000*** *(Note 10)*	**Unaudited 30 June 2012** ***HK$'000***	Audited 31 December 2011 *HK$'000*
Non-current assets				
Property, plant and equipment		**192**	**1,497**	1,767
Interest in an associated company		**1,748**	**13,634**	17,198
Deferred tax assets		**16**	**125**	125
		1,956	**15,256**	19,090
Current assets				
Inventories		**2,025**	**15,800**	2,127
Trade receivables	7	**2,457**	**19,168**	7,144
Deposits paid, other receivables and prepayments		**2,013**	**15,699**	7,065
Taxation recoverable		**14**	**111**	216
Cash and bank balances		**23,466**	**183,031**	208,766
		29,975	**233,809**	225,318
Current liabilities				
Trade payables	8	**2,334**	**18,201**	3,160
Deposits received, other payables and accrued charges		**12,415**	**96,839**	63,933
Derivative financial instrument	9	**688**	**5,366**	3,437
Provisions		**448**	**3,498**	5,147
		15,885	**123,904**	75,677
Net current assets		**14,090**	**109,905**	149,641
Total assets less current liabilities		**16,046**	**125,161**	168,731
Non-current liabilities				
Convertible bond	9	**4,772**	**37,221**	74,447
Net assets		**11,274**	**87,940**	94,284
Equity				
Share capital		**1,432**	**11,168**	10,463
Reserves		**9,842**	**76,772**	83,821
Total equity		**11,274**	**87,940**	94,284

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 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 2011 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 2011, 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 2012.

The adoption of the new or amended HKFRSs had no impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. 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.

2.1 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		**30 June**	31 December
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**41**	-	**14,176**	17,836
Americas				
- U.S.A.	**20,446**	10,145	**955**	1,129
- Others	**3,562**	56	-	-
Europe	**206**	5,963	-	-
Asia Pacific other than Hong Kong	**196**	651	-	-
Others	**10**	903	-	-
	24,420	17,718	**955**	1,129
	24,461	17,718	**15,131**	18,965

2.2 Major customers

The Group's customer base is diversified and includes three (2011: four) 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$14.0 million, HK$4.4 million and HK$2.5 million (2011: HK$3.3 million, HK$2.8 million, HK$2.3 million and HK$1.9 million) respectively.

3. Loss before income tax

Loss before income tax is stated after charging the following:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**8,902**	7,522
Product development costs	**2,122**	4,179
Royalties paid	**1,544**	5,647
Employee benefit expenses	**20,698**	22,151
Depreciation of property, plant and equipment	**417**	932
Loss on disposal of property, plant and equipment	-	49

4. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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	
	2012	2011
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**105**	-
Income tax expense	**105**	-

5. Dividend

The directors do not recommend the payment of a dividend.

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$40,630,000 (2011: HK$53,046,000) and the weighted average number of ordinary shares of 1,095,283,000 (2011: 1,043,262,000) in issue during the period.

Diluted loss per share for the period ended 30 June 2012 and 2011 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.

7. Trade receivables

	30 June	31 December
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**19,221**	7,204
Less: Allowance for customer concession	**(53)**	(60)
	19,168	7,144

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 of 60 days on average. The following is an aging analysis of trade receivables at the balance sheet date:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
0 – 30 days	**19,040**	7,087
31 – 60 days	**21**	52
Over 60 days	**107**	5
	19,168	7,144

8. Trade payables

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

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
0 – 30 days	**17,889**	2,531
31 – 60 days	**53**	247
Over 60 days	**259**	382
	18,201	3,160

9. Convertible bond and derivative financial instrument

The Company issued a US$10 million (equivalent to HK$77.5 million) 2% per annum convertible bond to its immediate holding company, PIL Toys Limited on 31 March 2011. The bond matures in five years from the issue date at its nominal value of US$10 million or can be converted into shares of the Company at the holder's option at any time from the date of issue and up to the maturity date of the bond at the rate of 1 share per US$0.0875.

On 27 February 2012, the Company repaid US$5 million (equivalent to HK$38.8 million) being part of the principal amount of the convertible bond to PIL Toys Limited together with US$50,000 (equivalent to HK$387,900), a sum equal to 1% of the early repaid amount in accordance with the terms and conditions of the convertible bond.

The carrying values of the liability component and derivative component of the convertible bond as at 30 June 2012 were as follows:

	HK$'000
Liability component – classified as non-current liability	
Opening net carrying amount as at 1 January 2012	**74,447**
Repayment during the period	**(37,026)**
Interest expense	**517**
Interest paid	**(717)**
Closing net carrying amount as at 30 June 2012	**37,221**
Opening net carrying amount as at 1 January 2011	-
Net carrying amount on initial recognition	74,053
Interest expense	1,172
Interest paid	(778)
Closing net carrying amount as at 31 December 2011	74,447

The initial carrying amount of the liability component was the residual value after deducting the fair value of the derivative component as at 31 March 2011, and was subsequently carried at amortised cost.

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 2.10% (31 December 2011: 2.09%) to the liability component.

	HK$'000
Derivative component – classified as current liability	
Opening net carrying amount as at 1 January 2012	**3,437**
Repayment during the period	**(1,719)**
Changes in fair value recognised in profit or loss	**3,648**
Closing net carrying amount as at 30 June 2012	**5,366**
Opening net carrying amount as at 1 January 2011	-
Net carrying amount on initial recognition	3,447
Changes in fair value recognised in profit or loss	5,116
Closing net carrying amount as at 30 June 2011	8,563
Changes in fair value recognised in profit or loss	(5,126)
Closing net carrying amount as at 31 December 2011	3,437

The conversion option derivative component was stated at fair value at date of initial recognition and at balance sheet date.

10. 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 2012.

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 2012, trade receivables were HK$19,168,000 (31 December 2011: HK$7,144,000) and inventories were HK$15,800,000 (31 December 2011: HK$2,127,000). The higher trade receivables and inventories at interim period end resulted from a pickup in customer orders and shipments starting in the second quarter of 2012.

The associated company reported losses for the period. As at 30 June 2012, the interest in an associated company was HK$13,634,000 (31 December 2011: HK$17,198,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 1.9 at 30 June 2012 compared to 3.0 at 31 December 2011.

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 2012, the Group's cash and bank balances were HK$183,031,000 (31 December 2011: HK$208,766,000).

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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) 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 2012 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 roles of the chairman and chief executive officer should be separate, the Chairman focuses on Group strategy and is responsible for ensuring all key issues are considered by the board in a timely manner; whereas the executive directors supported by the senior executives are responsible for running the business operations of the Group. The board considers that this structure is 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 2012.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 31 August 2012

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)*