



**2012** Interim  
Report

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Highlights

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

	Note	Unaudited		
		Six months ended 30 June		
		2012	2012	2011
		US\$'000	HK\$'000	HK\$'000
		(Note 14)		
<b>Revenue</b>	2	3,136	24,461	17,718
Cost of sales		(2,118)	(16,517)	(12,957)
<b>Gross profit</b>		<b>1,018</b>	<b>7,944</b>	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)
<b>Operating loss</b>		<b>(4,256)</b>	<b>(33,202)</b>	(43,698)
Other income		129	1,009	348
Finance costs		(144)	(1,120)	(1,198)
Changes in fair value of derivative financial instrument	10	(468)	(3,648)	(5,116)
Share of loss of an associated company		(457)	(3,564)	(3,382)
<b>Loss before income tax</b>	3	<b>(5,196)</b>	<b>(40,525)</b>	(53,046)
<b>Income tax expense</b>	4	<b>(13)</b>	<b>(105)</b>	–
<b>Loss for the period attributable to equity holders of the Company</b>		<b>(5,209)</b>	<b>(40,630)</b>	<b>(53,046)</b>
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share</b>	6			
Basic		<b>(0.48)</b>	<b>(3.71)</b>	<b>(5.08)</b>
Diluted		<b>(0.48)</b>	<b>(3.71)</b>	<b>(5.08)</b>

## 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 14)		
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	<u>(5,209)</u>	<u>(40,630)</u>	<u>(53,046)</u>

## Condensed Consolidated Balance Sheet

As at 30 June 2012

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

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012

	Unaudited		
	Six months ended 30 June		
	2012	2012	2011
	US\$'000	HK\$'000	HK\$'000
	(Note 14)		
Net cash used in operating activities	(2,409)	(18,793)	(21,082)
Net cash generated from investing activities	111	862	332
Net cash (used in)/generated from financing activities	<u>(1,001)</u>	<u>(7,804)</u>	<u>77,511</u>
Net (decrease)/increase in cash and cash equivalents	(3,299)	(25,735)	56,761
Cash and cash equivalents at 1 January	<u>26,765</u>	<u>208,766</u>	<u>172,787</u>
Cash and cash equivalents at 30 June	<u><u>23,466</u></u>	<u><u>183,031</u></u>	<u><u>229,548</u></u>
<i>Analysis of cash and cash equivalents</i>			
Cash and bank balances	<u><u>23,466</u></u>	<u><u>183,031</u></u>	<u><u>229,548</u></u>



## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Unaudited						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 January 2011	10,433	251,871	167,613	(556)	12,849	(263,538)	178,672
Total comprehensive income for the period	–	–	–	–	–	(53,046)	(53,046)
Issue of shares	–	2	–	–	–	–	2
Share option scheme							
– value of services	–	–	–	–	2,753	–	2,753
– shares issued	–	16	–	–	(7)	–	9
Transactions with owners	–	18	–	–	2,746	–	2,764
Share options lapsed	–	–	–	–	(388)	388	–
At 30 June 2011	10,433	251,889	167,613	(556)	15,207	(316,196)	128,390

	Share capital <i>HKS'000</i>	Share premium <i>HKS'000</i>	Capital reserve <i>HKS'000</i>	Unaudited Exchange reserve <i>HKS'000</i>	Share-based compensation reserve <i>HKS'000</i>	Accumulated losses <i>HKS'000</i>	Total <i>HKS'000</i>
At 1 January 2012	<u>10,463</u>	<u>253,208</u>	<u>167,613</u>	<u>(884)</u>	<u>17,217</u>	<u>(353,333)</u>	<u>94,284</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,630)</u>	<u>(40,630)</u>
Issue of shares	650	28,602	-	-	-	-	29,252
Share option scheme							
– value of services	-	-	-	-	3,300	-	3,300
– shares issued	<u>55</u>	<u>2,443</u>	<u>-</u>	<u>-</u>	<u>(764)</u>	<u>-</u>	<u>1,734</u>
Transactions with owners	<u>705</u>	<u>31,045</u>	<u>-</u>	<u>-</u>	<u>2,536</u>	<u>-</u>	<u>34,286</u>
Share options lapsed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,296)</u>	<u>1,296</u>	<u>-</u>
At 30 June 2012	<u><u>11,168</u></u>	<u><u>284,253</u></u>	<u><u>167,613</u></u>	<u><u>(884)</u></u>	<u><u>18,457</u></u>	<u><u>(392,667)</u></u>	<u><u>87,940</u></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 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)	<u>41</u>	<u>–</u>	<u>14,176</u>	<u>17,836</u>
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	<u>10</u>	<u>903</u>	<u>–</u>	<u>–</u>
	<u>24,420</u>	<u>17,718</u>	<u>955</u>	<u>1,129</u>
	<u>24,461</u>	<u>17,718</u>	<u>15,131</u>	<u>18,965</u>

## 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>          </u>	<u>          </u>

### 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	105	–
	<u>          </u>	<u>          </u>
Income tax expense	105	–
	<u>          </u>	<u>          </u>

### 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. Property, plant and equipment

	<i>HK\$'000</i>
Opening net book amount as at 1 January 2012	1,767
Additions	147
Depreciation	(417)
	<hr/>
<b>Closing net book amount as at 30 June 2012</b>	<b>1,497</b>
	<hr/> <hr/>
Opening net book amount as at 1 January 2011	2,913
Additions	16
Depreciation	(932)
Disposals	(49)
	<hr/>
Closing net book amount as at 30 June 2011	1,948
Exchange fluctuation	9
Additions	382
Depreciation	(552)
Disposals	(20)
	<hr/>
Closing net book amount as at 31 December 2011	1,767
	<hr/> <hr/>

## 8. Trade receivables

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

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:

	<b>30 June 2012 HK\$'000</b>	31 December 2011 HK\$'000
0 – 30 days	19,040	7,087
31 – 60 days	21	52
Over 60 days	107	5
	<u>19,168</u>	<u>7,144</u>

## 9. Trade payables

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

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

## 10. 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 equals 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:

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

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.

**11. Share capital**

**Authorised  
Ordinary shares of  
HK\$0.01 each**

	<i>No. of shares</i>	<i>HK\$'000</i>
<b>At 31 December 2011 and 30 June 2012</b>	<b>3,000,000,000</b>	<b>30,000</b>

**Issued and fully paid  
Ordinary shares of  
HK\$0.01 each**

	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2011	1,043,257,473	10,433
Exercise of share options	140,000	1
Exercise of warrants	2,862,735	29
<b>At 31 December 2011 and 1 January 2012</b>	<b>1,046,260,208</b>	<b>10,463</b>
Exercise of share options	5,488,000	55
Exercise of warrants ( <i>Note</i> )	65,003,870	650
<b>At 30 June 2012</b>	<b>1,116,752,078</b>	<b>11,168</b>

*Note:* The warrants were exercisable from 4 August 2010 to 3 August 2012 at an initial subscription price of HK\$0.45 per share (subject to adjustment). As at 30 June 2012, 67,748,422 (31 December 2011: 132,752,292) warrants remained unexercised.

## 12. Commitments

### 12.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2012 were payable as follows:

	<b>30 June 2012</b>	31 December 2011
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>24,508</b>	22,079
In the second to fifth years	<b>98,222</b>	104,676
	<b>122,730</b>	126,755

### 12.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 30 June 2012, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	<b>30 June 2012</b>	31 December 2011
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,783</b>	3,671
In the second to fifth years	<b>6,608</b>	8,467
	<b>10,391</b>	12,138

### 13. Related party transactions

13.1 The Group entered into the following significant transactions with related parties:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Rent and building management fee paid to fellow subsidiaries, Bagnols Limited and Belmont Limited	941	969
Interest expense paid to the immediate holding company, PIL Toys Limited	517	391
A sum equals to 1% of the early repaid amount of convertible bond paid to the immediate holding company, PIL Toys Limited	<u>388</u>	<u>–</u>

13.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).

### 14. 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.

## **INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES**

### **Liquidity and Financial Resources**

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.

### **Employees**

As at 30 June 2012, the Group had a total of 46 employees in Hong Kong and the United States of America.

There was no material change in remuneration policies compared to those disclosed in the most recently published annual report.

## Share Options

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme (“Scheme”) adopted on 25 January 2008, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”):

Participant	Date of grant	Exercise price HK\$	Number of share options				Balance at 30 June 2012
			Balance at 1 January 2012	Granted during the period (Note (1))	Exercised during the period (Note (2))	Lapsed during the period	
CHENG Bing Kin, Alain <i>Director</i>	31 March 2008	0.316	554,000	–	–	–	554,000
	20 January 2010	0.828	1,663,000	–	–	–	1,663,000
	18 April 2011	0.315	1,000,000	–	–	–	1,000,000
	13 April 2012	0.415	–	1,000,000	–	–	1,000,000
CHOW Yu Chun, Alexander <i>Director</i>	31 March 2008	0.316	443,000	–	–	–	443,000
	20 January 2010	0.828	222,000	–	–	–	222,000
	13 April 2012	0.415	–	500,000	–	–	500,000
LEE Ching Kwok, Rin <i>Director</i>	31 March 2008	0.316	443,000	–	–	–	443,000
	20 January 2010	0.828	222,000	–	–	–	222,000
	13 April 2012	0.415	–	500,000	–	–	500,000
TO Shu Sing, Sidney <i>Director</i>	31 March 2008	0.316	554,000	–	–	–	554,000
	20 January 2010	0.828	2,217,000	–	–	–	2,217,000
	18 April 2011	0.315	1,200,000	–	–	–	1,200,000
	13 April 2012	0.415	–	1,200,000	–	–	1,200,000
YANG, Victor <i>Director</i>	31 March 2008	0.316	443,000	–	–	–	443,000
	20 January 2010	0.828	222,000	–	–	–	222,000
	13 April 2012	0.415	–	500,000	–	–	500,000
<i>Continuous Contract Employees, excluding Directors</i>	31 March 2008	0.316	7,075,000	–	5,488,000	–	1,587,000
	20 January 2010	0.828	12,418,000	–	–	2,328,000	10,090,000
	18 April 2011	0.315	7,000,000	–	–	210,000	6,790,000
	24 May 2011	0.428	400,000	–	–	–	400,000
	13 April 2012	0.415	–	9,800,000	–	–	9,800,000
<i>Other participants</i>	31 March 2008	0.316	499,000	–	–	–	499,000
	20 January 2010	0.828	2,384,000	–	–	–	2,384,000
	30 March 2010	0.673	3,326,000	–	–	–	3,326,000
	18 April 2011	0.315	4,140,000	–	–	–	4,140,000
	13 April 2012	0.415	–	5,780,000	–	–	5,780,000

Notes:

- (1) The closing price of the ordinary shares of the Company on 12 April 2012, being the trading day immediately before the date on which the share options were granted during the period, was HK\$0.410.
- (2) The closing price of the ordinary shares of the Company immediately before the date on which the share options were exercised by continuous contract employees, excluding directors, during the period was HK\$0.405.

The above share options are exercisable in stages in accordance with the terms of the Scheme within ten years after the date of grant. No options were cancelled during the period.

### **Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation**

As at 30 June 2012, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

#### ***Long positions in shares of the Company***

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage interest held</b>
CHAN Chun Hoo, Thomas	Corporate <i>(Note (a))</i>	696,544,350 ordinary shares	62.37%
	Personal	6,442,650 ordinary shares	0.58%
CHENG Bing Kin, Alain	Personal	5,500,000 ordinary shares	0.49%
TO Shu Sing, Sidney	Personal	10,400,000 ordinary shares	0.93%

***Long positions in underlying shares and debentures of the Company***

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of equity derivatives held</b>	<b>Number of underlying shares (ordinary shares)</b>	<b>Percentage interest held</b>
CHAN Chun Hoo, Thomas	Corporate (Note (a))	57,142,857 conversion shares	57,142,857 shares	5.12%
CHENG Bing Kin, Alain	Personal	4,217,000 share options 520,000 warrants	4,217,000 shares 520,000 shares	0.38% 0.05%
CHOW Yu Chun, Alexander	Personal	1,165,000 share options	1,165,000 shares	0.10%
LEE Ching Kwok, Rin	Personal	1,165,000 share options	1,165,000 shares	0.10%
TO Shu Sing, Sidney	Personal	5,171,000 share options 1,040,000 warrants	5,171,000 shares 1,040,000 shares	0.46% 0.09%
YANG, Victor	Personal	1,165,000 share options	1,165,000 shares	0.10%

***Long positions in shares of Playmates Holdings Limited (“PHL”)***

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage interest held</b>
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	4.95%
	Corporate (Note (b))	91,500,000 ordinary shares	37.73%
	Associate (Note (c))	10,000,000 ordinary shares	4.12%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.09%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.82%

***Long positions in underlying shares of PHL***

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of equity derivatives held</b>	<b>Number of underlying shares (ordinary shares)</b>	<b>Percentage interest held</b>
CHENG Bing Kin, Alain	Personal	159,000 share options	159,000 shares	0.07%
TO Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.13%

*Notes:*

- (a) Mr. Chan Chun Hoo, Thomas (“Mr. Chan”) is the beneficial owner of all of the issued share capital of TGC Assets Limited (“TGC”) and is therefore deemed to be interested in the 62,544,350 shares of the Company which TGC is interested in. Since TGC directly owns approximately 37.73% of the shareholding of PHL and is deemed to be interested in the 634,000,000 shares and 57,142,857 conversion shares of the Company (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 634,000,000 shares and 57,142,857 conversion shares of the Company in aggregate which PHL is interested in.
- (b) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 91,500,000 shares of PHL in aggregate which TGC is interested in.
- (c) 10,000,000 shares of PHL were owned by Mr. Chan’s wife and Mr. Chan is therefore deemed to be interested in those shares.

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 30 June 2012.

The warrants were exercisable at any time from 4 August 2010 to 3 August 2012, both days inclusive, at an initial subscription price of HK\$0.45 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 27 July 2010.

Details of the share options held by the directors of the Company are disclosed in the above section headed “Share Options”.

As at 30 June 2012, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.



**Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company Required to be Recorded under Section 336 of the SFO**

As at 30 June 2012, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

*Long positions in shares of the Company*

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage interest held</b>
TGC	Corporate (Note (i))	696,544,350 ordinary shares	62.37%
PHL	Corporate (Note (ii))	634,000,000 ordinary shares	56.77%
Playmates International Limited	Corporate (Note (ii))	634,000,000 ordinary shares	56.77%
PIL Investments Limited	Corporate (Note (ii))	634,000,000 ordinary shares	56.77%
PIL Toys Limited	Corporate	634,000,000 ordinary shares	56.77%

***Long positions in underlying shares and debentures of the Company***

<b>Name</b>	<b>Nature of interest</b>	<b>Number of equity derivatives held</b>	<b>Number of underlying shares (ordinary shares)</b>	<b>Percentage interest held</b>
TGC	Corporate <i>(Note (i))</i>	57,142,857 conversion shares	57,142,857 shares	5.12%
PHL	Corporate <i>(Note (ii))</i>	57,142,857 conversion shares	57,142,857 shares	5.12%
Playmates International Limited	Corporate <i>(Note (ii))</i>	57,142,857 conversion shares	57,142,857 shares	5.12%
PIL Investments Limited	Corporate <i>(Note (ii))</i>	57,142,857 conversion shares	57,142,857 shares	5.12%
PIL Toys Limited	Corporate	57,142,857 conversion shares	57,142,857 shares	5.12%

*Notes:*

- (i) TGC directly owns approximately 37.73% of the shareholding of PHL and is therefore deemed to be interested in the 634,000,000 shares and 57,142,857 conversion shares of the Company (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) in aggregate which PHL is interested in.
- (ii) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 634,000,000 shares and 57,142,857 conversion shares of the Company (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bond by PHL pursuant to a subscription agreement dated 29 October 2009) in aggregate which PIL Toys Limited is beneficially interested in.

## **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 Listing Rules 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.

## **Compliance with the Model Code**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the period ended 30 June 2012.

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

Hong Kong, 31 August 2012

## CORPORATE INFORMATION

### Directors

CHAN Chun Hoo, Thomas (*Chairman*)

CHENG Bing Kin, Alain  
(*Executive Director*)

CHOW Yu Chun, Alexander  
(*Independent Non-executive Director*)

LEE Ching Kwok, Rin  
(*Independent Non-executive Director*)

TO Shu Sing, Sidney  
(*Executive Director*)

YANG, Victor  
(*Independent Non-executive Director*)

### Company Secretary

NG Ka Yan

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Principal Office

23/F., The Toy House  
100 Canton Road  
Tsimshatsui  
Kowloon, Hong Kong

### Auditors

Grant Thornton Hong Kong Limited  
*Certified Public Accountants*

### Legal Advisors

Conyers Dill & Pearman  
Deacons

### Principal Bankers

The Bank of East Asia, Limited  
Chong Hing Bank Limited  
Hang Seng Bank Limited

### Principal Share Registrars

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Branch Share Registrars

Tricor Abacus Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Hong Kong

### Stock Code

The shares of Playmates Toys Limited  
are listed for trading on The Stock  
Exchange of Hong Kong Limited  
(Stock Code: 869)

### Website

[www.playmatestoys.com](http://www.playmatestoys.com)



**Playmates Toys Limited**

(Incorporated in Bermuda with limited liability)  
(Stock code 869)

[www.playmatestoys.com](http://www.playmatestoys.com)