

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 635)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2017 as follows:

Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 US\$'000 (Note 11)	2017 HK\$'000	2016 HK\$'000
Revenue	3	129,393	1,009,261	1,250,726
Cost of sales		(47,080)	(367,224)	(417,997)
Gross profit		82,313	642,037	832,729
Marketing expenses		(24,019)	(187,346)	(220,057)
Selling and distribution expenses		(3,927)	(30,627)	(68,814)
Administration expenses		(20,525)	(160,097)	(182,475)
Net gain/(loss) on financial assets at fair value through profit or loss		3,815	29,754	(2,730)
Revaluation surplus/(deficit) on investment properties		10,402	81,136	(302,806)
Operating profit		48,059	374,857	55,847
Other net income	4	2,117	16,514	3,785
Finance costs		(2,451)	(19,119)	(16,393)
Share of loss of an associated company		(17)	(133)	-
Profit before income tax	5	47,708	372,119	43,239
Income tax expense	6	(7,940)	(61,932)	(95,727)
Profit/(Loss) for the year		39,768	310,187	(52,488)

	<i>Note</i>	2017 <i>US\$'000</i> <i>(Note 11)</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit/(Loss) for the year attributable to:				
Owners of the Company		36,179	282,196	(110,132)
Non-controlling interests		3,589	27,991	57,644
		39,768	310,187	(52,488)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share	8			
Basic		1.74	13.54	(5.10)
Diluted		1.74	13.54	(5.10)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	<i>Note</i>	2017 <i>US\$'000</i> <i>(Note 11)</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit/(Loss) for the year		39,768	310,187	(52,488)
Other comprehensive income, including reclassification adjustments:				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign subsidiaries		4,086	31,873	(40,405)
Items that will not be reclassified to profit or loss:				
Surplus on revaluation of land and buildings		-	-	31,812
Total comprehensive income for the year		43,854	342,060	(61,081)
Total comprehensive income attributable to:				
Owners of the Company		39,964	311,716	(118,725)
Non-controlling interests		3,890	30,344	57,644
		43,854	342,060	(61,081)

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 US\$'000 (Note 11)	2017 HK\$'000	2016 HK\$'000
Non-current assets				
Fixed assets				
- Investment properties		705,466	5,502,632	5,378,426
- Other property, plant and equipment		33,861	264,119	264,524
		739,327	5,766,751	5,642,950
Prepayments for fixed assets		527	4,110	-
Goodwill		766	5,976	5,976
Interest in an associated company		759	5,920	6,053
Deferred tax assets		3,739	29,165	28,982
		745,118	5,811,922	5,683,961
Current assets				
Inventories		2,936	22,904	15,422
Trade receivables	9	21,877	170,640	175,692
Deposits paid, other receivables and prepayments		5,952	46,426	87,468
Taxation recoverable		2,230	17,391	22,534
Financial assets at fair value through profit or loss		17,687	137,955	114,267
Cash and bank balances		182,516	1,423,626	1,388,706
		233,198	1,818,942	1,804,089
Current liabilities				
Bank loans		61,298	478,125	497,275
Trade payables	10	3,349	26,126	18,598
Deposits received, other payables and accrued charges		25,401	198,124	175,430
Loan from an associated company		748	5,831	5,831
Provisions		5,405	42,157	37,749
Taxation payable		2,099	16,376	6,969
		98,300	766,739	741,852
Net current assets		134,898	1,052,203	1,062,237
Total assets less current liabilities		880,016	6,864,125	6,746,198

	2017 <i>Note</i> US\$'000 (<i>Note 11</i>)	2017 HK\$'000	2016 <i>HK\$'000</i>
Non-current liabilities			
Bank loans	13,237	103,250	5,800
Deferred tax liabilities	3,977	31,023	30,589
	17,214	134,273	36,389
Net assets	862,802	6,729,852	6,709,809
Equity			
Share capital	2,600	20,278	21,582
Reserves	792,206	6,179,207	6,118,249
Equity attributable to the owners of the Company	794,806	6,199,485	6,139,831
Non-controlling interests	67,996	530,367	569,978
Total equity	862,802	6,729,852	6,709,809

Notes:

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial statements have been prepared under the historical cost basis except for investment properties and financial assets at fair value through profit or loss which are stated at fair values.

The accounting policies used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016, except for the adoption of the new or amended HKFRSs which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2017. 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 amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

Relevant disclosure has been made in the financial statements upon the adoption of amendments to HKAS 7 "*Statement of cash flows: Disclosure Initiative*", which requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

3. Revenue and segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	2017	2016
	HK\$'000	HK\$'000
Sale of toys	758,329	992,933
Rental income from investment properties	204,493	201,223
Property management income	18,219	17,457
Restaurant income	22,742	24,960
Dividend income	2,870	13,301
Interest income	2,608	852
Total revenue	1,009,261	1,250,726

Segment results, assets and liabilities

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 reports reviewed by the senior executive management of the Group that are used to make strategic decision, the Group has presented the following three reportable segments.

Property investments and associated businesses: this segment invests and leases commercial, industrial and residential premises for rental income, to gain from the appreciation in properties' values in the long term and to provide property management services for property management fee income, and operates restaurants.

Investment business: this segment invests in financial instruments including listed equity and managed funds for interest income and dividend income and to gain from the appreciation in instruments' values.

Toy business: this segment engages in the design, development, marketing and distribution of toys and family entertainment activity products.

The Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment to assess segment performance and allocate resources between segments.

Inter-segment revenue represents inter-company rental and property management fee charged on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

The segment results for the year ended 31 December 2017 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross segment revenue	257,936	5,478	758,329	1,021,743
Inter-segment revenue	<u>(12,482)</u>	-	-	<u>(12,482)</u>
Revenue from external customers	<u>245,454</u>	<u>5,478</u>	<u>758,329</u>	<u>1,009,261</u>
Segment profit before depreciation	279,775	34,840	79,451	394,066
Depreciation	<u>(12,599)</u>	-	<u>(5,320)</u>	<u>(17,919)</u>
Segment operating profit	<u>267,176</u>	<u>34,840</u>	<u>74,131</u>	<u>376,147</u>
Other net (loss)/income	(3,750)	-	20,263	16,513
Finance costs	(12,867)	(16)	(5,735)	(18,618)
Share of loss of an associated company	-	-	(133)	(133)
	<u>(16,617)</u>	<u>(16)</u>	<u>14,395</u>	<u>(2,238)</u>
Segment profit before income tax	<u>250,559</u>	<u>34,824</u>	<u>88,526</u>	<u>373,909</u>
Unallocated corporate expenses				<u>(1,790)</u>
Profit before income tax				<u>372,119</u>
Interest income	-	2,608	10,572	
Revaluation surplus on investment properties	81,136	-	-	
Net gain on financial assets at fair value through profit or loss	-	29,754	4,424	

The segment results for the year ended 31 December 2016 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross segment revenue	255,751	14,153	992,933	1,262,837
<u>Inter-segment revenue</u>	<u>(12,111)</u>	<u>-</u>	<u>-</u>	<u>(12,111)</u>
Revenue from external customers	243,640	14,153	992,933	1,250,726
Segment (loss)/profit before depreciation	(108,753)	10,611	177,370	79,228
<u>Depreciation</u>	<u>(10,251)</u>	<u>-</u>	<u>(2,114)</u>	<u>(12,365)</u>
<u>Segment operating (loss)/profit</u>	<u>(119,004)</u>	<u>10,611</u>	<u>175,256</u>	<u>66,863</u>
Other net (loss)/income	(2,287)	-	6,065	3,778
<u>Finance costs</u>	<u>(11,028)</u>	<u>(29)</u>	<u>(5,199)</u>	<u>(16,256)</u>
	<u>(13,315)</u>	<u>(29)</u>	<u>866</u>	<u>(12,478)</u>
<u>Segment (loss)/profit before income tax</u>	<u>(132,319)</u>	<u>10,582</u>	<u>176,122</u>	<u>54,385</u>
Unallocated corporate expenses				<u>(11,146)</u>
Profit before income tax				<u>43,239</u>
Interest income	-	852	3,773	
Revaluation deficit on investment properties	(302,806)	-	-	
Net (loss)/gain on financial assets at fair value through profit or loss	-	(2,730)	3,771	

The segment assets and liabilities as at 31 December 2017 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	5,815,481	508,199	1,254,764	7,578,444
Interest in an associated company	-	-	5,920	5,920
Total reportable segment assets	5,815,481	508,199	1,260,684	7,584,364
Inter-segment elimination	-	-	(1,669)	(1,669)
Deferred tax assets				29,165
Taxation recoverable				17,391
Unallocated assets				<u>1,613</u>
Total assets				<u>7,630,864</u>
Reportable segment liabilities	629,130	-	224,064	853,194
Inter-segment elimination	(1,669)	-	-	(1,669)
Deferred tax liabilities				31,023
Taxation payable				16,376
Unallocated liabilities				<u>2,088</u>
Total liabilities				<u>901,012</u>
Capital expenditure	27,960	-	10,943	

The segment assets and liabilities as at 31 December 2016 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	5,721,061	442,752	1,265,903	7,429,716
Interest in an associated company	-	-	6,053	6,053
Total reportable segment assets	5,721,061	442,752	1,271,956	7,435,769
Inter-segment elimination	-	-	(1,591)	(1,591)
Deferred tax assets				28,982
Taxation recoverable				22,534
Unallocated assets				<u>2,356</u>
Total assets				<u>7,488,050</u>
Reportable segment liabilities	548,041	-	191,532	739,573
Inter-segment elimination	(1,591)	-	-	(1,591)
Deferred tax liabilities				30,589
Taxation payable				6,969
Unallocated liabilities				<u>2,701</u>
Total liabilities				<u>778,241</u>
Capital expenditure	4,069	-	1,085	

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, prepayments for fixed assets, goodwill 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 fixed assets, the location of operation to which they are allocated in case of goodwill, and the location of operation in case of interest in an associated company.

	Revenue from external customers		Specified non-current assets	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Hong Kong (place of domicile)</u>	249,102	245,690	5,263,581	5,160,336
Americas				
- U.S.A.	495,951	744,888	198,461	198,780
- Others	49,206	43,740	-	-
Europe	164,350	148,441	228,338	208,174
Asia Pacific other than Hong Kong	45,405	61,455	92,377	87,689
Others	5,247	6,512	-	-
	760,159	1,005,036	519,176	494,643
	1,009,261	1,250,726	5,782,757	5,654,979

Major customers

The Group's customer base includes five (2016: 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\$186,022,000, HK\$153,972,000, HK\$126,885,000, HK\$114,339,000 and HK\$107,504,000 (2016: HK\$362,691,000, HK\$153,844,000 and HK\$149,074,000) respectively.

4. Other net income

	2017	2016
	HK\$'000	HK\$'000
Net foreign exchange loss	(3,750)	(2,285)
Net investment gain and income from Playmates Toys' treasury investments	15,232	8,029
<u>Others</u>	5,032	(1,959)
	16,514	3,785

5. Profit before income tax

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cost of inventories sold	305,257	361,818
Reversal of write-down of inventories	-	(181)
Write-down of inventories	184	-
Product development costs	8,248	11,752
Royalties expense	113,889	136,328
Direct operating expenses arising from investment properties that generate rental income	4,445	4,747
Direct operating expenses arising from investment properties that did not generate rental income	752	1,165
Provision for consumer returns, cooperative advertising and cancellation charges	21,211	48,064
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(1,274)	(1,662)
Depreciation of other property, plant and equipment	18,553	13,176
Directors' and staff remunerations	97,362	101,307
Allowance for impairment of trade receivables	-	643
Allowance for customer concession	13,598	1,395
Operating leases expense on office	2,692	2,642
(Gain)/Loss on disposal of other property, plant and equipment	(53)	94
Auditors' remuneration	1,800	1,850

6. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	35,469	38,949
Overseas taxation	26,305	48,123
Under provision in prior years – overseas	-	1,994
Over provision in prior years – Hong Kong	(100)	(168)
	61,674	88,898
Deferred taxation		
Origination and reversal of temporary differences	(6,609)	6,829
Impact of change in US tax rate (<i>Note</i>)	6,867	-
	258	6,829
Income tax expense	61,932	95,727

Note: This amount related to the impact of U.S. tax legislation that was passed into law on 22 December 2017 (“US Tax Reform”), which lowered the U.S. federal tax rate for corporation from 35% to 21% effective from 1 January 2018.

7. Dividends

(a) Dividends attributable to the year

	2017 HK\$'000	2016 HK\$'000
First interim dividend of HK cents 1.00 per share (2016: HK cents 0.75 per share*)	20,608	16,200
First special interim dividend of HK cents 2.00 per share (2016: HK cents nil per share*)	41,216	-
Second interim dividend of HK cents 1.00 per share (2016: HK cents 0.75 per share*)	20,089	16,050
Second special interim dividend of HK cents 2.00 per share (2016: HK cents nil per share*)	40,177	-
Special interim dividend of HK cents nil per share (2016: HK cents 1.50 per share*)	-	32,100
	122,090	64,350

At a meeting held on 25 August 2017, the board of directors declared a first interim dividend of HK cents 1.00 per share and a first special interim dividend of HK cents 2.00 per share, which was paid on 29 September 2017.

At a meeting held on 5 March 2018, the board of directors declared a second interim dividend of HK cents 1.00 per share and a second special interim dividend of HK cents 2.00 per share to be paid on 11 April 2018 to shareholders whose names appear on the Company's register of members on 22 March 2018. This second interim dividend and second special interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2017.

(b) Dividends attributable to previous financial year and paid during the year

	2017 HK\$'000	2016 HK\$'000
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 0.75 per share* (2016: HK cents 0.75 per share*)	16,050	16,200
Special interim dividend of HK cents 1.50 per share* (2016: HK cents 1.30 per share*)	32,100	28,080
	48,150	44,280

* An ordinary resolution was passed at the annual general meeting of the Company held on 18 May 2017 approving the subdivision of every one issued and unissued share of par value of HK\$0.10 each into ten subdivided shares of par value of HK\$0.01 each ("Share Subdivision"). These dividend per share amounts have been adjusted to take into account the effect of the Share Subdivision.

8. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK\$282,196,000 (2016: loss of HK\$110,132,000) and the weighted average number of ordinary shares of 2,084,891,000 shares (2016: 2,161,580,000 shares, adjusted to take into account the effect of the Share Subdivision as detailed in Note 7(b)) in issue during the year.

Diluted earnings per share for the year ended 31 December 2017 equals to the basic earnings per share as there were no potential ordinary shares.

Diluted loss per share for the year ended 31 December 2016 equals to the basic loss per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted loss per share.

The dilutive effect of the share options issued by the Group's listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2017 and 2016.

9. Trade receivables

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. For property investments and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	126,361	118,291
61 – 90 days	34,096	43,159
91 – 180 days	2,442	9,981
Over 180 days	7,741	4,261
	170,640	175,692

10. Trade payables

The following is an aging analysis of trade payables based on the invoice date at the end of the reporting period:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	22,583	14,515
31 – 60 days	2,647	3,092
Over 60 days	896	991
	26,126	18,598

11. 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 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Overview

Playmates Holdings group global revenue for the year ended 31 December 2017 was HK\$1,009.3 million (2016: HK\$1,250.7 million); reflected a decrease of 19.3% compared to the prior year. The Group reported an operating profit of HK\$374.9 million (2016: HK\$55.8 million) and net profit attributable to shareholders was HK\$282.2 million (2016 net loss attributable to shareholders: HK\$110.1 million). Basic earnings per share was HK cents 13.54 (2016 basic loss per share: HK cents 5.10). Net asset value per share was HK\$3.32 as at 31 December 2017 (2016: HK\$3.11).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2017 was HK\$245.5 million (2016: HK\$243.6 million), reflecting a 0.8% increase compared to the prior year. Revenue from the property investments and property management businesses increased 1.8% to HK\$222.7 million (2016: HK\$218.7 million), while revenue from the food and beverage business decreased by 9.2% to HK\$22.7 million (2016: HK\$25.0 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$5.5 billion (2016: HK\$5.4 billion). A revaluation surplus of HK\$81.1 million (2016: deficit of HK\$302.8 million) was reported in the consolidated income statement of the Group. Segment operating profit was HK\$267.2 million including revaluation surplus, compared to segment operating loss of HK\$119.0 million including revaluation deficit for 2016.

(a) Property Investments

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes a number of overseas investment properties in the United Kingdom, the United States of America and Japan, which accounted for 8.1% of the fair value of the Group's overall investment property portfolio (2016: 7.9%).

Aggregate rental income generated from the investment properties of the Group was HK\$204.5 million, an increase of 1.6% from the prior year (2016: HK\$201.2 million). Overall occupancy rate was 80% as at 31 December 2017 (2016: 87%).

(i) Commercial

The Group's investments in commercial properties consist of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With a flagship store of a leading global brand, the building is a landmark on Canton Road, which is one of the premier shopping districts in Hong Kong that has benefited from the recent return in growth of mainland Chinese tourists.

(ii) **Residential**

The Group's principal investments in residential properties include a number of units in Hillview on Macdonnell Road, Mid-Levels, Hong Kong. The demand for luxury residential units in Hong Kong Mid-Levels continued to be subdued throughout 2017. Over the longer term, we remain confident that Hillview will benefit from resilient demand for and limited supply of up-market residential properties in Mid-Levels.

We continue to explore leasing opportunities for the overseas residential properties.

(iii) **Industrial**

The Group's investments in industrial properties consist of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. We are optimistic that this investment will benefit from further developments in Tuen Mun.

(b) **Property Management**

The Group engaged Savills Property Management Limited ("Savills") to manage The Toy House and Playmates Factory Building. Savills provides comprehensive property management services, including repair and maintenance, building security, general cleaning for common areas, hand-over and take-over of premises, and the monitoring of reinstatement and refurbishment works.

Income generated from the property management business segment was HK\$18.2 million, an increase of 4.0% from prior year (2016: HK\$17.5 million).

(c) **Food & Beverage Business**

Revenue generated from the food and beverage business for the year decreased by 9.2% to HK\$22.7 million (2016: HK\$25.0 million).

While we maintain a favorable long term view of our property investments and associated businesses, we will continue to adjust the balance of our property portfolio to achieve our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

Playmates Toys

Playmates Toys group worldwide turnover for the year ended December 31, 2017 was HK\$758 million (2016: HK\$993 million), a decrease of 24% compared to the prior year. The decrease in turnover was driven by contraction in our *Teenage Mutant Ninja Turtles*[®] ("TMNT") business, partially offset by contribution from Playmates Toys' new brands, including *Ben 10*^{TM & ©} and *Voltron*[®]. The decline in TMNT sales reflected intensified competitive pressure and a planned transition into the brand's next iteration in Fall 2018, whereas revenue in 2016 had been boosted by shipments of products related to the TMNT movie.

The US continued to be Playmates Toys' biggest market in 2017, contributing 65.4% of revenue. Europe as a whole contributed 21.6%, the rest of the Americas 6.5% and 5.8% came from Asia Pacific. According to The NPD Group, the leading provider of toys point-of-sale market research data, the US toy market recorded a slight increase of 1.0%¹ in retail sales, despite a challenging retail

¹ Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2017.

environment. The Action Figure category experienced a meaningful year-over-year decline despite several major action adventure brands were backed by major movie releases. Several of our key international markets were impacted by the continued relative strength of the US dollar.

Gross profit ratio on toy sales was 54.2% (2016: 60.0%). The decrease in gross profit ratio was attributable to a higher percentage of overall sales generated in international markets with lower gross margin, as well as a moderate level of clearance of non-carryforward products in the US market. Recurring operating expenses decreased by 19.8% from 2016, reflecting lower marketing, selling, and distribution expenses, and tight discipline on overhead expenses.

Playmates Toys group reported a net profit for 2017 of HK\$56 million, a decrease of 49.1% compared to prior year (2016: HK\$110 million).

Portfolio Investments

The Group engages in portfolio investments which involve investing in listed equity shares and managed funds. The investment policy provides for a set of prudent guidance and control framework to achieve the objective of managing a portfolio that is highly liquid and offers reasonable risk-adjusted returns through capital appreciation and dividend and interest income.

As at 31 December 2017, fair market value of the Group's investment portfolio was HK\$119.4 million (2016: HK\$91.1 million). The Group reported a net gain from investments of HK\$29.8 million in 2017, compared to a net loss of HK\$2.7 million in 2016. In 2017, dividend and interest income generated from the portfolio were HK\$5.5 million (2016: HK\$14.2 million) and have been included in the revenue of the Group.

The Group will remain vigilant in monitoring and balancing the investment portfolio, taking into account developments in major global economies and securities markets.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. As a result, a disproportionately high balance of trade receivables is typically 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 31 December 2017, trade receivables related to toy operation were HK\$169,379,000 (2016: HK\$174,841,000) and inventories related to toy operation were at a seasonal low level of HK\$22,728,000 (2016: HK\$15,236,000) or 3.0% (2016: 1.5%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 87% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2017 (2016: 94%). Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2017, the Group's financial assets at fair value through profit or loss amounted to HK\$137,955,000 (2016: HK\$114,267,000) of which HK\$18,595,000 was held by Playmates Toys for treasury investments (2016: HK\$23,195,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2017 was 7.6% compared to 6.7% at 31 December 2016. The current ratio, calculated as the ratio of current assets to current liabilities, remained 2.4 at 31 December 2017 and 2016.

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 31 December 2017, the Group's cash and bank balances were HK\$1,423,626,000 (2016: HK\$1,388,706,000), of which HK\$1,202,748,000 (2016: HK\$1,190,710,000) was denominated in United States dollar, HK\$27,823,000 (2016: HK\$24,317,000) in British pound, HK\$52,548,000 (2016: HK\$Nil) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year, 6,682,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$9.90 to HK\$12.00 per share and 63,180,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.02 to HK\$1.15 per share through The Stock Exchange of Hong Kong Limited.

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 Listing Rules throughout the year ended 31 December 2017, 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 one code provision providing for the segregation of the roles of the chairman and the chief executive officer, since the former chairman of the board, who also acted as the chief executive officer of the Company, retired on 18 May 2017, the Company does not have a designated chief executive officer. The board oversees the management, businesses, strategy and financial performance of the Group. The day-to-day business of the Group is handled by the executive directors collectively. 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 adequate to ensure an effective management and control of the Group's businesses and operations. 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 the risk management and internal control system, the effectiveness of the internal audit function and financial reporting matters including a review of the accounts for the year ended 31 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 March 2018 to 22 March 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 20 March 2018. The second interim dividend and second special interim dividend will be paid on 11 April 2018 to the shareholders on the Register of Members of the Company on 22 March 2018.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 5 March 2018

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

Mr. To Shu Sing, Sidney (*Chairman*), Ms. Chan, Helen (*Executive Director*), Mr. Cheng Bing Kin, Alain (*Executive Director*), Mr. Ip Shu Wing, Charles (*Independent Non-executive Director*), Mr. Lee Peng Fei, Allen (*Independent Non-executive Director*), Mr. Lo Kai Yiu, Anthony (*Independent Non-executive Director*), Mr. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)