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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 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
For the six months ended 30 June		
Revenue	835,235	596,185
Gross profit	517,501	373,438
Operating profit	266,882	200,036
Profit before income tax	263,914	195,647
Income tax (expense)/credit	(88,410)	15,364
Profit attributable to equity holders of the Company	175,504	211,011
Earnings per share	<i>HK cents</i>	<i>HK cents</i>
- Basic	14.93	18.24
- Diluted	14.59	18.02
Interim dividend per share	5.00	Nil

Playmates Toys group worldwide turnover during the first half of 2014 was HK\$835 million (same period in 2013: HK\$596 million), an increase of 40.1% compared to the prior year period. The increase in turnover was driven mainly by the initial shipments of products related to the *Teenage Mutant Ninja Turtles*® (“*TMNT*”) movie, as well as expanded *TMNT* product line and distribution territories compared to the prior year period. Since the initial shipments of *TMNT* movie products during the period were intended for sales by our customers in the second half of 2014, they may have skewed the seasonality pattern in favor of our turnovers in the first half of the year.

Gross profit ratio on toy sales was 62.0% (same period in 2013: 62.6%). The decrease in gross profit ratio was attributable to additional tooling expenses related to new product segments. Recurring operating expenses increased by 44.5% compared to the prior year period, reflecting higher marketing and promotional expenses, and increased overhead expenses.

The group reported an operating profit for the period of HK\$267 million (same period in 2013: HK\$200 million). Net profit attributable to shareholders during the first half of 2014 was HK\$176 million (same period in 2013: HK\$211 million), reflecting the impact of a normalized tax rate in 2014 as tax credits due to accumulated losses in prior years were substantially utilized during 2013. The tax expense of HK\$88 million during the first half of 2014 included approximately HK\$2.6 million and HK\$3.0 million of adjustments related to prior year tax under provision and prior year unrecognized deferred tax items respectively. Excluding these adjustments, the effective tax rate would have been 31.4% during the first half of 2014.

During the period, our key markets in North America continued their recovery. Consumer confidence in the US continued to improve with strengthening employment, rising home prices, easier access to credit and stock market gains. According to NPD, the leading provider of toys point-of-sale market research data, overall US retail toy industry retail sales in the first six months of 2014 were up in dollar terms by about 1% compared to the same period last year. In Europe however, economic conditions, in particular retail and distribution activities, were dampened by the uncertainties generated by the political crisis in the Crimean Peninsula.

While uncertainties and risks remain in our operating environment, we are confident that sales of *TMNT* products, driven by sustained popularity of the Nickelodeon® TV show, the release of the summer blockbuster movie from Paramount Pictures™ & ©, and introduction of innovative new products, will continue to be strong in the second half of 2014. We expect our performance in terms of turnover and operating profit for the whole year will be better than 2013, although the year-on-year growth may not reflect the magnitude reported for the first half of the year.

The Board declared a HK Cents 5 per share interim dividend distribution.

Brand Overview

Teenage Mutant Ninja Turtles®

Nickelodeon's® *TMNT* TV show continues to achieve top ratings with the core boys' audience in the US. New premier episodes have consistently ranked number one among the target boys audience in the time period. The pipeline of fresh entertainment content remains strong with Season 3 premiering in Fall 2014. Nickelodeon® has recently confirmed plans to continue to propel the momentum of this global hit franchise by the green-lighting of Season 4, expected to debut in Fall 2015.

The blockbuster movie from Paramount Pictures™ & © was released in early August in a number of major markets. It ranked number one in gross box office receipts in its opening weekend in the US and prompted Paramount™ & © to announce that it is moving forward with plans for a sequel to be released in 2016. The global rollout is expected to continue with upcoming releases in several European markets in September and October, and in Japan in December.

Driven by the sustained popularity of the TV show, Playmates' *TMNT* toys continued to perform well at retail, although competition did pick up during the Spring/Early Summer period with the release of several major action adventure movies. According to NPD, *TMNT* remained the number one action figure brand in the US for the first half of 2014. For the Fall selling season, in addition to core product line extensions, we are introducing a new *TMNT* product segment developed specifically for younger kids. The planned 2015 product line, which includes more new segments, including one with the *Mutations*™ theme, has received enthusiastic response from the trade.

In tandem with the global rollout of the TV show, distribution of our **TMNT** toys has reached most major markets/territories, including China and Japan beginning in the first half of 2014. According to reports from distribution partners, **TMNT** continued to rank among the top three brands in the action figure category in Australia, Canada, France, Germany, Italy, Russia, Spain and the UK.

Girls Brands

Hearts For Hearts Girls[®], the line of multicultural dolls with a philanthropic theme, has now extended to 12 **Hearts For Hearts Girls**[®] with the introduction of **Nyasha** from Harlem, and **Surjan** from Nepal. Distribution support from major US retailers for the brand will further expand in the Fall selling season.

Waterbabies[®] maintained a steady sales pace during the period. Planned expansions to the line include further extensions to the classic **Dream to Be** baby doll assortment and the series of collectible **Wee Waterbabies**.

In addition to investing in line extensions and new product segments for our current brands, we are actively pursuing selective new opportunities that are good fits for our core competence.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement

For the six months ended 30 June 2014

	Note	Unaudited		
		Six months ended 30 June		
		2014	2014	2013
		US\$'000	HK\$'000	HK\$'000
		(Note 11)		
Revenue	3	107,772	835,235	596,185
Cost of sales		(40,998)	(317,734)	(222,747)
Gross profit		66,774	517,501	373,438
Marketing expenses		(19,620)	(152,057)	(104,962)
Selling and distribution expenses		(4,984)	(38,623)	(19,546)
Administration expenses		(7,734)	(59,939)	(48,894)
Operating profit		34,436	266,882	200,036
Other income		269	2,081	409
Finance costs		(438)	(3,397)	(3,073)
Share of loss of an associated company		(213)	(1,652)	(1,725)
Profit before income tax	4	34,054	263,914	195,647
Income tax (expense)/credit	5	(11,408)	(88,410)	15,364
Profit for the period attributable to equity holders of the Company		22,646	175,504	211,011
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7			
Basic		1.93	14.93	18.24
Diluted		1.88	14.59	18.02

Condensed Consolidated Statement of Comprehensive Income*For the six months ended 30 June 2014*

	Unaudited		
	Six months ended 30 June		
	2014	2014	2013
	US\$'000	HK\$'000	HK\$'000
	(Note 11)		
Profit for the period	22,646	175,504	211,011
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	164
Total comprehensive income for the period attributable to equity holders of the Company	22,646	175,504	211,175

Condensed Consolidated Balance Sheet
As at 30 June 2014

		Unaudited 30 June 2014 US\$'000 (Note 11)	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Non-current assets				
Property, plant and equipment		335	2,598	1,172
Interest in an associated company		1,180	9,143	10,795
Deferred tax assets		3,639	28,204	44,071
		5,154	39,945	56,038
Current assets				
Inventories		10,017	77,636	36,959
Trade receivables	8	40,750	315,809	411,831
Deposits paid, other receivables and prepayments		2,512	19,467	20,985
Taxation recoverable		4,333	33,579	-
Cash and bank balances		81,312	630,167	519,563
		138,924	1,076,658	989,338
Current liabilities				
Trade payables	9	14,933	115,730	58,963
Deposits received, other payables and accrued charges		19,976	154,810	197,142
Provisions		2,608	20,213	35,329
Taxation payable		6,237	48,340	2,199
		43,754	339,093	293,633
Net current assets		95,170	737,565	695,705
Net assets		100,324	777,510	751,743
Equity				
Share capital		1,548	11,998	11,798
Reserves		90,998	705,235	680,673
Declared dividends	6	7,778	60,277	59,272
Total equity		100,324	777,510	751,743

Notes to the Condensed Consolidated Financial Information

1. Basis of preparation and accounting policies

This condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This condensed consolidated financial information should be read in conjunction with the 2013 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 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and one new interpretation that are first effective for the current accounting period of the Group and the Company:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) 21	Levies

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

3. Segment information

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

3.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, and interest in an associated company ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of property, plant and equipment, and the location of operation in case of interest in an associated company.

	Revenue		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	1,441	646	10,763	11,332
Americas				
- U.S.A.	561,944	369,181	978	635
- Others	65,006	40,337	-	-
Europe	151,341	133,180	-	-
Asia Pacific other than				
Hong Kong	51,678	50,237	-	-
Others	3,825	2,604	-	-
	833,794	595,539	978	635
	835,235	596,185	11,741	11,967

3.2 Major customers

The Group's customer base is diversified and includes three (2013: 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\$254.6 million, HK\$131.8 million and HK\$95.4 million (2013: HK\$156.1 million, HK\$102.5 million, HK\$73.1 million and HK\$70.9 million) respectively.

4. Profit before income tax

Profit before income tax is stated after charging the following:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Cost of inventories sold	296,186	213,539
Product development costs	3,466	3,185
Royalties paid	113,961	75,396
Directors' and staff remunerations	34,038	29,981
<u>Depreciation of property, plant and equipment</u>	<u>370</u>	<u>352</u>

5. Income tax expense/(credit)

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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	
	2014	2013
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	47,940	145
Overseas taxation	31,554	16,411
<u>Under provision in prior years – overseas</u>	<u>2,585</u>	<u>-</u>
	<u>82,079</u>	<u>16,556</u>
Deferred taxation		
<u>Origination and reversal of temporary differences</u>	<u>6,331</u>	<u>(31,920)</u>
<u>Income tax expense/(credit)</u>	<u>88,410</u>	<u>(15,364)</u>

6. Dividends

6.1 Dividends attributable to the interim period

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.05 (2013: HK\$nil) per share	60,277	-

At a meeting held on 29 August 2014, the board of directors declared an interim dividend of HK\$0.05 per share to be paid on 7 October 2014 to shareholders on the Company's Register of Members on 24 September 2014. This interim dividend declared after the balance sheet date has not been recognised as liabilities in this condensed consolidated financial information for the six months ended 30 June 2014.

6.2 Dividends attributable to the previous financial year and paid during the interim period

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Dividends in respect of the previous financial year and paid during the interim period:		
Interim dividend of HK\$0.05 (2013: HK\$nil) per share	59,983	-
Special dividend of HK\$0.10 (2013: HK\$nil) per share (<i>Note</i>)	119,966	-
	179,949	-

Note:

A special dividend of HK\$0.10 per share was approved at the Annual General Meeting on 19 May 2014 and was paid during the interim period.

7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$175,504,000 (2013: HK\$211,011,000) and the weighted average number of ordinary shares of 1,175,730,000 shares (2013: 1,157,022,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$175,504,000 (2013: HK\$211,011,000) and the weighted average number of ordinary shares of 1,202,942,000 shares (2013: 1,170,685,000 shares) in issue during the period, adjusted for the effects of 27,212,000 (2013: 13,663,000) dilutive potential shares on exercise of share options.

8. Trade receivables

	30 June 2014 <i>HK\$'000</i>	31 December 2013 <i>HK\$'000</i>
Trade receivables	315,809	411,831
Less: Allowance for customer concession	-	-
	315,809	411,831

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

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

	30 June 2014 <i>HK\$'000</i>	31 December 2013 <i>HK\$'000</i>
0 – 30 days	306,587	406,089
31 – 60 days	2,318	3,407
Over 60 days	6,904	2,335
	315,809	411,831

9. Trade payables

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

	30 June 2014 <i>HK\$'000</i>	31 December 2013 <i>HK\$'000</i>
0 – 30 days	112,722	55,998
31 – 60 days	1,868	2,682
Over 60 days	1,140	283
	115,730	58,963

10. Share premium reduction

At the Annual General Meeting of the Company held on 19 May 2014, the shareholders of the Company approved that HK\$350,096,000 being the entire amount standing to the credit of the share premium account of the Company as at the date of the meeting be reduced to nil and the credit arising therefrom be transferred to the contributed surplus account of the Company.

11. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 30 June 2014.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. In general, sales in the second half-year are higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 30 June 2014, trade receivables were HK\$315,809,000 (31 December 2013: HK\$411,831,000) and inventories were HK\$77,636,000 (31 December 2013: HK\$36,959,000). The higher inventories at interim period end resulted from a continued strong pickup in customer orders during the period, including those related to the launch of the *TMNT* movie.

The associated company reported losses for the period. As at 30 June 2014, the interest in an associated company was HK\$9,143,000 (31 December 2013: HK\$10,795,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 3.2 at 30 June 2014 compared to 3.4 at 31 December 2013.

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 2014, the Group's cash and bank balances were HK\$630,167,000 (31 December 2013: HK\$519,563,000), of which HK\$576,520,000 (31 December 2013: HK\$476,126,000) was denominated in United States dollar and the remaining balance was denominated in Hong Kong dollar.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with all the applicable code provisions (“Code Provisions”) of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014, except in respect of one Code Provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals.

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 September 2014 to 24 September 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on 22 September 2014. The interim dividend will be paid on 7 October 2014 to the shareholders on the Register of Members of the Company on 24 September 2014.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 29 August 2014

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*)