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PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2014 as follows:

Consolidated Income Statement

For the year ended 31 December 2014

	Note	2014 US\$'000 (Note 10)	2014 HK\$'000	2013 HK\$'000
Revenue	3	278,736	2,160,206	1,658,527
Cost of sales		(106,305)	(823,862)	(616,793)
Gross profit		172,431	1,336,344	1,041,734
Marketing expenses		(51,449)	(398,729)	(288,976)
Selling and distribution expenses		(16,866)	(130,709)	(82,299)
Administration expenses		(20,473)	(158,668)	(123,917)
Operating profit		83,643	648,238	546,542
Other income		354	2,742	1,555
Finance costs		(1,211)	(9,387)	(7,534)
Share of loss of an associated company		(733)	(5,681)	(906)
Profit before income tax	4	82,053	635,912	539,657
Income tax expense	5	(18,741)	(145,240)	(6,283)
Profit for the year attributable to equity holders of the Company		63,312	490,672	533,374

	<i>Note</i>	2014 <i>US cents</i> <i>(Note 10)</i>	2014 <i>HK cents</i>	2013 <i>HK cents</i>
Earnings per share	7			
Basic		5.35	41.44	45.73
Diluted		5.26	40.75	44.66

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 <i>US\$'000</i> <i>(Note 10)</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit for the year	63,312	490,672	533,374
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	164
Reclassified to profit or loss on dissolution of foreign subsidiaries	(68)	(531)	-
Total comprehensive income for the year attributable to equity holders of the Company	63,244	490,141	533,538

Consolidated Balance Sheet

As at 31 December 2014

		2014	2014	2013
	Note	US\$'000	HK\$'000	HK\$'000
		(Note 10)		
Non-current assets				
Property, plant and equipment		560	4,339	1,172
Interest in an associated company		660	5,114	10,795
Deferred tax assets		6,258	48,502	44,071
		7,478	57,955	56,038
Current assets				
Inventories		5,699	44,165	36,959
Trade receivables	8	68,352	529,727	411,831
Deposits paid, other receivables and prepayments		2,525	19,567	20,985
Cash and bank balances		101,391	785,784	519,563
		177,967	1,379,243	989,338
Current liabilities				
Trade payables	9	10,030	77,734	58,963
Deposits received, other payables and accrued charges		24,932	193,223	197,142
Provisions		5,912	45,819	35,329
Taxation payable		10,847	84,061	2,199
		51,721	400,837	293,633
Net current assets		126,246	978,406	695,705
Net assets		133,724	1,036,361	751,743
Equity				
Share capital		1,556	12,062	11,798
Reserves		116,604	903,675	680,673
Declared dividends	6	15,564	120,624	59,272
Total equity		133,724	1,036,361	751,743

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”) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These 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 financial statements have been prepared under the historical cost basis.

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2013, except for the adoption of the new or amended Hong Kong Financial Reporting Standards which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2014. 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 and one new interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

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. Revenue and segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products. Turnover of the Group is the revenue from these activities.

Revenue recognised during the year ended 31 December 2014 from sales of toys was HK\$2,160,206,000 (2013: HK\$1,658,527,000).

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.

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	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong (place of domicile)	2,261	1,064	6,808	11,332
Americas				
- U.S.A.	1,563,541	1,114,966	2,645	635
- Others	126,627	84,505	-	-
Europe	366,586	356,293	-	-
Asia Pacific other than Hong Kong	90,743	95,864	-	-
Others	10,448	5,835	-	-
	2,157,945	1,657,463	2,645	635
	2,160,206	1,658,527	9,453	11,967

Major customers

The Group's customer base is diversified and includes four (2013: four) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK\$634.3 million, HK\$415.4 million, HK\$265.3 million and HK\$227.5 million (2013: HK\$466.0 million, HK\$295.7 million, HK\$216.1 million and HK\$215.8 million) respectively.

4. Profit before income tax

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

	2014	2013
	HK\$'000	HK\$'000
Cost of inventories sold	763,993	589,930
Write-down of inventories	720	21
Product development costs	7,062	8,005
Royalties paid	287,295	212,077
Provision for consumer returns, cooperative advertising and cancellation charges	90,737	56,656
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(296)	(451)
Depreciation of property, plant and equipment	948	723
Directors' and staff remunerations	105,445	84,115
Allowance for impairment of trade receivables	2,004	-
Operating leases expense on office and warehouse facilities	7,545	3,725
Net foreign exchange gain	(140)	(136)
Bank interest income	(2,742)	(1,555)

5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year. 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. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profits. The tax rate for federal tax is 35% (2013: 35%) whilst the tax rate for state tax of California, the principal place of business of the Company's major U.S. subsidiary is 8.84% (2013: 8.84%).

	2014	2013
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	81,085	509
Overseas taxation	53,894	49,709
Under provision in prior years – overseas	2,592	-
	137,571	50,218
Deferred taxation		
Origination and reversal of temporary differences	7,669	(43,935)
Income tax expense	145,240	6,283

6. Dividends

(a) Dividends attributable to the year

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2013: HK\$0.05) per share	60,313	59,272
Second interim dividend of HK\$0.05 (2013: HK\$nil) per share	60,312	-
Special interim dividend of HK\$0.05 (2013: HK\$nil) per share	60,312	-
Special dividend of HK\$nil (2013: HK\$0.10) per share	-	118,543
	180,937	177,815

At a meeting held on 29 August 2014, the board of directors declared a first interim dividend of HK\$0.05 per share, which was paid on 7 October 2014.

At a meeting held on 20 March 2015, the board of directors declared a second interim dividend of HK\$0.05 per share and a special interim dividend of HK\$0.05 per share to be paid on 5 May 2015 to shareholders whose names appear on the Company's register of members on 20 April 2015. This second interim dividend and special interim dividend declared after the balance sheet date have not been recognised as liabilities in the financial statements for the year ended 31 December 2014.

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
First 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 year.

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\$490,672,000 (2013: HK\$533,374,000) and the weighted average number of ordinary shares of 1,184,037,000 shares (2013: 1,166,329,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$490,672,000 (2013: HK\$533,374,000) and the weighted average number of ordinary shares of 1,204,219,000 shares (2013: 1,194,206,000 shares) in issue during the year, adjusted for the effects of 20,182,000 (2013: 27,877,000) dilutive potential shares on exercise of share options.

8. Trade receivables

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 based on the invoice date at the balance sheet date:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 30 days	515,580	406,089
31 – 60 days	4,713	3,407
Over 60 days	9,434	2,335
	<hr/> 529,727	<hr/> 411,831

9. Trade payables

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 30 days	76,067	55,998
31 – 60 days	517	2,682
Over 60 days	1,150	283
	<hr/> 77,734	<hr/> 58,963

10. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended 31 December 2014 was HK\$2,160 million (2013: HK\$1,659 million), an increase of 30.2% compared to the prior year. The significant increase in revenue was mainly attributed to strong sales of *Teenage Mutant Ninja Turtles*[®] (“*TMNT*” or “*Turtles*” or “*Ninja Turtles*”) products throughout the whole year, especially in the US market, driven by strong TV entertainment, a blockbuster movie from Paramount Pictures^{™ & ©}, and introduction of new product segments. Sales of *TMNT* products contributed over 95% of our revenue in 2014.

The US continued to be our biggest market in 2014, contributing 72% of revenue (2013: 67%). Europe as a whole contributed 17% (2013: 22%), the rest of the Americas 6% (2013: 5%), 3% Australasia (2013: 4%) and 2% (2013: 1%) came from Asia. During the year, the US market exhibited clear signs of economic growth and strengthening employment, rising home prices and stock market gains boosted confidence of consumers. According to NPD, the leading provider of toys point-of-sale market research data, 2014 US retail dollar sales of toys were up by about 4% year-on-year, the biggest growth since 2001.¹ On the other hand, key markets in Europe were impacted by the political uncertainty in the Crimean Peninsula as well as the significant weakening in major European currencies against the US Dollar starting in the second half of 2014.

Gross profit ratio on toy sales was 61.9% (2013: 62.8%). The slight decrease in gross profit ratio was primarily attributable to additional development and tooling expenses related to new product introductions. Recurring operating expenses were 31.9% of sales (2013: 29.9%), reflecting incremental marketing and promotional expenses to launch new product segments.

The group reported an operating profit for 2014 of HK\$648 million, an increase of 18.6% compared to prior year (2013: HK\$547 million). Net profit attributable to shareholders was HK\$491 million (2013: HK\$533 million), reflecting the impact of a normalized tax rate in 2014 (22.8%) as tax credits due to accumulated losses in prior years were substantially utilized during 2013. Basic earnings per share was HK Cents 41.44 (2013: HK Cents 45.73).

The Board declared an interim dividend distribution of HK Cents 5 per share and a special interim dividend of HK Cents 5 per share. Total dividend distribution for the year was HK Cents 15 per share (2013: HK Cents 15).

In 2015, there will be strong competitive pressure with several major action adventure movies driving competitive brands during the year, whereas the next *TMNT* movie is planned for summer 2016. On the macro level, we expect the US economic outlook to remain positive but continued weakness of the European currencies will impact the European markets and may exacerbate the ongoing adverse business conditions in Europe.

We will continue with the proven strategy of focusing our resources and efforts to manage our established brands for long term profitability while actively but selectively identify and acquire new investment opportunities.

¹ Source: The NPD Group/Retail Tracking Services; Dollars, 52 weeks vs. YAG (1/5/2014-1/3/2015 vs. 1/6/2013-1/4/2014)

Brand Overview

Teenage Mutant Ninja Turtles[©]

In 2014, sales of **TMNT** products reached new height driven by the continued popularity of the Nickelodeon[©] animated TV series throughout Season 2 and the beginning of Season 3. The late summer blockbuster movie from Paramount Pictures^{TM & ©} also provided a powerful boost to the brand.

The **Half-Shell Heroes**TM segment, developed specifically for younger kids, had a successful launch in Fall 2014. In 2014, **TMNT** continued to rank among the top selling brands in the action figure category not only in the US, but also in Australia, Canada, France, Germany, Italy, Spain, the UK as well as major Latin American markets.

The 2015 **TMNT** entertainment program will benefit from the introduction of new themes, new environments and new characters in Season 3 and Season 4 of the Nickelodeon[©] TV show. In addition to refreshing and extending the established core product line in tandem with TV content, we are introducing multiple new product segments. With the new **Mutations**TM segment, kids can recreate the **Turtles**' mutation, by transforming the four heroes from pet turtles to **Ninja Turtles**, or by mixing and matching parts of different figures to create hundreds of different mutations. We are also launching the **T-Machines**TM line this year, featuring an all-new collection of vehicles and playsets, offering a unique play environment for kids. In 2015, we are expanding the **Half-Shell Heroes**TM segment by introducing foam-based role-play items as well as toys designed for bath tub play.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2014, trade receivables were HK\$29,727,000 (2013: HK\$411,831,000) and inventories were at a seasonal low level of HK\$44,165,000 or 2.0% of turnover (2013: HK\$36,959,000 or 2.2% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was both 3.4 at 31 December 2014 and 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 31 December 2014, the Group's cash and bank balances were HK\$785,784,000 (2013: HK\$519,563,000), of which HK\$735,687,000 (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 year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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 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 consolidated financial information for the year ended 31 December 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 April 2015 to 20 April 2015, 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 16 April 2015. The interim dividend and special interim dividend will be paid on 5 May 2015 to the shareholders on the Register of Members of the Company on 20 April 2015.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 20 March 2015

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*)