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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 2015

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2015	2014
For the six months ended 30 June	HK\$'000	HK\$'000
Revenue	687,679	835,235
Gross profit	434,279	517,501
Operating profit	215,080	266,882
Profit before income tax	210,545	263,914
Income tax expense	(54,206)	(88,410)
Profit attributable to equity holders of the Company	156,339	175,504
Earnings per share	HK cents	HK cents
- Basic	13.18	14.93
- Diluted	13.04	14.59
Interim dividend per share	5.00	5.00

Playmates Toys group worldwide turnover during the first half of 2015 was HK\$688 million (same period in 2014: HK\$835 million), a decrease of 17.7% compared to the prior year period. The decrease in turnover was driven mainly by a decline in sales outside the US market, as well as the comparison against the prior year period when there were shipments of products related to the *Teenage Mutant Ninja Turtles*® (“*TMNT*”) movie.

Gross profit ratio on toy sales was 63.2% (same period in 2014: 62.0%). The increase in gross profit ratio was attributable to a higher percentage of overall sales generated in the US market. Recurring operating expenses decreased by 12.5% compared to the prior year period, reflecting lower selling, royalty and overhead expenses.

The group reported an operating profit for the period of HK\$215 million (same period in 2014: HK\$267 million). Net profit attributable to shareholders during the first half of 2015 was HK\$156 million (same period in 2014: HK\$176 million).

During the period, the overall US market remained on a steady recovery path. An improving job market, low interest rates and easier access to credit continued to support consumer confidence at a high level. According to The NPD Group, the leading provider of toys point-of-sale market research data (“NPD”), overall US toy industry retail sales in the first six months of 2015 increased in dollar terms by 6.5% compared to the same period last year. The disruptions at the US west coast ports early in the year mostly dissipated during the second quarter. A number of major action adventure movies prompted strong competitions among boy’s action toys.

In most international markets, the continued weakness of local currencies against the US dollar had a significant negative impact on US dollar-based businesses, including ours.

In the second half of 2015, we expect competitive pressure will further intensify and ongoing currency headwinds will continue to impact international markets. In addition, comparison against prior year will be more challenging in the second half of 2015 due to the significant boost provided by the blockbuster *TMNT* movie last summer. Nevertheless, we remain positive in our longer term outlook, driven by the resilience of the *TMNT* franchise, the release of the second *TMNT* movie in 2016, as well as the launch of major new brands beginning in 2017.

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 be popular among the core boys’ audience. Rollout of Season 3 will continue through the end of September in the US, with Season 4 premiering in October 2015 with an exciting new theme. Nickelodeon[®] will also launch an hour-long *Half-Shell Heroes*[™] TV special this November, developed specifically for younger *TMNT* fans.

Following up on the box office hit last summer, Paramount Pictures^{™ & ©} will release the next *TMNT* movie in summer 2016. Lead actors Megan Fox and Will Arnett will return as April O’Neil and Vern Fenwick, respectively, joined by a number of exciting legacy characters in the *TMNT* universe, including Bebop[®], Rocksteady[®] and Casey Jones[®]!

Driven by the sustained popularity of the TV show, as well as the introduction of significant new product segments such as *Half-Shell Heroes*[™] and *Mutations*[™], Playmates’ *TMNT* toys continued to perform well at retail in the US, despite competition from several major action adventure movies released during spring and summer. According to NPD and trade reports, *TMNT* continued to rank among the top selling boy’s action toy brands in the US and key international markets during the first half of 2015.

New Brands

Ben 10^{™ & ©}. Playmates Toys will serve as the global master toy partner for Cartoon Network’s^{™ & ©} re-launch of *Ben 10*^{™ & ©}, a powerful franchise with proven ratings and merchandise success around the world. The new *Ben 10*^{™ & ©} animated TV series will premiere in selected markets in fall 2016 and across North America in 2017, followed by the launch of our *Ben 10*^{™ & ©} toy line in fall 2017.

Mysticons[®]. Playmates Toys will be the global master toy partner for ***Mysticons***[®], a brand new animated Girls Action TV series developed by Nelvana[®] Studio, in partnership with Nickelodeon[®] and The Topps Company[®]. ***Mysticons***[®] will debut globally in 2017.

We remain committed to the proven strategy of focusing our resources and efforts to manage our established brands for long term profitability, while actively but selectively identifying and acquiring new investment opportunities.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

	Note	Unaudited Six months ended 30 June		
		2015 US\$'000 (Note 10)	2015 HK\$'000	2014 HK\$'000
Revenue	3	88,733	687,679	835,235
Cost of sales		(32,697)	(253,400)	(317,734)
Gross profit		56,036	434,279	517,501
Marketing expenses		(17,053)	(132,161)	(152,057)
Selling and distribution expenses		(3,796)	(29,416)	(38,623)
Administration expenses		(7,435)	(57,622)	(59,939)
Operating profit		27,752	215,080	266,882
Other net (loss)/income		(362)	(2,806)	2,081
Finance costs		(369)	(2,857)	(3,397)
Share of profit/(loss) of an associated company		146	1,128	(1,652)
Profit before income tax	4	27,167	210,545	263,914
Income tax expense	5	(6,994)	(54,206)	(88,410)
Profit for the period and total comprehensive income for the period attributable to equity holders of the Company		20,173	156,339	175,504
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7			
Basic		1.70	13.18	14.93
Diluted		1.68	13.04	14.59

Condensed Consolidated Statement of Financial Position
As at 30 June 2015

		Unaudited	Unaudited	Audited
		30 June	30 June	31 December
		2015	2015	2014
	<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 10)</i>		
Non-current assets				
Property, plant and equipment		609	4,722	4,339
Interest in an associated company		805	6,242	5,114
Deferred tax assets		7,412	57,440	48,502
		8,826	68,404	57,955
Current assets				
Inventories		8,719	67,569	44,165
Trade receivables	8	31,317	242,703	529,727
Deposits paid, other receivables and prepayments		2,457	19,047	19,567
Financial assets at fair value through profit or loss		3,990	30,926	-
Cash and bank balances		127,425	987,543	785,784
		173,908	1,347,788	1,379,243
Current liabilities				
Trade payables	9	11,480	88,972	77,734
Deposits received, other payables and accrued charges		14,394	111,554	193,223
Provisions		3,413	26,448	45,819
Taxation payable		14,366	111,338	84,061
		43,653	338,312	400,837
Net current assets		130,255	1,009,476	978,406
Net assets		139,081	1,077,880	1,036,361
Equity				
Share capital		1,564	12,122	12,062
Reserves		129,696	1,005,143	903,675
Declared dividends	6	7,821	60,615	120,624
Total equity		139,081	1,077,880	1,036,361

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 2014 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 2014, except for the accounting policy changes that are expected to be reflected in the 2015 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 a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group’s results and financial position. 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
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	162	1,441	7,743	6,808
Americas				
- U.S.A.	533,996	561,944	3,221	2,645
- Others	29,224	65,006	-	-
Europe	78,384	151,341	-	-
Asia Pacific other than				
Hong Kong	41,418	51,678	-	-
Others	4,495	3,825	-	-
	687,517	833,794	3,221	2,645
	687,679	835,235	10,964	9,453

3.2 Major customers

The Group's customer base is diversified and includes three (2014: 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\$236.7 million, HK\$142.7 million and HK\$87.3 million (2014: HK\$254.6 million, HK\$131.8 million and HK\$95.4 million) respectively.

4. Profit before income tax

Profit before income tax is stated after charging the following:

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Cost of inventories sold	233,586	296,186
Product development costs	4,694	3,466
Royalties paid	89,140	113,961
Directors' and staff remunerations	32,748	34,038
<u>Depreciation of property, plant and equipment</u>	<u>852</u>	<u>370</u>

5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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	
	2015	2014
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	27,353	47,940
Overseas taxation	28,986	31,554
<u>Under provision in prior years – overseas</u>	<u>6,455</u>	<u>2,585</u>
	<u>62,794</u>	<u>82,079</u>
Deferred taxation		
<u>Origination and reversal of temporary differences</u>	<u>(8,588)</u>	<u>6,331</u>
<u>Income tax expense</u>	<u>54,206</u>	<u>88,410</u>

6. Dividends

6.1 Dividends attributable to the interim period

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.05 (2014: HK\$0.05) per share	60,615	60,277

At a meeting held on 21 August 2015, the board of directors declared an interim dividend of HK\$0.05 per share to be paid on 30 September 2015 to shareholders on the Company's Register of Members on 16 September 2015. This interim dividend declared after the end of the reporting period has not been recognised as liabilities in this condensed consolidated financial information for the six months ended 30 June 2015.

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Dividends in respect of the previous financial year and paid during the interim period:		
Second interim dividend of HK\$0.05 (2014: HK\$nil) per share	60,421	-
Special interim dividend of HK\$0.05 (2014: HK\$nil) per share	60,421	-
Interim dividend of HK\$nil (2014: HK\$0.05) per share	-	59,983
Special dividend of HK\$nil (2014: HK\$0.10) per share	-	119,966
	120,842	179,949

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\$156,339,000 (2014: HK\$175,504,000) and the weighted average number of ordinary shares of 1,185,963,000 shares (2014: 1,175,730,000 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\$156,339,000 (2014: HK\$175,504,000) and the weighted average number of ordinary shares of 1,198,898,000 shares (2014: 1,202,942,000 shares) in issue during the period, adjusted for the effects of 12,935,000 (2014: 27,212,000) dilutive potential shares on exercise of share options.

8. Trade receivables

	30 June 2015	31 December 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	245,482	531,731
Less: Allowance for customer concession	(775)	-
Less: Allowance for impairment	(2,004)	(2,004)
	242,703	529,727

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 based on the invoice date at the end of the reporting period:

	30 June 2015	31 December 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	233,176	515,580
31 – 60 days	2,181	4,713
Over 60 days	7,346	9,434
	242,703	529,727

9. Trade payables

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

	30 June 2015	31 December 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	84,208	76,067
31 – 60 days	4,544	517
Over 60 days	220	1,150
	88,972	77,734

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 30 June 2015.

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 2015, trade receivables were HK\$242,703,000 (31 December 2014: HK\$529,727,000) and inventories were HK\$67,569,000 (31 December 2014: HK\$44,165,000). The higher inventories at interim period end reflected the seasonal build-up of inventories to fulfil existing and expected customer orders.

The associated company reported profits for the period. As at 30 June 2015, the interest in an associated company was HK\$6,242,000 (31 December 2014: HK\$5,114,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 4.0 at 30 June 2015 compared to 3.4 at 31 December 2014.

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 2015, the Group's cash and bank balances were HK\$987,543,000 (31 December 2014: HK\$785,784,000), of which HK\$956,239,000 (31 December 2014: HK\$735,687,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar. During the period, certain surplus cash was held in listed equities as treasury investments. As at 30 June 2015, the Group's treasury investment in listed equities amounted to HK\$30,926,000 (31 December 2014: HK\$nil).

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 2015, 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 2015.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 September 2015 to 16 September 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 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 14 September 2015. The interim dividend will be paid on 30 September 2015 to the shareholders on the Register of Members of the Company on 16 September 2015.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 21 August 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*)