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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 2017

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Highlights

For the six months ended 30 June	2017 HK\$'000	2016 HK\$'000
Revenue	322,285	594,651
Gross profit	180,633	369,391
Operating profit	34,702	138,705
Profit before income tax	43,813	135,076
Income tax expense	(7,222)	(39,879)
Profit attributable to owners of the Company	36,591	95,197
Earnings per share	HK cents	HK cents
- Basic	3.03	7.86
- Diluted	3.01	7.79
Interim dividend per share	3.00	5.00

Playmates Toys group worldwide turnover during the first half of 2017 was HK\$322 million (same period in 2016: HK\$595 million), a decrease of 45.8% compared to the prior year period. The decrease in turnover was driven by intensified competitive pressure, whereas revenue for the corresponding period in 2016 had been boosted by shipments of products related to the *Teenage Mutant Ninja Turtles*® (“TMNT”) movie.

Gross profit ratio on toy sales was 56.0% (same period in 2016: 62.1%). The decrease in gross profit ratio was attributable to a higher proportion of overall sales generated in International markets with lower gross margin compared to the prior year period. Recurring operating expenses decreased by 36.7% compared to the prior year period, which included significant promotional expenses to support the *TMNT* movie.

The group reported an operating profit for the period of HK\$35 million (same period in 2016: HK\$139 million). Net profit during the first half of 2017 was HK\$37 million (same period in 2016: HK\$95 million)<sup>1</sup>.

According to The NPD Group, the leading provider of toys point-of-sale market research data, US retail sales of toys grew by about 3% year-on-year during the first half of 2017<sup>2</sup>. Such growth was driven to a large extent by a number of major franchises, including several competitive action adventure brands which pressured our business.

In the second half of 2017, we expect strong competitive pressure to persist. Our *TMNT* business will continue to contract year-over-year, as the brand transitions into its next iteration, *Rise of the Teenage Mutant Ninja Turtles*<sup>®</sup>, launching Fall 2018. Our new brands, *Voltron*<sup>®</sup> and *Ben 10*<sup>™ & ©</sup>, have already begun contributing to our results, and are expected to expand in distribution during the second half of the year.

The Board declared a HK cents 3 per share interim dividend distribution.

## Brand Overview

### *Teenage Mutant Ninja Turtles*<sup>®</sup>

Season 5 of the Nickelodeon's<sup>®</sup> *TMNT* TV show continues to drive awareness of the brand. Although competitive pressures have persisted throughout 2017, with a full schedule of kid-friendly movie releases, *TMNT* has remained one of the major boys action brands in the marketplace.

In 2018, Nickelodeon<sup>®</sup> will re-imagine the *TMNT* franchise in an all-new animated series, *Rise of the Teenage Mutant Ninja Turtles*<sup>®</sup>. The new series, launching Fall 2018, will take the characters in a different direction with more humor, a younger and lighter feel and all-new dimensions to explore. We are developing a whole new line of *TMNT* products to be introduced in tandem with the launch of the new series.

### *Voltron*<sup>®</sup>

Netflix<sup>®</sup> released Season 3 of the DreamWorks Animation<sup>®</sup> series *Voltron: Legendary Defender*<sup>®</sup> in August 2017. The show has garnered positive reviews since its initial debut in June 2016. We launched our line of *Voltron*<sup>®</sup> toys this Spring, and are continuing to develop new products for Fall 2017 and beyond.

### *Ben 10*<sup>™ & ©</sup>

Cartoon Network's<sup>™ & ©</sup> new *Ben 10*<sup>™ & ©</sup> animated TV series premiered in selected International markets in October 2016 and across North America in April 2017. We began initial shipments of our *Ben 10*<sup>™ & ©</sup> toy line during the first half of 2017, and will continue to expand distribution in the second half of the year.

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<sup>1</sup> The Group's effective tax rate in the first half of 2017 was lower than the same period in 2016 due to higher deferred tax credit recognized on elimination of unrealized profits on inventories during the first half of 2017. Due to the seasonal nature of the toy business, the Group's inventory balance at year end is generally lower, resulting in a reversal of the deferred tax credit and a higher effective tax rate for the full year. Please refer to Note 6 of the condensed consolidated financial information.

<sup>2</sup> Source: The NPD Group, Inc. / Retail Tracking Service, January-June 2017

## ***Mysticons***<sup>®</sup>

Playmates Toys will be the global master toy partner for ***Mysticons***<sup>®</sup>, a brand new animated action TV series targeting the girls audience developed by Nelvana Studio<sup>®</sup>, in partnership with Nickelodeon<sup>®</sup> and The Topps Company<sup>®</sup>. The ***Mysticons***<sup>®</sup> TV show will debut in Fall 2017, and we are gearing up for the launch of our ***Mysticons***<sup>®</sup> toy line in early 2018.

We remain committed to the proven strategy of focusing our resources and efforts to manage our established brands for long term profitability, while actively pursuing selective new opportunities that are good fits for our core competence.

## CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June		
		2017 US\$'000 (Note 11)	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	3	<b>41,585</b>	<b>322,285</b>	594,651
Cost of sales		(18,278)	(141,652)	(225,260)
<b>Gross profit</b>		<b>23,307</b>	<b>180,633</b>	369,391
Marketing expenses		(9,704)	(75,204)	(129,088)
Selling and distribution expenses		(1,626)	(12,596)	(42,491)
Administration expenses		(7,499)	(58,131)	(59,107)
<b>Operating profit</b>		<b>4,478</b>	<b>34,702</b>	138,705
Other net income/(loss)	4	1,362	10,557	(822)
Finance costs		(187)	(1,446)	(2,807)
<b>Profit before income tax</b>	5	<b>5,653</b>	<b>43,813</b>	135,076
<b>Income tax expense</b>	6	<b>(932)</b>	<b>(7,222)</b>	(39,879)
<b>Profit for the period and total comprehensive income for the period attributable to owners of the Company</b>		<b>4,721</b>	<b>36,591</b>	95,197
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Earnings per share</b>	8			
Basic		<b>0.39</b>	<b>3.03</b>	7.86
Diluted		<b>0.39</b>	<b>3.01</b>	7.79

## Condensed Consolidated Statement of Financial Position

As at 30 June 2017

		Unaudited 30 June 2017 US\$'000 (Note 11)	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment		1,500	11,622	5,153
Interest in an associated company		781	6,053	6,053
Deferred tax assets		5,346	41,433	27,837
		<b>7,627</b>	<b>59,108</b>	39,043
<b>Current assets</b>				
Inventories		5,643	43,736	15,236
Trade receivables	9	17,709	137,248	174,841
Deposits paid, other receivables and prepayments		3,033	23,506	40,962
Taxation recoverable		1,679	13,014	22,487
Financial assets at fair value through profit or loss		1,533	11,877	23,195
Cash and bank balances		134,192	1,039,986	1,006,516
		<b>163,789</b>	<b>1,269,367</b>	1,283,237
<b>Current liabilities</b>				
Trade payables	10	8,175	63,360	16,318
Deposits received, other payables and accrued charges		16,644	128,983	131,634
Loan from an associated company		752	5,831	5,831
Provisions		4,756	36,862	37,749
Taxation payable		880	6,817	4,374
		<b>31,207</b>	<b>241,853</b>	195,906
<b>Net current assets</b>		<b>132,582</b>	<b>1,027,514</b>	1,087,331
<b>Net assets</b>		<b>140,209</b>	<b>1,086,622</b>	1,126,374
<b>Equity</b>				
Share capital		1,555	12,052	12,144
Reserves		138,654	1,074,570	1,114,230
<b>Total equity</b>		<b>140,209</b>	<b>1,086,622</b>	1,126,374

## **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 (the “Stock Exchange”).

This condensed consolidated financial information should be read in conjunction with the 2016 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 2016, except for the accounting policy changes that are expected to be reflected in the 2017 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. None of these amendments has had a material effect on the Group’s results and financial position for the current or prior periods. 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
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	485	304	14,621	7,473
Americas				
- U.S.A.	213,497	431,169	3,054	3,733
- Others	19,800	35,759	-	-
Europe	64,292	77,531	-	-
Asia Pacific other than Hong Kong	21,390	44,454	-	-
Others	2,821	5,434	-	-
	321,800	594,347	3,054	3,733
	322,285	594,651	17,675	11,206

#### 3.2 Major customers

The Group's customer base is diversified and includes four (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\$82,403,000, HK\$54,257,000, HK\$51,609,000 and HK\$39,079,000 (2016: HK\$214,708,000, HK\$92,016,000 and HK\$70,284,000) respectively.

**4. Other net income/(loss)**

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>4,661</b>	1,430
Dividend income	<b>208</b>	315
Net gain/(loss) on financial assets at fair value through profit or loss	<b>932</b>	(4)
<u>Others</u>	<b>4,756</b>	<b>(2,563)</b>
	<b>10,557</b>	<b>(822)</b>

**5. Profit before income tax**

Profit before income tax is stated after charging the following:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>123,249</b>	210,036
Product development costs	<b>3,737</b>	7,086
Royalties paid	<b>42,734</b>	78,690
Directors' and staff remunerations	<b>32,632</b>	32,950
<u>Depreciation of property, plant and equipment</u>	<b>2,702</b>	<b>1,146</b>

**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 period. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current taxation		
Hong Kong profits tax	<b>9,473</b>	14,155
Overseas taxation	<b>11,345</b>	31,579
	<b>20,818</b>	<b>45,734</b>
Deferred taxation		
<u>Origination and reversal of temporary differences</u>	<b>(13,596)</b>	<b>(5,855)</b>
<u>Income tax expense</u>	<b>7,222</b>	<b>39,879</b>



## 7. Dividends

### 7.1 Dividends attributable to the interim period

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.03 (2016: HK\$0.05) per share	<b>36,000</b>	60,704

At a meeting held on 25 August 2017, the board of directors declared an interim dividend of HK\$0.03 per share to be paid on 29 September 2017 to shareholders whose names appear on the Company's Register of Members on 13 September 2017. 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 2017.

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

	Six months ended 30 June	
	2017	2016
	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 (2016: HK\$0.05) per share	<b>60,535</b>	60,505

## 8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$36,591,000 (2016: HK\$95,197,000) and the weighted average number of ordinary shares of 1,209,413,000 shares (2016: 1,210,777,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK\$36,591,000 (2016: HK\$95,197,000) and the weighted average number of ordinary shares of 1,215,883,000 shares (2016: 1,221,966,000 shares) in issue during the period, adjusted for the effects of 6,470,000 (2016: 11,189,000) dilutive potential shares on exercise of share options.

## 9. Trade receivables

	<b>30 June 2017</b>	31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<b>142,760</b>	180,469
Less: Allowance for impairment	<b>(2,647)</b>	(2,647)
Less: Allowance for customer concession	<b>(2,865)</b>	(2,981)
	<b>137,248</b>	174,841

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:

	<b>30 June 2017</b>	31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	<b>100,684</b>	117,453
61 – 90 days	<b>20,481</b>	43,150
91 – 180 days	<b>9,865</b>	9,978
Over 180 days	<b>6,218</b>	4,260
	<b>137,248</b>	174,841

## 10. Trade payables

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

	<b>30 June 2017</b>	31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	<b>60,041</b>	12,373
31 – 60 days	<b>2,476</b>	3,092
Over 60 days	<b>843</b>	853
	<b>63,360</b>	16,318

## 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 2017.

## **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 30 June 2017, trade receivables were HK\$137,248,000 (31 December 2016: HK\$174,841,000) and inventories were HK\$43,736,000 (31 December 2016: HK\$15,236,000). The higher inventories at interim period end reflected the seasonal build-up of inventories to fulfil existing and expected customer orders.

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 5.2 at 30 June 2017 compared to 6.6 at 31 December 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 30 June 2017, the Group's cash and bank balances were HK\$1,039,986,000 (31 December 2016: HK\$1,006,516,000), of which HK\$1,012,149,000 (31 December 2016: HK\$984,353,000) 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 2017, the Group's treasury investment in listed equities amounted to HK\$11,877,000 (31 December 2016: HK\$23,195,000).

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

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the period, 12,220,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.18 to HK\$1.43 per share through the Stock Exchange.

## **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 Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30 June 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.

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 internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2017.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 12 September 2017 to 13 September 2017, 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 11 September 2017. The interim dividend will be paid on 29 September 2017 to the shareholders on the Register of Members of the Company on 13 September 2017.

On behalf of the Board  
**To Shu Sing, Sidney**  
*Chairman*

Hong Kong, 25 August 2017

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

Mr. To Shu Sing, Sidney (*Chairman*), Mr. Chan Kong Keung, Stephen (*Executive Director*), 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*) and Mr. Yang, Victor (*Independent Non-executive Director*)