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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 2015

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2015 as follows:

Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 US\$'000 (Note 10)	2015 HK\$'000	2014 HK\$'000
Revenue	3	200,189	1,551,464	2,160,206
Cost of sales		(76,834)	(595,462)	(823,862)
Gross profit		123,355	956,002	1,336,344
Marketing expenses		(41,855)	(324,374)	(398,729)
Selling and distribution expenses		(11,754)	(91,095)	(130,709)
Administration expenses		(18,643)	(144,479)	(158,668)
Operating profit		51,103	396,054	648,238
Other net (loss) / income		(31)	(241)	2,742
Finance costs		(923)	(7,157)	(9,387)
Share of profit / (loss) of an associated company		121	939	(5,681)
Profit before income tax	4	50,270	389,595	635,912
Income tax expense	5	(14,626)	(113,350)	(145,240)
Profit for the year attributable to owners of the Company		35,644	276,245	490,672

	<i>Note</i>	2015 <i>US cents</i> <i>(Note 10)</i>	2015 <i>HK cents</i>	2014 <i>HK cents</i>
Earnings per share	7			
Basic		2.95	22.84	41.44
Diluted		2.92	22.62	40.75

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 <i>US\$'000</i> <i>(Note 10)</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit for the year	35,644	276,245	490,672
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Reclassified to profit or loss on dissolution of foreign subsidiaries	-	-	(531)
Total comprehensive income for the year attributable to owners of the Company	35,644	276,245	490,141

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	2015 US\$'000 (Note 10)	2015 HK\$'000	2014 HK\$'000
Non-current assets				
Property, plant and equipment		805	6,241	4,339
Interest in an associated company		781	6,053	5,114
Deferred tax assets		4,401	34,105	48,502
		5,987	46,399	57,955
Current assets				
Inventories		3,644	28,242	44,165
Trade receivables	8	40,132	311,020	529,727
Deposits paid, other receivables and prepayments		4,866	37,711	19,567
Taxation recoverable		6,897	53,449	-
Financial assets at fair value through profit or loss		4,010	31,078	-
Cash and bank balances		113,224	877,487	785,784
		172,773	1,338,987	1,379,243
Current liabilities				
Trade payables	9	6,289	48,737	77,734
Deposits received, other payables and accrued charges		19,131	148,263	193,223
Loan from an associated company		752	5,831	-
Provisions		6,314	48,930	45,819
Taxation payable		-	-	84,061
		32,486	251,761	400,837
Net current assets		140,287	1,087,226	978,406
Net assets		146,274	1,133,625	1,036,361
Equity				
Share capital		1,561	12,100	12,062
Reserves		144,713	1,121,525	1,024,299
Total equity		146,274	1,133,625	1,036,361

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. 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 “Listing Rules”).

The amendments to the Listing Rules relating to financial information with reference to Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance came into effect for the first time during the current financial year and the main impact is on the presentation and disclosure of certain information in the financial statements.

The financial statements have been prepared under the historical cost basis, except for 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 2014, 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 2015. Details of these changes in accounting policies are set out in note 2.

2. Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs 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:

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

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 2015 from sales of toys was HK\$1,551,464,000 (2014: HK\$2,160,206,000).

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	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong (place of domicile)	178	2,261	8,136	6,808
Americas				
- U.S.A.	1,178,109	1,563,541	4,158	2,645
- Others	78,081	126,627	-	-
Europe	221,384	366,586	-	-
Asia Pacific other than Hong Kong	62,225	90,743	-	-
Others	11,487	10,448	-	-
	1,551,286	2,157,945	4,158	2,645
	1,551,464	2,160,206	12,294	9,453

Major customers

The Group's customer base is diversified and includes four (2014: 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\$513,229,000, HK\$280,128,000, HK\$225,976,000 and HK\$169,522,000 (2014: HK\$634,302,000, HK\$415,404,000, HK\$265,346,000 and HK\$227,518,000) respectively.

4. Profit before income tax

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

	2015	2014
	HK\$'000	HK\$'000
Cost of inventories sold	541,007	763,993
Write-down of inventories	355	720
Product development costs	10,758	7,062
Royalties paid	207,909	287,295
Provision for consumer returns, cooperative advertising and cancellation charges	61,478	90,737
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(1,344)	(296)
Depreciation of property, plant and equipment	1,814	948
Directors' and staff remunerations	94,950	105,445
Allowance for impairment of trade receivables	-	2,004
Allowance for customer concession	2,361	-
Operating leases expense on office and warehouse facilities	7,839	7,545
Net foreign exchange gain	(108)	(140)
Net loss on financial assets at fair value through profit or loss	5,079	-
Interest income	(1,982)	(2,742)

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 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% (2014: 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% (2014: 8.84%).

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	31,609	81,085
Overseas taxation	61,748	53,894
Under provision in prior years – overseas	4,879	2,592
Under provision in prior years – Hong Kong	108	-
	<u>98,344</u>	<u>137,571</u>
Deferred taxation		
Origination and reversal of temporary differences	15,006	7,669
Income tax expense	<u>113,350</u>	<u>145,240</u>

6. Dividends

(a) Dividends attributable to the year

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2014: HK\$0.05) per share	60,615	60,313
Second interim dividend of HK\$0.05 (2014: HK\$0.05) per share	60,500	60,312
Special interim dividend of HK\$nil (2014: HK\$0.05) per share	-	60,312
	<u>121,115</u>	<u>180,937</u>

At a meeting held on 21 August 2015, the board of directors declared a first interim dividend of HK\$0.05 per share, which was paid on 30 September 2015.

At a meeting held on 24 March 2016, the board of directors declared a second interim dividend of HK\$0.05 per share to be paid on 28 April 2016 to shareholders whose names appear on the Company's register of members on 14 April 2016. This second 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 2015.

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

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
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 owners of the Company of HK\$276,245,000 (2014: HK\$490,672,000) and the weighted average number of ordinary shares of 1,209,725,000 shares (2014: 1,184,037,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK\$276,245,000 (2014: HK\$490,672,000) and the weighted average number of ordinary shares of 1,221,077,000 shares (2014: 1,204,219,000 shares) in issue during the year, adjusted for the effects of 11,352,000 (2014: 20,182,000) 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 end of the reporting period:

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	302,481	515,580
31 – 60 days	4,563	4,713
Over 60 days	3,976	9,434
	311,020	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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 – 30 days	41,206	76,067
31 – 60 days	2,082	517
Over 60 days	5,449	1,150
	<hr/> 48,737	<hr/> 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 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended 31 December 2015 was HK\$1,551 million (2014: HK\$2,160 million), a decrease of 28% compared to the prior year. The decrease in turnover was driven by stronger competitions, weaker sales particularly in markets outside the US, as well as the disparate comparison against the prior year period, which benefited from the blockbuster *Teenage Mutant Ninja Turtles*® (“*TMNT*”) movie from Paramount Pictures®.

The US continued to be our biggest market in 2015, contributing 76% of revenue. Europe as a whole contributed 14%, the rest of the Americas 5% and 4% came from Asia Pacific. During the year, the US market continued its recovery. According to The NPD Group, the leading provider of toys point-of-sale market research data, in 2015 US retail dollar sales of toys were up by about 6.7% year-on-year, marking one of the strongest performances the industry has seen in a number of years.¹ A number of major action adventure movies prompted strong competitions among boy’s action toys. On the other hand, our key international markets, in particular those in Europe, were impacted by the continued weaknesses of most currencies against the US Dollar, as well as economic and political uncertainties in certain territories.

Gross profit ratio on toy sales was 61.6% (2014: 61.9%). The slight decrease in gross profit ratio was attributable to higher level of development and tooling expenses related to new product introductions, partially offset by a higher percentage of overall sales generated in the US market. Recurring operating expenses decreased by 19% from the prior year period, reflecting lower selling, royalty and overhead expenses, but increased promotional expenses.

The group reported an operating profit for 2015 of HK\$396 million, a decrease of 38.9% compared to prior year (2014: HK\$648 million). Net profit attributable to shareholders was HK\$276 million (2014: HK\$491 million).

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

In 2016, we expect challenges and uncertainties in our business environment to persist. Nevertheless, we are encouraged that our *TMNT* business will again benefit from the twin drivers of the popular Nickelodeon® TV show and the blockbuster movie sequel from Paramount®, *Teenage Mutant Ninja Turtles*®: *Out of the Shadows*.

¹ Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2015.

Brand Overview

Teenage Mutant Ninja Turtles[®]

Throughout 2015, Nickelodeon's[®] **TMNT** TV show continued to be popular among the core boys' audience. Season 4 premiered in October 2015 in the US, followed by the launch of the hour-long **Half-Shell Heroes**^{™ & ©} TV special in November, developed specifically for younger fans. On the theatrical front, Paramount Pictures[®] has begun marketing efforts for the movie sequel, **Teenage Mutant Ninja Turtles[®]: Out of the Shadows**, scheduled to debut in summer 2016. The first trailer, released in December, featured classic characters from the **TMNT** legacy, including Bebop[®], Rocksteady[®] and Casey Jones[®], as well as exciting new storylines, vehicles and environments.

Driven by the popular TV show, as well as new product introductions, Playmates' **TMNT** toys continued to perform well at retail in the US, despite strong competitions from a number of major action adventure movies. 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 2015. Retail sell-through ratio of our Turtles toys in the US at the end of the year was close to 90%.

In 2016, we expect strong competitions, uncertainties in the global economy and challenging conditions in our international markets to persist. On the other hand, the performance of our **TMNT** business should benefit from continued **TMNT** TV entertainment from Nickelodeon[®] as well as the **TMNT** movie sequel from Paramount[®].

Ben 10^{™ & ©}

Playmates Toys will serve as the global master toy partner for Cartoon Network's^{™ & ©} re-launch of **Ben 10**^{™ & ©}. The new series will introduce a new generation of fans to the story of Ben, a 10 year old kid who, with the help of a mysterious watch, can transform into 10 alien heroes, each with its own unique powers. The original **Ben 10**^{™ & ©} series premiered on Cartoon Network^{™ & ©} in 2006 to high ratings and the success of the original series spawned three additional animated series, one animated movie and two live-action movies. This powerful global franchise for Cartoon Network^{™ & ©} is a proven ratings and merchandise success in major markets 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.

Voltron^{™ & ©}

Playmates Toys and DreamWorks Animation[®] announced during the recent New York Toy Fair plans for a new toy line based on the new animated series **Voltron: Legendary Defender**^{™ & ©}, a reimagining of the classic property set to debut as a Netflix[®] Original Series in 2016. According to Netflix[®], it is the world's leading internet television network with currently over 75 million members in over 190 countries. The series follows the story of five teenagers as they are transported from Earth into the middle of a sprawling intergalactic war and become pilots for five mystical robotic lions in a battle to protect the universe from evil. Playmates Toys will serve as the master toy licensee and will create an expansive line of toys set to launch in spring 2017.

Mysticons[®]

Playmates Toys will be the global master toy partner for *Mysticons*[®], a brand new animated action TV series targeting the girls audience developed by Nelvana Studio[®], in partnership with Nickelodeon[®] and The Topps Company[®]. *Mysticons*[®], which tells the epic tale of four girls who transform into legendary warriors, 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 pursuing selective new opportunities that are good fits for our core competence.

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 2015, trade receivables were HK\$311,020,000 (2014: HK\$529,727,000) and inventories were at a seasonal low level of HK\$28,242,000 or 1.8% of turnover (2014: HK\$44,165,000 or 2.0% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 5.3 at 31 December 2015 and 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 31 December 2015, the Group's cash and bank balances were HK\$877,487,000 (2014: HK\$785,784,000), of which HK\$660,036,000 (2014: HK\$735,687,000) was denominated in United States dollar and the remaining balance was mainly 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

During the year, 3,348,500 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.41 to HK\$1.68 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 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 consolidated financial information for the year ended 31 December 2015.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 April 2016 to 14 April 2016, 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 12 April 2016. The second interim dividend will be paid on 28 April 2016 to the shareholders on the Register of Members of the Company on 14 April 2016.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 24 March 2016

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*)