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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 2017

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2017 as follows:

Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 US\$'000 (Note 11)	2017 HK\$'000	2016 HK\$'000
Revenue	3	97,222	758,329	992,933
Cost of sales		(44,488)	(347,003)	(397,213)
Gross profit		52,734	411,326	595,720
Marketing expenses		(24,019)	(187,346)	(220,057)
Selling and distribution expenses		(3,927)	(30,627)	(68,814)
Administration expenses		(15,285)	(119,222)	(131,593)
Operating profit		9,503	74,131	175,256
Other net income	4	2,598	20,263	6,065
Finance costs		(735)	(5,735)	(5,199)
Share of loss of an associated company		(17)	(133)	-
Profit before income tax	5	11,349	88,526	176,122
Income tax expense	6	(4,200)	(32,762)	(65,916)
Profit for the year attributable to owners of the Company		7,149	55,764	110,206

	<i>Note</i> 8	2017 <i>US cents</i> <i>(Note 11)</i>	2017 <i>HK cents</i>	2016 <i>HK cents</i>
Earnings per share				
Basic		0.59	4.63	9.09
Diluted		0.59	4.61	9.02

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 <i>US\$'000</i> <i>(Note 11)</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit for the year	7,149	55,764	110,206
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	605	4,722	-
Total comprehensive income for the year attributable to owners of the Company	7,754	60,486	110,206

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 US\$'000 (Note 11)	2017 HK\$'000	2016 HK\$'000
Non-current assets				
Property, plant and equipment		1,384	10,799	5,153
Interest in an associated company		759	5,920	6,053
Deferred tax assets		3,573	27,871	27,837
		5,716	44,590	39,043
Current assets				
Inventories		2,914	22,728	15,236
Trade receivables	9	21,715	169,379	174,841
Deposits paid, other receivables and prepayments		1,552	12,104	40,962
Taxation recoverable		2,066	16,114	22,487
Financial assets at fair value through profit or loss		2,384	18,595	23,195
Cash and bank balances		130,918	1,021,159	1,006,516
		161,549	1,260,079	1,283,237
Current liabilities				
Trade payables	10	3,127	24,387	16,318
Deposits received, other payables and accrued charges		19,446	151,690	131,634
Loan from an associated company		748	5,831	5,831
Provisions		5,405	42,157	37,749
Taxation payable		2,033	15,858	4,374
		30,759	239,923	195,906
Net current assets		130,790	1,020,156	1,087,331
Net assets		136,506	1,064,746	1,126,374
Equity				
Share capital		1,533	11,958	12,144
Reserves		134,973	1,052,788	1,114,230
Total equity		136,506	1,064,746	1,126,374

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. The 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 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 2016, except for the adoption of the new or amended HKFRSs which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2017. 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 that are first effective for the current accounting period of the Group. 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 2017 from sales of toys was HK\$758,329,000 (2016: HK\$992,933,000).

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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong (place of domicile)	815	316	14,110	7,473
Americas				
- U.S.A.	495,680	744,222	2,609	3,733
- Others	49,206	43,740	-	-
Europe	163,586	143,618	-	-
Asia Pacific other than Hong Kong	43,795	54,525	-	-
Others	5,247	6,512	-	-
	757,514	992,617	2,609	3,733
	758,329	992,933	16,719	11,206

Major customers

The Group's customer base includes four (2016: 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\$186,022,000, HK\$126,885,000, HK\$114,339,000 and HK\$107,504,000 (2016: HK\$362,691,000, HK\$153,844,000, HK\$119,286,000 and HK\$104,985,000) respectively.

4. Other net income

	2017 HK\$'000	2016 HK\$'000
Interest income	10,572	3,773
Dividend income	236	485
Net gain on financial assets at fair value through profit or loss	4,424	3,771
Others	5,031	(1,964)
	20,263	6,065

5. Profit before income tax

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cost of inventories sold	298,353	354,069
Reversal of write-down of inventories	-	(181)
Write-down of inventories	184	-
Product development costs	8,248	11,752
Royalties expense	113,889	136,328
Provision for consumer returns, cooperative advertising and cancellation charges	21,211	48,064
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(1,274)	(1,662)
Depreciation of property, plant and equipment	5,320	2,114
Directors' and staff remunerations	75,984	79,791
Allowance for impairment of trade receivables	-	643
Allowance for customer concession	13,598	1,395
Operating leases expense on office	8,391	8,150
Net foreign exchange gain	(5,721)	(174)
Loss on disposal of property, plant and equipment	-	59
Auditors' remuneration	1,200	1,230

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	6,372	9,093
Overseas taxation	26,305	48,123
Under provision in prior years – overseas	-	1,994
Over provision in prior years – Hong Kong	-	(48)
	<u>32,677</u>	<u>59,162</u>
Deferred taxation		
Origination and reversal of temporary differences	(6,782)	6,754
Impact of change in US tax rate (<i>Note</i>)	6,867	-
	<u>85</u>	<u>6,754</u>
Income tax expense	<u>32,762</u>	<u>65,916</u>

Note:

This amount related to the impact of U.S. tax legislation that was passed into law on 22 December 2017 (“US Tax Reform”), which lowered the U.S. federal tax rate for corporation from 35% to 21% effective from 1 January 2018.

7. Dividends

(a) Dividends attributable to the year

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
First interim dividend of HK cents 3 (2016: HK cents 5) per share	36,014	60,767
Second interim dividend of HK cents 3 (2016: HK cents 5) per share	35,850	60,505
	<u>71,864</u>	<u>121,272</u>

At a meeting held on 25 August 2017, the board of directors declared a first interim dividend of HK cents 3 per share, which was paid on 29 September 2017.

At a meeting held on 5 March 2018, the board of directors declared a second interim dividend of HK cents 3 per share to be paid on 11 April 2018 to shareholders whose names appear on the Company's register of members on 22 March 2018. 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 2017.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 5 (2016: HK cents 5) per share	60,535	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\$55,764,000 (2016: HK\$110,206,000) and the weighted average number of ordinary shares of 1,204,424,000 shares (2016: 1,212,756,000 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\$55,764,000 (2016: HK\$110,206,000) and the weighted average number of ordinary shares of 1,210,579,000 shares (2016: 1,221,680,000 shares) in issue during the year, adjusted for the effects of 6,155,000 (2016: 8,924,000) dilutive potential shares on exercise of share options.

9. 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:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	125,151	117,453
61 – 90 days	34,080	43,150
91 – 180 days	2,408	9,978
Over 180 days	7,740	4,260
	169,379	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:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	20,984	12,373
31 – 60 days	2,645	3,092
Over 60 days	758	853
	24,387	16,318

11. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2017 was HK\$758 million (2016: HK\$993 million), a decrease of 24% compared to the prior year. The decrease in turnover was driven by contraction in our *Teenage Mutant Ninja Turtles*[®] (“*TMNT*”) business, partially offset by contribution from our new brands, including *Ben 10*^{TM & ©} and *Voltron*[®]. The decline in *TMNT* sales reflected intensified competitive pressure and a planned transition into the brand’s next iteration in Fall 2018, whereas revenue in 2016 had been boosted by shipments of products related to the *TMNT* movie.

The US continued to be our biggest market in 2017, contributing 65.4% of revenue. Europe as a whole contributed 21.6%, the rest of the Americas 6.5% and 5.8% came from Asia Pacific. According to The NPD Group, the leading provider of toys point-of-sale market research data, the US toy market recorded a slight increase of 1.0%¹ in retail sales, despite a challenging retail environment. The Action Figure category experienced a meaningful year-over-year decline despite several major action adventure brands were backed by major movie releases. Several of our key international markets were impacted by the continued relative strength of the US dollar.

Gross profit ratio on toy sales was 54.2% (2016: 60.0%). The decrease in gross profit ratio was attributable to a higher percentage of overall sales generated in international markets with lower gross margin, as well as a moderate level of clearance of non-carryforward products in the US market. Recurring operating expenses decreased by 19.8% from 2016, reflecting lower marketing, selling, and distribution expenses, and tight discipline on overhead expenses.

Net profit attributable to shareholders was HK\$56 million, a decrease of 49.1% compared to prior year (2016: HK\$110 million). The Board declared a HK Cents 3 per share second interim dividend distribution.

¹ Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2017.

Brand Overview

Teenage Mutant Ninja Turtles[®]

Over the current iteration of *TMNT*, from Fall 2012 to 2017, Nickelodeon's[®] TV show was highly popular around the world, spanning five seasons. Over the same period, Paramount Pictures[®] released two major feature films that provided meaningful boosts to the brand. As a result, Playmates' *TMNT* toys performed well at retail globally, consistently ranking among the top selling boy's action toy brands in the US and key international markets.

In 2018, Nickelodeon[®] will re-imagine the *TMNT* franchise in an all-new animated series, *Rise of the Teenage Mutant Ninja Turtles*[®]. 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.

As part of the transition into the next *TMNT* iteration, we began limiting shipments of current *TMNT* products in late 2017 in order to provide a fresh start for the new series in Fall 2018. Therefore, we expect no meaningful *TMNT* sales in 2018 until the second half of the year.

Over the longer term, we remain confident in Nickelodeon's[®] franchise plans regarding *TMNT* to maintain and further enhance the brand's future prospects as an evergreen property.

Ben 10^{™ & ©}

We began initial shipments of our *Ben 10*^{™ & ©} toy line during the first half of 2017, and expanded distribution in the second half of the year. With Season 2 launching in Spring 2018, Cartoon Network's^{™ & ©} *Ben 10*^{™ & ©} animated TV series continues to be popular in the US and in many international markets. We are continuing to develop new products for Fall 2018 and beyond.

Amidst a challenging operating environment, 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. 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 31 December 2017, trade receivables were HK\$169,379,000 (2016: HK\$174,841,000) and inventories were at a seasonal low level of HK\$22,728,000 or 3.0% of turnover (2016: HK\$15,236,000 or 1.5% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 5.3 at 31 December 2017 and 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 31 December 2017, the Group's cash and bank balances were HK\$1,021,159,000 (2016: HK\$1,006,516,000), of which HK\$980,053,000 (2016: HK\$984,353,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar. During the year, certain surplus cash was held in listed equities as treasury investments. As at 31 December 2017, the Group's treasury investment in listed equities amounted to HK\$18,595,000 (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 year, 20,546,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.08 to HK\$1.43 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 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.

In respect of one code provision providing for the segregation of the roles of the chairman and the chief executive officer, 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 the risk management and internal control system, the effectiveness of the internal audit function and financial reporting matters including a review of the accounts for the year ended 31 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 March 2018 to 22 March 2018, 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 20 March 2018. The second interim dividend will be paid on 11 April 2018 to the shareholders on the Register of Members of the Company on 22 March 2018.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 5 March 2018

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*)