



2017 INTERIM REPORT



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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)¹.

¹ 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.

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 2017². 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*, launching Fall 2018. Our new brands, *Voltron* and *Ben 10*, 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

Season 5 of the Nickelodeon's *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 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.

Voltron

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

Ben 10

Cartoon Network's new *Ben 10* 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* toy line during the first half of 2017, and will continue to expand distribution in the second half of the year.

² Source: The NPD Group, Inc. / Retail Tracking Service, January-June 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. The *Mysticons* TV show will debut in Fall 2017, and we are gearing up for the launch of our *Mysticons* 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 | 2017 | 2016 |
| | | US\$'000 | HK\$'000 | HK\$'000 |
| | | (Note 17) | | |
| Revenue | 3 | 41,585 | 322,285 | 594,651 |
| Cost of sales | | (18,278) | (141,652) | (225,260) |
| Gross profit | | 23,307 | 180,633 | 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) |
| Operating profit | | 4,478 | 34,702 | 138,705 |
| Other net income/(loss) | 4 | 1,362 | 10,557 | (822) |
| Finance costs | | (187) | (1,446) | (2,807) |
| Profit before income tax | 5 | 5,653 | 43,813 | 135,076 |
| Income tax expense | 6 | (932) | (7,222) | (39,879) |
| Profit for the period and total comprehensive income for the period attributable to owners of the Company | | 4,721 | 36,591 | 95,197 |
| | | <i>US cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share | 8 | | | |
| Basic | | 0.39 | 3.03 | 7.86 |
| Diluted | | 0.39 | 3.01 | 7.79 |

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

| | | Unaudited 30 June 2017 US\$'000 (Note 17) | Unaudited 30 June 2017 HK\$'000 | Audited 31 December 2016 HK\$'000 |
|--|----|---|--|--|
| Non-current assets | | | | |
| Property, plant and equipment | 9 | 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 |
| | | <u>7,627</u> | <u>59,108</u> | <u>39,043</u> |
| Current assets | | | | |
| Inventories | | 5,643 | 43,736 | 15,236 |
| Trade receivables | 10 | 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 |
| | | <u>163,789</u> | <u>1,269,367</u> | <u>1,283,237</u> |
| Current liabilities | | | | |
| Trade payables | 11 | 8,175 | 63,360 | 16,318 |
| Deposits received, other payables and accrued charges | 12 | 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 |
| | | <u>31,207</u> | <u>241,853</u> | <u>195,906</u> |
| Net current assets | | <u>132,582</u> | <u>1,027,514</u> | <u>1,087,331</u> |
| Net assets | | <u>140,209</u> | <u>1,086,622</u> | <u>1,126,374</u> |
| Equity | | | | |
| Share capital | 13 | 1,555 | 12,052 | 12,144 |
| Reserves | | 138,654 | 1,074,570 | 1,114,230 |
| Total equity | | <u>140,209</u> | <u>1,086,622</u> | <u>1,126,374</u> |

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017

| | Unaudited | | |
|---|--------------------------|-------------------------|-------------------------|
| | Six months ended 30 June | | |
| | 2017 | 2017 | 2016 |
| | <i>US\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Note 17)</i> | | |
| Operating activities | | | |
| Cash generated from operations | 14,293 | 110,767 | 263,678 |
| Overseas tax paid | <u>(1,149)</u> | <u>(8,902)</u> | <u>(38,750)</u> |
| Net cash generated from operating activities | <u>13,144</u> | <u>101,865</u> | <u>224,928</u> |
| Investing activities | | | |
| Purchases of financial assets at fair value through profit or loss | (2,389) | (18,514) | (7) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 3,970 | 30,764 | 3,810 |
| Other cash flows arising from investing activities | <u>(555)</u> | <u>(4,302)</u> | <u>1,073</u> |
| Net cash generated from investing activities | <u>1,026</u> | <u>7,948</u> | <u>4,876</u> |
| Financing activities | | | |
| Dividends paid | (7,811) | (60,535) | (60,505) |
| Repurchase of shares of the Company | (2,117) | (16,408) | – |
| Issue of shares | <u>77</u> | <u>600</u> | <u>3,034</u> |
| Net cash used in financing activities | <u>(9,851)</u> | <u>(76,343)</u> | <u>(57,471)</u> |
| Net increase in cash and cash equivalents | 4,319 | 33,470 | 172,333 |
| Cash and cash equivalents at 1 January | <u>129,873</u> | <u>1,006,516</u> | <u>877,487</u> |
| Cash and cash equivalents at 30 June | <u><u>134,192</u></u> | <u><u>1,039,986</u></u> | <u><u>1,049,820</u></u> |
| <i>Analysis of cash and cash equivalents</i> | | | |
| Cash and bank balances | <u><u>134,192</u></u> | <u><u>1,039,986</u></u> | <u><u>1,049,820</u></u> |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

| | Share capital <i>HKS'000</i> | Share premium <i>HKS'000</i> | Capital redemption reserve <i>HKS'000</i> | Unaudited | | Share-based compensation reserve <i>HKS'000</i> | Retained profits <i>HKS'000</i> | Total <i>HKS'000</i> |
|--|------------------------------------|------------------------------------|--|--------------------------------------|---------------------------------------|--|---------------------------------------|-------------------------|
| | | | | Capital reserve <i>HKS'000</i> | Exchange reserve <i>HKS'000</i> | | | |
| At 1 January 2016 | 12,100 | 10,841 | 33 | 108,699 | (548) | 10,726 | 991,774 | 1,133,625 |
| Profit and total comprehensive income for the period | - | - | - | - | - | - | 95,197 | 95,197 |
| Share option scheme | | | | | | | | |
| – value of services | - | - | - | - | - | 508 | - | 508 |
| – shares issued | 38 | 5,116 | - | - | - | (2,120) | - | 3,034 |
| 2015 second interim dividend paid | - | - | - | (60,505) | - | - | - | (60,505) |
| Tax benefits arising from share option scheme in overseas tax jurisdiction | - | - | - | 396 | - | - | - | 396 |
| Transactions with owners | 38 | 5,116 | - | (60,109) | - | (1,612) | - | (56,567) |
| At 30 June 2016 | 12,138 | 15,957 | 33 | 48,590 | (548) | 9,114 | 1,086,971 | 1,172,255 |

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Share repurchase reserve <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Unaudited | | | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|---|---------------------------------------|--|---|--|--------------------------|
| | | | | | Capital reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Share-based compensation reserve <i>HK\$'000</i> | | |
| At 1 January 2017 | 12,144 | 16,893 | - | 48 | 38,285 | (548) | 7,959 | 1,051,593 | 1,126,374 |
| Profit and total comprehensive income for the period | - | - | - | - | - | - | - | 36,591 | 36,591 |
| Share option scheme – shares issued | 7 | 1,009 | - | - | - | - | (416) | - | 600 |
| Repurchase of shares of the Company | (99) | (13,045) | (3,264) | 99 | - | - | - | (99) | (16,408) |
| 2016 second interim dividend paid | - | - | - | - | - | - | - | (60,535) | (60,535) |
| Transactions with owners | (92) | (12,036) | (3,264) | 99 | - | - | (416) | (60,634) | (76,343) |
| At 30 June 2017 | 12,052 | 4,857 | (3,264) | 147 | 38,285 | (548) | 7,543 | 1,027,550 | 1,086,622 |

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 2017 HK\$'000 | 2016 HK\$'000 | 30 June 2017 HK\$'000 | 31 December 2016 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 | – | – |
| | <u>321,800</u> | <u>594,347</u> | <u>3,054</u> | <u>3,733</u> |
| | <u>322,285</u> | <u>594,651</u> | <u>17,675</u> | <u>11,206</u> |

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)

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

5. Profit before income tax

Profit before income tax is stated after charging the following:

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

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.

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

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 | <u>36,000</u> | <u>60,704</u> |

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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 | 60,535 | 60,505 |
| | <u><u>60,535</u></u> | <u><u>60,505</u></u> |

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. Property, plant and equipment

| | <i>HK\$'000</i> |
|---|---------------------|
| Opening net book amount as at 1 January 2017 | 5,153 |
| Additions | 9,171 |
| Depreciation | (2,702) |
| | <u>11,622</u> |
| Closing net book amount as at 30 June 2017 | 11,622 |
| Opening net book amount as at 1 January 2016 | 6,241 |
| Additions | 672 |
| Depreciation | (1,146) |
| | <u>5,767</u> |
| Closing net book amount as at 30 June 2016 | 5,767 |
| Additions | 413 |
| Depreciation | (968) |
| Disposals | (59) |
| | <u>5,153</u> |
| Closing net book amount as at 31 December 2016 | <u><u>5,153</u></u> |

10. Trade receivables

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

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

11. 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 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--------------|--------------------------------------|---------------------------------|
| 0 – 30 days | 60,041 | 12,373 |
| 31 – 60 days | 2,476 | 3,092 |
| Over 60 days | 843 | 853 |
| | <hr/> 63,360 <hr/> | <hr/> 16,318 <hr/> |

12. Deposits received, other payables and accrued charges

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Deposits from customers and distributors | 71,770 | 55,234 |
| Accrued product development, sales, marketing and distribution expenses | 12,484 | 11,762 |
| Accrued royalties | 35,065 | 39,116 |
| Accrued directors' and staff remunerations | 4,998 | 17,563 |
| Withholding tax payable | 644 | 1,909 |
| Accrued administrative expenses and professional fees | 4,022 | 6,050 |
| | <hr/> 128,983 <hr/> | <hr/> 131,634 <hr/> |

13. Share capital

| | Authorised Ordinary shares of HK\$0.01 each | |
|--|---|----------------------|
| | <i>No. of shares</i> | <i>HK\$'000</i> |
| At 31 December 2016 and 30 June 2017 | <u>3,000,000,000</u> | <u>30,000</u> |
| | Issued and fully paid Ordinary shares of HK\$0.01 each | |
| | <i>No. of shares</i> | <i>HK\$'000</i> |
| At 1 January 2016 | 1,210,000,000 | 12,100 |
| Exercise of share options | 5,948,000 | 59 |
| Cancellation of repurchased shares | (1,552,000) | (15) |
| | <u>1,214,396,000</u> | <u>12,144</u> |
| At 31 December 2016 and 1 January 2017 | 1,214,396,000 | 12,144 |
| Exercise of share options | 700,000 | 7 |
| Cancellation of repurchased shares (<i>Note</i>) | (9,888,000) | (99) |
| | <u>1,205,208,000</u> | <u>12,052</u> |
| At 30 June 2017 | <u>1,205,208,000</u> | <u>12,052</u> |

Note:

During the six months ended 30 June 2017, the Company repurchased a total of 12,220,000 shares of the Company on the Stock Exchange as follows:

| Month/year | Par value per share <i>HK\$</i> | Number of shares repurchased | Highest price paid per share <i>HK\$</i> | Lowest price paid per share <i>HK\$</i> | Aggregate price paid <i>HK\$'000</i> |
|--------------|---------------------------------------|------------------------------------|--|---|--|
| January 2017 | 0.01 | 4,396,000 | 1.43 | 1.38 | 6,151 |
| May 2017 | 0.01 | 3,892,000 | 1.28 | 1.18 | 4,849 |
| June 2017 | 0.01 | 3,932,000 | 1.40 | 1.28 | 5,408 |

Save and except the 2,332,000 shares repurchased in June 2017 which were cancelled in July 2017, all of the above repurchased shares were cancelled during the period. The issued capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or the contributed surplus account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

14. Fair value measurement of financial instruments

14.1 Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 30 June 2017

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------------|-----------------|-----------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Listed equity investment in Hong Kong | 754 | – | – | 754 |
| Listed equity investment outside Hong Kong | <u>11,123</u> | – | – | <u>11,123</u> |
| | <u><u>11,877</u></u> | <u>–</u> | <u>–</u> | <u><u>11,877</u></u> |

At 31 December 2016

| | Level 1 <i>HK\$ '000</i> | Level 2 <i>HK\$ '000</i> | Level 3 <i>HK\$ '000</i> | Total <i>HK\$ '000</i> |
|--|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Listed equity investment outside Hong Kong | 23,195 | – | – | 23,195 |
| | <u>23,195</u> | <u>–</u> | <u>–</u> | <u>23,195</u> |

During the six months ended 30 June 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

14.2 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, trade payables, other payables and accrued charges and loan from an associated company carried at amortised cost) approximate their fair values as at 30 June 2017 and 31 December 2016.

15. Commitments

15.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2017 were payable as follows:

| | 30 June 2017 <i>HK\$'000</i> | 31 December 2016 <i>HK\$'000</i> |
|------------------------------|------------------------------------|--|
| Within one year | 34,755 | 38,243 |
| In the second to fifth years | 99,200 | 106,950 |
| | <u>133,955</u> | <u>145,193</u> |

15.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 30 June 2017, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|------------------------------|--------------------------------------|---------------------------------|
| Within one year | 8,130 | 8,091 |
| In the second to fifth years | 15,267 | 19,335 |
| | 23,397 | 27,426 |

16. Related party transactions

16.1 The Group entered into the following significant transactions with related parties:

| | Six months ended 30 June | |
|---|---------------------------------|----------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Rent and building management fee paid to fellow subsidiaries, Bagnols Limited and Belmont Limited | 3,329 | 3,189 |

16.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).

17. 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.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Liquidity and Financial Resources

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.

Employees

As at 30 June 2017, the Group had a total of 72 employees in Hong Kong and the United States of America.

There was no material change in remuneration policies compared to those disclosed in the most recently published annual report.

Share Options

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme (“Scheme”) adopted on 25 January 2008, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”):

| Participant | Date of grant | Exercise Price HK\$ | Number of share options | | |
|---|------------------------------|------------------------|---------------------------------|---|-------------------------------|
| | | | Balance at 1 January 2017 | Exercised during the period (Note) | Balance at 30 June 2017 |
| CHENG Bing Kin, Alain <i>Director</i> | 15 May 2013 | 0.930 | 450,000 | – | 450,000 |
| CHOW Yu Chun, Alexander <i>Director</i> | 13 April 2012 15 May 2013 | 0.415 0.930 | 250,000 525,000 | – – | 250,000 525,000 |
| YANG, Victor <i>Director</i> | 13 April 2012 15 May 2013 | 0.415 0.930 | 125,000 525,000 | – – | 125,000 525,000 |
| <i>Continuous Contract</i> | 31 March 2008 | 0.316 | 14,000 | – | 14,000 |
| <i>Employees, excluding</i> | 20 January 2010 | 0.828 | 1,044,000 | – | 1,044,000 |
| <i>Directors</i> | 18 April 2011 | 0.315 | 528,000 | – | 528,000 |
| | 13 April 2012 | 0.415 | 1,297,500 | – | 1,297,500 |
| | 15 May 2013 | 0.930 | 4,135,500 | – | 4,135,500 |
| <i>Other Participants</i> | 20 January 2010 | 0.828 | 443,000 | – | 443,000 |
| | 30 March 2010 | 0.673 | 1,110,000 | – | 1,110,000 |
| | 18 April 2011 | 0.315 | 574,000 | – | 574,000 |
| | 13 April 2012 | 0.415 | 1,222,000 | 100,000 | 1,122,000 |
| | 15 May 2013 | 0.930 | 2,162,500 | 600,000 | 1,562,500 |

Note:

The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the share options were exercised by other participants during the period was HK\$1.44.

The above share options are exercisable in stages in accordance with the terms of the Scheme within ten years after the date of grant. No options were cancelled during the period.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

As at 30 June 2017, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

| Name of Director | Nature of interest | Number of shares held | Percentage interest held |
|-------------------------|---------------------------|------------------------------|---------------------------------|
| CHENG Bing Kin, Alain | Personal | 1,350,000 ordinary shares | 0.11% |
| CHOW Yu Chun, Alexander | Personal | 2,038,000 ordinary shares | 0.17% |
| LEE Ching Kwok, Rin | Personal | 1,865,000 ordinary shares | 0.15% |
| TO Shu Sing, Sidney | Personal | 10,000,000 ordinary shares | 0.83% |
| YANG, Victor | Personal | 1,215,000 ordinary shares | 0.10% |

Long positions in underlying shares and debentures of the Company

| Name of Director | Nature of interest | Number of equity derivatives held | Number of underlying shares (ordinary shares) | Percentage interest held |
|-------------------------|---------------------------|--|--|---------------------------------|
| CHENG Bing Kin, Alain | Personal | 450,000 share options | 450,000 shares | 0.04% |
| CHOW Yu Chun, Alexander | Personal | 775,000 share options | 775,000 shares | 0.06% |
| YANG, Victor | Personal | 650,000 share options | 650,000 shares | 0.05% |

Long positions in shares of Playmates Holdings Limited (“PHL”)

| Name of Director | Nature of interest | Number of shares held | Percentage interest held |
|--------------------------|---------------------------|------------------------------|---------------------------------|
| CHAN Kong Keung, Stephen | Personal | 2,420,000 ordinary shares | 0.12% |
| CHENG Bing Kin, Alain | Personal | 2,280,000 ordinary shares | 0.11% |
| TO Shu Sing, Sidney | Personal | 20,000,000 ordinary shares | 0.96% |

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 30 June 2017.

Details of the share options held by the directors of the Company are disclosed in the above section headed “Share Options”.

Save as disclosed above, as at 30 June 2017, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company Required to be Recorded under Section 336 of the SFO

As at 30 June 2017, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

| Name | Nature of interest | Number of shares held | Percentage interest held |
|-------------------------|--------------------------------|-----------------------------|--------------------------|
| CHAN Chun Hoo, Thomas | Personal (<i>Note (i)</i>) | 600,000,000 ordinary shares | 49.78% |
| TGC Assets Limited | Corporate (<i>Note (i)</i>) | 600,000,000 ordinary shares | 49.78% |
| PHL | Corporate (<i>Note (ii)</i>) | 600,000,000 ordinary shares | 49.78% |
| PIL Management Limited | Corporate (<i>Note (ii)</i>) | 600,000,000 ordinary shares | 49.78% |
| PIL Investments Limited | Corporate (<i>Note (ii)</i>) | 600,000,000 ordinary shares | 49.78% |
| PIL Toys Limited | Corporate | 600,000,000 ordinary shares | 49.78% |
| FIL Limited | Corporate | 77,524,000 ordinary shares | 6.43% |

Notes:

- (i) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC"), since TGC directly owns approximately 44.23% of the shareholding of PHL and is deemed to be interested in the 600,000,000 shares of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 600,000,000 shares of the Company in aggregate which PHL is interested in.
- (ii) PIL Management Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of PIL Management Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, PIL Management Limited and PIL Investments Limited are therefore deemed to be interested in the 600,000,000 shares of the Company in aggregate which PIL Toys Limited is beneficially interested in.

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. The particulars of the repurchases are set out in note 13 to the condensed consolidated financial information.

Compliance with the Corporate Governance Code

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 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.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the period 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

CORPORATE INFORMATION

Directors

TO Shu Sing, Sidney

(Chairman)

CHAN Kong Keung, Stephen

(Executive Director)

CHENG Bing Kin, Alain

(Executive Director)

CHOW Yu Chun, Alexander

(Independent Non-executive Director)

LEE Ching Kwok, Rin

(Independent Non-executive Director)

YANG, Victor

(Independent Non-executive Director)

Company Secretary

NG Ka Yan

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Office

23/F., The Toy House

100 Canton Road

Tsimshatsui

Kowloon, Hong Kong

Auditors

Grant Thornton Hong Kong Limited

Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman

Deacons

Principal Bankers

The Bank of East Asia, Limited

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

UBS AG

Principal Share Registrars

Codan Services Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Branch Share Registrars

Tricor Abacus Limited

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183 Queen's Road East

Hong Kong

Stock Code

The shares of Playmates Toys Limited

are listed for trading on The Stock

Exchange of Hong Kong Limited

(Stock Code: 869)

Website

www.playmatestoys.com



Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
www.playmatestoys.com