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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 2016

#### RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2016 as follows:

#### Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 US\$'000 (Note 10)	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	3	<b>128,120</b>	<b>992,933</b>	1,551,464
Cost of sales		(51,253)	(397,213)	(595,462)
<b>Gross profit</b>		<b>76,867</b>	<b>595,720</b>	956,002
Marketing expenses		(28,394)	(220,057)	(324,374)
Selling and distribution expenses		(8,879)	(68,814)	(91,095)
Administration expenses		(16,981)	(131,593)	(144,479)
<b>Operating profit</b>		<b>22,613</b>	<b>175,256</b>	396,054
Other net income/(loss)		783	6,065	(241)
Finance costs		(671)	(5,199)	(7,157)
Share of profit of an associated company		-	-	939
<b>Profit before income tax</b>	4	<b>22,725</b>	<b>176,122</b>	389,595
<b>Income tax expense</b>	5	<b>(8,505)</b>	<b>(65,916)</b>	(113,350)
<b>Profit and total comprehensive income for the year attributable to owners of the Company</b>		<b>14,220</b>	<b>110,206</b>	276,245

	<i>Note</i> 7	<b>2016</b> <i>US cents</i> ( <i>Note 10</i> )	<b>2016</b> <i>HK cents</i>	2015 <i>HK cents</i>
<b>Earnings per share</b>				
Basic		<b>1.17</b>	<b>9.09</b>	22.84
Diluted		<b>1.16</b>	<b>9.02</b>	22.62

### Consolidated Statement of Financial Position

As at 31 December 2016

	<i>Note</i>	<b>2016</b> <i>US\$'000</i> ( <i>Note 10</i> )	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>				
Property, plant and equipment		<b>665</b>	<b>5,153</b>	6,241
Interest in an associated company		<b>781</b>	<b>6,053</b>	6,053
Deferred tax assets		<b>3,592</b>	<b>27,837</b>	34,105
		<b>5,038</b>	<b>39,043</b>	46,399
<b>Current assets</b>				
Inventories		<b>1,966</b>	<b>15,236</b>	28,242
Trade receivables	8	<b>22,560</b>	<b>174,841</b>	311,020
Deposits paid, other receivables and prepayments		<b>5,285</b>	<b>40,962</b>	37,711
Taxation recoverable		<b>2,902</b>	<b>22,487</b>	53,449
Financial assets at fair value through profit or loss		<b>2,993</b>	<b>23,195</b>	31,078
Cash and bank balances		<b>129,873</b>	<b>1,006,516</b>	877,487
		<b>165,579</b>	<b>1,283,237</b>	1,338,987
<b>Current liabilities</b>				
Trade payables	9	<b>2,106</b>	<b>16,318</b>	48,737
Deposits received, other payables and accrued charges		<b>16,985</b>	<b>131,634</b>	148,263
Loan from an associated company		<b>752</b>	<b>5,831</b>	5,831
Provisions		<b>4,871</b>	<b>37,749</b>	48,930
Taxation payable		<b>564</b>	<b>4,374</b>	-
		<b>25,278</b>	<b>195,906</b>	251,761
<b>Net current assets</b>		<b>140,301</b>	<b>1,087,331</b>	1,087,226
<b>Net assets</b>		<b>145,339</b>	<b>1,126,374</b>	1,133,625
<b>Equity</b>				
Share capital		<b>1,567</b>	<b>12,144</b>	12,100
Reserves		<b>143,772</b>	<b>1,114,230</b>	1,121,525
<b>Total equity</b>		<b>145,339</b>	<b>1,126,374</b>	1,133,625

*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 2015, 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 2016. 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 and the Company. 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 2016 from sales of toys was HK\$992,933,000 (2015: HK\$1,551,464,000).

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	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	<b>316</b>	178	<b>7,473</b>	8,136
Americas				
- U.S.A.	<b>744,222</b>	1,178,109	<b>3,733</b>	4,158
- Others	<b>43,740</b>	78,081	-	-
Europe	<b>143,618</b>	221,384	-	-
Asia Pacific other than Hong Kong	<b>54,525</b>	62,225	-	-
Others	<b>6,512</b>	11,487	-	-
	<b>992,617</b>	1,551,286	<b>3,733</b>	4,158
	<b>992,933</b>	1,551,464	<b>11,206</b>	12,294

### *Major customers*

The Group's customer base is diversified and includes four (2015: 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\$362,691,000, HK\$153,844,000, HK\$119,286,000 and HK\$104,985,000 (2015: HK\$513,229,000, HK\$280,128,000, HK\$225,976,000 and HK\$169,522,000) respectively.

#### **4. Profit before income tax**

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of inventories sold	354,069	541,007
Reversal of write-down of inventories	(181)	-
Write-down of inventories	-	355
Product development costs	11,752	10,758
Royalties paid	136,328	207,909
Provision for consumer returns, cooperative advertising and cancellation charges	48,064	61,478
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(1,662)	(1,344)
Depreciation of property, plant and equipment	2,114	1,814
Directors' and staff remunerations	79,791	94,950
Allowance for impairment of trade receivables	643	-
Allowance for customer concession	1,395	2,361
Operating leases expense on office and warehouse facilities	8,150	7,839
Net foreign exchange gain	(174)	(108)
Loss on disposal of property, plant and equipment	59	-
Auditors' remuneration	1,230	1,160

#### **5. Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	9,093	31,609
Overseas taxation	48,123	61,748
Under provision in prior years – overseas	1,994	4,879
(Over)/Under provision in prior years – Hong Kong	(48)	108
	<u>59,162</u>	<u>98,344</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>6,754</u>	<u>15,006</u>
<b>Income tax expense</b>	<u><b>65,916</b></u>	<u><b>113,350</b></u>

## 6. Dividends

### (a) Dividends attributable to the year

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2015: HK\$0.05) per share	60,767	60,615
Second interim dividend of HK\$0.05 (2015: HK\$0.05) per share	60,505	60,500
	<b>121,272</b>	121,115

At a meeting held on 26 August 2016, the board of directors declared a first interim dividend of HK\$0.05 per share, which was paid on 30 September 2016.

At a meeting held on 24 March 2017, the board of directors declared a second interim dividend of HK\$0.05 per share to be paid on 2 May 2017 to shareholders whose names appear on the Company's register of members on 13 April 2017. 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 2016.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK\$0.05 (2015: HK\$0.05) per share	60,505	60,421
Special interim dividend of HK\$nil (2015: HK\$0.05) per share	-	60,421
	<b>60,505</b>	120,842

## 7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$110,206,000 (2015: HK\$276,245,000) and the weighted average number of ordinary shares of 1,212,756,000 shares (2015: 1,209,725,000 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\$110,206,000 (2015: HK\$276,245,000) and the weighted average number of ordinary shares of 1,221,680,000 shares (2015: 1,221,077,000 shares) in issue during the year, adjusted for the effects of 8,924,000 (2015: 11,352,000) 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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 60 days	<b>117,453</b>	218,391
61 – 90 days	<b>43,150</b>	76,789
91 – 180 days	<b>9,978</b>	14,104
Over 180 days	<b>4,260</b>	1,736
	<hr/> <b>174,841</b>	<hr/> 311,020

## 9. Trade payables

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 30 days	<b>12,373</b>	41,206
31 – 60 days	<b>3,092</b>	2,082
Over 60 days	<b>853</b>	5,449
	<hr/> <b>16,318</b>	<hr/> 48,737

## 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 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended 31 December 2016 was HK\$993 million (2015: HK\$1,551 million), a decrease of 36% compared to the prior year. The decrease in turnover was driven mainly by very strong competition in the boys action categories.

The US continued to be our biggest market in 2016, contributing 74.9% of revenue. Europe as a whole contributed 14.5%, the rest of the Americas 4.4% and 5.5% 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 4.7% increase in retail sales, marking another year of positive growth.<sup>1</sup> The Action Figure category experienced a slight year-over-year decline, as major action adventure movies in 2016 generally underperformed in box office receipts as well as merchandise sales compared to the previous year. Our key international markets, in particular those in Europe and South America, were impacted by continued economic and political uncertainties as well as currency weakness.

Gross profit ratio on toy sales was 60.0% (2015: 61.6%). The decrease in gross profit ratio was attributable to a higher level of development and tooling expenses related to new product introductions, as well as a slightly higher percentage of overall sales generated in International markets. Recurring operating expenses decreased by 25% from the prior year period, reflecting lower marketing, selling, and distribution expenses, and tight discipline on overhead expenses.

The group reported an operating profit for 2016 of HK\$175 million, a decrease of 56% compared to prior year (2015: HK\$396 million). Net profit attributable to shareholders was HK\$110 million (2015: HK\$276 million). The Board declared a HK Cents 5 per share second interim dividend distribution.

Despite recent outbursts of protectionist sentiments around the world, notably exemplified by “Brexit” and the pronouncements of the new U.S. President, we do not view global trade disruption in the exporting and importing of toys as probable. Nevertheless, in the unlikely event the U.S. did impose significant tariffs or border tax on toys made in China, the procurement and cost structure of the entire toy industry, and thus our financial performance, could be negatively impacted.

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<sup>1</sup> Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2016.

## **Brand Overview**

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

Nickelodeon<sup>®</sup> wrapped up Season 4 and launched Season 5 of the popular *TMNT* TV show as planned earlier this year. On the theatrical front, although the 2016 *TMNT* Movie Sequel did not have the same impact as the 2014 movie, it still provided a meaningful boost to the brand. As a result, 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 2016. Retail sell-through ratio of our *TMNT* toys in the US at the end of the year was again at a satisfactory level.

In 2017, we expect competitive pressures to further intensify, with a full schedule of kid-friendly movies to be released throughout the year. Without the marketing boost provided by a theatrical release, sales of our *TMNT* toys will likely decrease compared to 2016.

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 1 of the DreamWorks Animation<sup>®</sup> series *Voltron: Legendary Defender*<sup>®</sup> in June 2016. Since then, the show has garnered positive reviews, and Netflix<sup>®</sup> followed up with the release of Season 2 in January 2017. We launched our line of *Voltron*<sup>®</sup> toys this Spring, and are actively developing product extensions for Fall 2017.

### ***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 will debut across North America in April 2017. We are gearing up for the global launch of our *Ben 10*<sup>™ & ©</sup> toy line this Fall.

### ***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>. *Mysticons*<sup>®</sup>, 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. 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 2016, trade receivables were HK\$174,841,000 (2015: HK\$311,020,000) and inventories were at a seasonal low level of HK\$15,236,000 or 1.5% of turnover (2015: HK\$28,242,000 or 1.8% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 6.6 at 31 December 2016 and 5.3 at 31 December 2015.

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 2016, the Group's cash and bank balances were HK\$1,006,516,000 (2015: HK\$877,487,000), of which HK\$984,353,000 (2015: HK\$660,036,000) 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 2016, the Group's treasury investment in listed equities amounted to HK\$23,195,000 (2015: HK\$31,078,000).

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, 1,552,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.18 to HK\$1.20 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 2016, 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 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 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 12 April 2017 to 13 April 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 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 11 April 2017. The second interim dividend will be paid on 2 May 2017 to the shareholders on the Register of Members of the Company on 13 April 2017.

On behalf of the Board  
**CHAN Chun Hoo, Thomas**  
*Chairman*

Hong Kong, 24 March 2017

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*)