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## PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 635)

### 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 Income Statement

For the year ended 31 December 2016

	Note	2016 US\$'000 (Note 10)	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	3	<b>161,384</b>	<b>1,250,726</b>	1,791,204
Cost of sales		(53,935)	(417,997)	(616,571)
<b>Gross profit</b>		<b>107,449</b>	<b>832,729</b>	1,174,633
Marketing expenses		(28,394)	(220,057)	(324,374)
Selling and distribution expenses		(8,879)	(68,814)	(91,095)
Administration expenses		(23,546)	(182,475)	(198,117)
Net loss on financial assets at fair value through profit or loss		(352)	(2,730)	(14,588)
Revaluation (deficit)/surplus on investment properties		(39,072)	(302,806)	172,455
<b>Operating profit</b>		<b>7,206</b>	<b>55,847</b>	718,914
Other net income		488	3,785	438
Finance costs		(2,115)	(16,393)	(18,156)
Share of profit of an associated company		-	-	939
<b>Profit before income tax</b>	4	<b>5,579</b>	<b>43,239</b>	702,135
<b>Income tax expense</b>	5	<b>(12,352)</b>	<b>(95,727)</b>	(147,840)
<b>(Loss)/Profit for the year</b>		<b>(6,773)</b>	<b>(52,488)</b>	554,295

	<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>(Loss)/Profit for the year attributable to:</b>				
Owners of the Company		<b>(14,211)</b>	<b>(110,132)</b>	413,718
Non-controlling interests		<b>7,438</b>	<b>57,644</b>	140,577
		<b>(6,773)</b>	<b>(52,488)</b>	554,295
		<i>US\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>(Loss)/Earnings per share</b>				
	7			
Basic		<b>(0.07)</b>	<b>(0.51)</b>	1.84
Diluted		<b>(0.07)</b>	<b>(0.51)</b>	1.84

**Consolidated Statement of Comprehensive Income**  
*For the year ended 31 December 2016*

	<b>2016</b> <i>US\$'000</i> <i>(Note 10)</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>(Loss)/Profit for the year</b>	<b>(6,773)</b>	<b>(52,488)</b>	554,295
<b>Other comprehensive income, including reclassification adjustments:</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	<b>(5,214)</b>	<b>(40,405)</b>	(13,728)
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings	<b>4,105</b>	<b>31,812</b>	-
<b>Total comprehensive income for the year</b>	<b>(7,882)</b>	<b>(61,081)</b>	540,567
<b>Total comprehensive income attributable to:</b>			
Owners of the Company	<b>(15,320)</b>	<b>(118,725)</b>	399,990
Non-controlling interests	<b>7,438</b>	<b>57,644</b>	140,577
	<b>(7,882)</b>	<b>(61,081)</b>	540,567

## Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 US\$'000 (Note 10)	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>				
Fixed assets				
- Investment properties		693,991	5,378,426	5,754,525
- Other property, plant and equipment		34,132	264,524	207,324
		728,123	5,642,950	5,961,849
Goodwill		771	5,976	5,976
Interest in an associated company		781	6,053	6,053
Deferred tax assets		3,740	28,982	35,143
		733,415	5,683,961	6,009,021
<b>Current assets</b>				
Inventories		1,990	15,422	28,443
Trade receivables	8	22,670	175,692	311,857
Deposits paid, other receivables and prepayments		11,286	87,468	85,843
Taxation recoverable		2,908	22,534	53,881
Financial assets at fair value through profit or loss		14,744	114,267	143,145
Cash and bank balances		179,188	1,388,706	1,160,738
		232,786	1,804,089	1,783,907
<b>Current liabilities</b>				
Bank loans		64,165	497,275	494,680
Trade payables	9	2,400	18,598	50,318
Deposits received, other payables and accrued charges		22,637	175,430	196,986
Loan from an associated company		752	5,831	5,831
Provisions		4,871	37,749	48,930
Taxation payable		899	6,969	3,570
		95,724	741,852	800,315
<b>Net current assets</b>		<b>137,062</b>	<b>1,062,237</b>	<b>983,592</b>
<b>Total assets less current liabilities</b>		<b>870,477</b>	<b>6,746,198</b>	<b>6,992,613</b>

	<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 liabilities</b>			
Bank loans	748	5,800	34,600
Deferred tax liabilities	3,947	30,589	30,427
	<b>4,695</b>	<b>36,389</b>	65,027
<b>Net assets</b>	<b>865,782</b>	<b>6,709,809</b>	6,927,586
<b>Equity</b>			
Share capital	2,785	21,582	22,000
Reserves	789,451	6,118,249	6,333,910
<b>Equity attributable to the owners of the Company</b>	<b>792,236</b>	<b>6,139,831</b>	6,355,910
<b>Non-controlling interests</b>	<b>73,546</b>	<b>569,978</b>	571,676
<b>Total equity</b>	<b>865,782</b>	<b>6,709,809</b>	6,927,586

*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 investment properties and 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, property investments, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Sale of toys	<b>992,933</b>	1,551,464
Rental income from investment properties	<b>201,223</b>	193,713
Property management income	<b>17,457</b>	16,530
Restaurant income	<b>24,960</b>	25,011
Dividend income	<b>13,301</b>	3,889
<u>Interest income</u>	<u><b>852</b></u>	<u>597</u>
<u>Total revenue</u>	<u><b>1,250,726</b></u>	<u>1,791,204</u>

### ***Segment results, assets and liabilities***

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 Group has presented the following three reportable segments.

Property investments and associated businesses: this segment invests and leases commercial, industrial and residential premises for rental income, to gain from the appreciation in properties' values in the long term and to provide property management services for property management fee income, and operates restaurants.

Investment business: this segment invests in financial instruments including listed equity and managed funds for interest income and dividend income and to gain from the appreciation in instruments' values.

Toy business: this segment engages in the design, development, marketing and distribution of toys and family entertainment activity products.

The Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment to assess segment performance and allocate resources between segments.

Inter-segment revenue represents inter-company rental and property management fee charged on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

The segment results for the year ended 31 December 2016 are as follows:

	<b>Property investments and associated businesses</b>	<b>Investment business</b>	<b>Toy business</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross segment revenue	255,751	14,153	992,933	1,262,837
Inter-segment revenue	<u>(12,111)</u>	-	-	<u>(12,111)</u>
Revenue from external customers	<u>243,640</u>	<u>14,153</u>	<u>992,933</u>	<u>1,250,726</u>
Segment (loss)/profit before depreciation	(108,753)	10,611	177,370	79,228
Depreciation	<u>(10,251)</u>	-	<u>(2,114)</u>	<u>(12,365)</u>
Segment operating (loss)/profit	<u>(119,004)</u>	<u>10,611</u>	<u>175,256</u>	<u>66,863</u>
Other net (loss)/income	(2,287)	-	6,065	3,778
Finance costs	<u>(11,028)</u>	<u>(29)</u>	<u>(5,199)</u>	<u>(16,256)</u>
	<u>(13,315)</u>	<u>(29)</u>	<u>866</u>	<u>(12,478)</u>
Segment (loss)/profit before income tax	<u>(132,319)</u>	<u>10,582</u>	<u>176,122</u>	<u>54,385</u>
Unallocated corporate expenses				<u>(11,146)</u>
Profit before income tax				<u>43,239</u>
Interest income	-	852	3,773	
Revaluation deficit on investment properties	(302,806)	-	-	
Net (loss)/gain on financial assets at fair value through profit or loss	-	(2,730)	3,771	

The segment results for the year ended 31 December 2015 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross segment revenue	247,180	4,486	1,551,464	1,803,130
<u>Inter-segment revenue</u>	<u>(11,926)</u>	<u>-</u>	<u>-</u>	<u>(11,926)</u>
Revenue from external customers	235,254	4,486	1,551,464	1,791,204
Segment profit / (loss) before depreciation	350,895	(11,194)	397,868	737,569
<u>Depreciation</u>	<u>(11,623)</u>	<u>-</u>	<u>(1,814)</u>	<u>(13,437)</u>
<u>Segment operating profit / (loss)</u>	<u>339,272</u>	<u>(11,194)</u>	<u>396,054</u>	<u>724,132</u>
Other net income / (loss)	679	-	(241)	438
Finance costs	(10,684)	(68)	(7,157)	(17,909)
Share of profit of an associated company	-	-	939	939
	<u>(10,005)</u>	<u>(68)</u>	<u>(6,459)</u>	<u>(16,532)</u>
<u>Segment profit / (loss) before income tax</u>	<u>329,267</u>	<u>(11,262)</u>	<u>389,595</u>	<u>707,600</u>
Unallocated corporate expenses				<u>(5,465)</u>
Profit before income tax				<u>702,135</u>
Interest income	-	597	1,982	
Revaluation surplus on investment properties	172,455	-	-	
Net loss on financial assets at fair value through profit or loss	-	(14,588)	(5,079)	



The segment assets and liabilities as at 31 December 2016 are as follows:

	<b>Property investments and associated businesses</b>	<b>Investment business</b>	<b>Toy business</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	5,721,061	442,752	1,265,903	7,429,716
Interest in an associated company	-	-	6,053	6,053
<b>Total reportable segment assets</b>	<b>5,721,061</b>	<b>442,752</b>	<b>1,271,956</b>	<b>7,435,769</b>
Inter-segment elimination	-	-	(1,591)	(1,591)
Deferred tax assets				28,982
Taxation recoverable				22,534
Unallocated assets				<u>2,356</u>
<b>Total assets</b>				<b><u>7,488,050</u></b>
<b>Reportable segment liabilities</b>	<b>548,041</b>	<b>-</b>	<b>191,532</b>	<b>739,573</b>
Inter-segment elimination	(1,591)	-	-	(1,591)
Deferred tax liabilities				30,589
Taxation payable				6,969
Unallocated liabilities				<u>2,701</u>
<b>Total liabilities</b>				<b><u>778,241</u></b>
<b>Capital expenditure</b>	<b>4,069</b>	<b>-</b>	<b>1,085</b>	

The segment assets and liabilities as at 31 December 2015 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	6,048,475	357,907	1,291,779	7,698,161
Interest in an associated company	-	-	6,053	6,053
<u>Total reportable segment assets</u>	<u>6,048,475</u>	<u>357,907</u>	<u>1,297,832</u>	<u>7,704,214</u>
Inter-segment elimination	(53)	-	(1,578)	(1,631)
Deferred tax assets				35,143
Taxation recoverable				53,881
Unallocated assets				<u>1,321</u>
Total assets				<u>7,792,928</u>
<u>Reportable segment liabilities</u>	<u>579,567</u>	<u>-</u>	<u>251,761</u>	<u>831,328</u>
Inter-segment elimination	(1,578)	-	(53)	(1,631)
Deferred tax liabilities				30,427
Taxation payable				3,570
Unallocated liabilities				<u>1,648</u>
Total liabilities				<u>865,342</u>
<u>Capital expenditure</u>	<u>271,608</u>	<u>-</u>	<u>3,716</u>	

### ***Geographical information***

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, goodwill 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 fixed assets, the location of operation to which they are allocated in case of goodwill, and the location of operation in case of interest in an associated company.

	<b>Revenue from external customers</b>		<b>Specified non-current assets</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<u>Hong Kong (place of domicile)</u>	<b>245,690</b>	237,703	<b>5,160,336</b>	5,441,354
Americas				
- U.S.A.	<b>744,888</b>	1,179,366	<b>198,780</b>	199,233
- Others	<b>43,740</b>	78,081	-	-
Europe	<b>148,441</b>	221,984	<b>208,174</b>	252,469
Asia Pacific other than Hong Kong	<b>61,455</b>	62,583	<b>87,689</b>	80,822
Others	<b>6,512</b>	11,487	-	-
	<b>1,005,036</b>	1,553,501	<b>494,643</b>	532,524
	<b>1,250,726</b>	1,791,204	<b>5,654,979</b>	5,973,878

### ***Major customers***

The Group's customer base is diversified and includes three (2015: 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\$362,691,000, HK\$153,844,000 and HK\$149,074,000 (2015: HK\$513,229,000, HK\$280,128,000 and HK\$225,976,000) 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	361,818	548,962
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
Direct operating expenses arising from investment properties that generate rental income	4,747	4,791
Direct operating expenses arising from investment properties that did not generate rental income	1,165	828
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 other property, plant and equipment	13,176	13,844
Directors' and staff remunerations	101,307	120,459
Allowance for impairment of trade receivables	643	-
Allowance for customer concession	1,395	2,361
Operating leases expense on office and warehouse facilities	2,642	2,383
Loss on disposal of other property, plant and equipment	94	2
<u>Auditors' remuneration</u>	<u>1,850</u>	<u>1,760</u>

#### 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	38,949	58,916
Overseas taxation	48,123	61,748
Under provision in prior years – overseas	1,994	4,879
(Over)/Under provision in prior years – Hong Kong	(168)	34
	<u>88,898</u>	<u>125,577</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>6,829</u>	<u>22,263</u>
<u>Income tax expense</u>	<u>95,727</u>	<u>147,840</u>

## 6. Dividends

### (a) Dividends attributable to the year

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
First interim dividend of HK\$0.075 (2015: HK\$0.075) per share	<b>16,200</b>	16,769
Second interim dividend of HK\$0.075 (2015: HK\$0.075) per share	<b>16,050</b>	16,200
Special interim dividend of HK\$0.15 (2015: HK\$0.13) per share	<b>32,100</b>	28,080
	<b>64,350</b>	61,049

At a meeting held on 26 August 2016, the board of directors declared a first interim dividend of HK\$0.075 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\$0.075 per share and a special interim dividend of HK\$0.15 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 and special 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 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\$0.075 (2015: HK\$0.075) per share	<b>16,200</b>	17,102
Special interim dividend of HK\$0.13 (2015: HK\$0.20) per share	<b>28,080</b>	45,604
	<b>44,280</b>	62,706

## 7. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK\$110,132,000 (2015: profit of HK\$413,718,000) and the weighted average number of ordinary shares of 216,158,000 shares (2015: 225,418,000 shares) in issue during the year.

Diluted (loss)/earnings per share for the years ended 31 December 2016 and 2015 equals to the basic (loss)/earnings per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted (loss)/earnings per share.

The dilutive effect of the share options issued by the Group's listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2016 and 2015.

## 8. Trade receivables

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. For property investments and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 60 days	118,291	219,228
61 – 90 days	43,159	76,789
91 – 180 days	9,981	14,104
Over 180 days	4,261	1,736
	<hr/> 175,692	<hr/> 311,857

## 9. Trade payables

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 30 days	14,515	42,648
31 – 60 days	3,092	2,082
Over 60 days	991	5,588
	<hr/> 18,598	<hr/> 50,318

## 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

### *Group Overview*

Playmates Holdings group global revenue for the year ended 31 December 2016 was HK\$1,250.7 million (2015: HK\$1,791.2 million); reflected a decrease of 30.2% compared to the prior year. The Group reported an operating profit of HK\$55.8 million (2015: HK\$718.9 million) and net loss attributable to shareholders was HK\$110.1 million (2015 net profit attributable to shareholders: HK\$413.7 million). Basic loss per share was HK\$0.51 (2015 basic earnings per share: HK\$1.84).

### *Property Investments and Associated Businesses*

Aggregate turnover of the property investments and associated businesses during 2016 was HK\$243.6 million (2015: HK\$235.3 million), reflecting a 3.5% increase compared to the prior year. Revenue from the property investments and property management businesses increased 4.0% to HK\$218.7 million (2015: HK\$210.2 million), while revenue from the food and beverage business was approximately flat at HK\$25.0 million. The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$5.4 billion (2015: HK\$5.8 billion). A revaluation deficit of HK\$302.8 million (2015: surplus of HK\$172.5 million) was reported in the consolidated income statement of the Group. Segment operating loss was HK\$119.0 million including revaluation deficit, compared to segment operating profit of HK\$339.3 million including revaluation gain for 2015.

#### **(a) Property Investments**

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes a number of overseas investment properties in the United Kingdom, the United States of America and Japan, which accounted for 7.9% of the fair value of the Group's overall investment property portfolio (2015: 7.9%).

Aggregate rental income generated from the investment properties of the Group was HK\$201.2 million, an increase of 3.9% from the prior year (2015: HK\$193.7 million). Overall occupancy rate was 87% as at 31 December 2016 (2015: 89%).

#### **(i) Commercial**

The Group's investments in commercial properties consist of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With the opening of the Apple flagship store on the podium floors of the building in July 2015, The Toy House reaffirmed its position as a landmark on the premier shopping destination that is Canton Road.

**(ii) Residential**

The Group's principal investments in residential properties include a number of units in Hillview on Macdonnell Road, Mid-Levels, Hong Kong. The demand for luxury residential units in Hong Kong Mid-Levels continued to be subdued throughout 2016. Over the longer term, we remain optimistic that Hillview will benefit from resilient demand for and limited supply of up-market residential properties in Mid-Levels.

We continue to explore leasing opportunities for overseas residential properties.

**(iii) Industrial**

The Group's investments in industrial properties consist of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. We are optimistic that this investment will benefit from further developments in Tuen Mun.

**(b) Property Management**

The Group engaged Savills Property Management Limited ("Savills") to manage The Toy House and Playmates Factory Building. Savills provides comprehensive property management services, including repair and maintenance, building security, general cleaning for common areas, hand-over and take-over of premises, and the monitoring of reinstatement and refurbishment works.

Income generated from the property management business segment was HK\$17.5 million, an increase of 6.1% from prior year (2015: HK\$16.5 million).

**(c) Food & Beverage Business**

Revenue generated from the food and beverage business was approximately flat compared to 2015 at HK\$25.0 million.

While we maintain a favorable long term view of our property investments and associated businesses, we will continue to adjust the balance of our property portfolio to achieve our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

***Playmates Toys***

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 Playmates Toys' 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. Playmates Toys' 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.

Playmates Toys group reported an operating profit for 2016 of HK\$175 million, a decrease of 56% compared to prior year (2015: HK\$396 million).

Despite recent outbursts of protectionist sentiments around the world, notably exemplified by "Brexit" and the pronouncements of the new U.S. President, Playmates Toys does 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 Playmates Toys' financial performance, could be negatively impacted.

### ***Portfolio Investments***

The Group engages in portfolio investments which involve investing in listed equity shares and managed funds. The investment policy provides for a set of prudent guidance and control framework to achieve the objective of managing a portfolio that is highly liquid and offers reasonable risk-adjusted returns through capital appreciation and dividend and interest income.

As at 31 December 2016, fair market value of the Group's investment portfolio was HK\$91.1 million (2015: HK\$112.1 million). The Group reported a net loss from investments of HK\$2.7 million in 2016, compared to a net loss of HK\$14.6 million in 2015. In 2016, dividend and interest income generated from portfolio investments were HK\$14.2 million (2015: HK\$4.5 million) and have been included in the revenue of the Group.

The Group will remain vigilant in monitoring and balancing the investment portfolio.

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

## **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 related to toy operation were HK\$174,841,000 (2015: HK\$311,020,000) and inventories related to toy operation were at a seasonal low level of HK\$15,236,000 (2015: HK\$28,242,000) or 1.5% (2015: 1.8%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 94% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2016 (2015: 96%). Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2016, the Group's financial assets at fair value through profit or loss amounted to HK\$114,267,000 (2015: HK\$143,145,000) of which HK\$23,195,000 was held by Playmates Toys for treasury investments (2015: HK\$31,078,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2016 was 6.7% compared to 6.8% at 31 December 2015. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.4 at 31 December 2016 compared to 2.2 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\$1,388,706,000 (2015: HK\$1,160,738,000), of which HK\$1,190,710,000 (2015: HK\$848,782,000) was denominated in United States dollar, HK\$24,317,000 (2015: HK\$4,152,000) in British pound and the remaining balance was mainly denominated in Hong Kong dollar.

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

During the year, 4,530,600 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$8.49 to HK\$10.50 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 and special 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. Ip Shu Wing, Charles (*Independent Non-executive Director*), Mr. Lee Peng Fei, Allen (*Independent Non-executive Director*), Mr. Lo Kai Yiu, Anthony (*Independent Non-executive Director*), Mr. To Shu Sing, Sidney (*Executive Director*), Mr. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)