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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 2013 AND PROPOSED SHARE PREMIUM REDUCTION

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2013 as follows:

Consolidated Income Statement

For the year ended 31 December 2013

	<i>Note</i>	2013 <i>US\$'000</i> <i>(Note 10)</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Revenue	3	242,686	1,880,818	490,399
Cost of sales		(82,269)	(637,585)	(168,002)
Gross profit		160,417	1,243,233	322,397
Marketing expenses		(37,287)	(288,976)	(75,902)
Selling and distribution expenses		(10,619)	(82,299)	(19,420)
Administration expenses		(25,904)	(200,753)	(127,544)
Net (loss) / gain on financial assets at fair value through profit or loss		(441)	(3,417)	35,330
Revaluation surplus on investment properties		98,947	766,838	1,067,250
Operating profit		185,113	1,434,626	1,202,111
Other income		2,283	17,695	12,896
Finance costs		(2,328)	(18,040)	(13,780)
Share of loss of an associated company		(117)	(906)	(5,497)

	Note	2013 US\$'000 (Note 10)	2013 HK\$'000	2012 HK\$'000
Profit before income tax	4	184,951	1,433,375	1,195,730
Income tax expense	5	(3,393)	(26,295)	(6,345)
Profit for the year		181,558	1,407,080	1,189,385
Profit for the year attributable to:				
Equity holders of the Company		151,964	1,177,727	1,170,133
Non-controlling interests		29,594	229,353	19,252
		181,558	1,407,080	1,189,385
		US\$	HK\$	HK\$
Earnings per share	7			
Basic		0.65	5.02	4.85
Diluted		0.65	5.02	4.85

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 US\$'000 (Note 10)	2013 HK\$'000	2012 HK\$'000
Profit for the year	181,558	1,407,080	1,189,385
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(329)	(2,551)	(2,193)
Total comprehensive income for the year	181,229	1,404,529	1,187,192
Total comprehensive income attributable to:			
Equity holders of the Company	151,626	1,175,106	1,167,651
Non-controlling interests	29,603	229,423	19,541
	181,229	1,404,529	1,187,192

Consolidated Balance Sheet

As at 31 December 2013

	<i>Note</i>	2013 <i>US\$'000</i> <i>(Note 10)</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Non-current assets				
Fixed assets				
- Investment properties		630,923	4,889,650	4,098,998
- Other property, plant and equipment		24,860	192,668	140,024
		655,783	5,082,318	4,239,022
Goodwill		771	5,976	5,976
Interest in an associated company		1,393	10,795	11,701
Deferred tax assets		5,799	44,944	912
		663,746	5,144,033	4,257,611
Current assets				
Inventories		4,824	37,389	22,267
Trade receivables	8	53,170	412,063	178,911
Deposits paid, other receivables and prepayments		5,702	44,190	12,594
Taxation recoverable		47	360	1,614
Financial assets at fair value through profit or loss		3,798	29,434	32,968
Cash and bank balances		95,367	739,098	465,772
		162,908	1,262,534	714,126
Current liabilities				
Bank loans		46,942	363,800	363,800
Trade payables	9	7,942	61,550	47,898
Deposits received, other payables and accrued charges		30,899	239,468	159,758
Provisions		4,559	35,329	13,330
Taxation payable		2,176	16,863	3,689
		92,518	717,010	588,475
Net current assets		70,390	545,524	125,651
Total assets less current liabilities		734,136	5,689,557	4,383,262

	<i>Note</i>	2013 <i>US\$'000</i> <i>(Note 10)</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Non-current liabilities				
Bank loans		13,832	107,200	163,000
Deferred tax liabilities		2,970	23,014	23,296
		16,802	130,214	186,296
Net assets		717,334	5,559,343	4,196,966
Equity				
Share capital		2,994	23,200	23,699
Reserves		671,556	5,204,562	4,082,255
Declared dividends	6	1,490	11,550	11,821
Equity attributable to the equity holders of the Company				
		676,040	5,239,312	4,117,775
Non-controlling interests		41,294	320,031	79,191
Total equity		717,334	5,559,343	4,196,966

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”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of 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 consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2012, except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“new HKFRSs”) which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2013. 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 new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

Amendments to HKAS 1	Presentation of items of other comprehensive income
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Group’s presentation of other comprehensive income has been modified accordingly.

HKFRS 10 Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12, Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those required by the respective standards.

HKFRS 13 Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group’s assets and liabilities.

Amendments to HKFRS 7 Disclosure – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and liabilities. Those new disclosures are required for all recognised financial instruments that are set off under HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's consolidated financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

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:

	2013	2012
	HK\$'000	HK\$'000
Sale of toys	1,658,527	371,615
Rental income from investment properties	168,928	68,211
Property management income	15,130	11,928
Restaurant income	36,614	35,248
Dividend income	735	1,857
Interest income	884	1,540
Total revenue	1,880,818	490,399

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 2013 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross segment revenue	228,213	1,619	1,658,527	1,888,359
Inter-segment revenue	(7,541)	-	-	(7,541)
Revenue from external customers	220,672	1,619	1,658,527	1,880,818
Segment profit / (loss) before depreciation	901,934	(1,798)	547,265	1,447,401
Depreciation	(10,074)	-	(723)	(10,797)
Segment operating profit / (loss)	891,860	(1,798)	546,542	1,436,604
Other income	6,256	-	1,555	7,811
Finance costs	(10,258)	(74)	(7,534)	(17,866)
Share of loss of an associated company	-	-	(906)	(906)
	(4,002)	(74)	(6,885)	(10,961)
Segment profit / (loss) before income tax	887,858	(1,872)	539,657	1,425,643
Unallocated corporate income				7,732
Profit before income tax				1,433,375
Bank interest income	1	884	1,555	
Revaluation surplus on investment properties	766,838	-	-	
Net unrealised loss on financial assets at fair value through profit or loss	-	(3,417)	-	

The segment results for the year ended 31 December 2012 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	122,690	3,397	371,615	497,702
<u>Inter-segment revenue</u>	<u>(7,303)</u>	<u>-</u>	<u>-</u>	<u>(7,303)</u>
Revenue from external customers	115,387	3,397	371,615	490,399
Segment profit before depreciation	1,121,124	38,727	53,184	1,213,035
<u>Depreciation</u>	<u>(7,580)</u>	<u>-</u>	<u>(668)</u>	<u>(8,248)</u>
<u>Segment operating profit</u>	<u>1,113,544</u>	<u>38,727</u>	<u>52,516</u>	<u>1,204,787</u>
Other income	-	-	1,568	1,568
Finance costs	(10,593)	(86)	(2,746)	(13,425)
<u>Share of loss of an associated company</u>	<u>-</u>	<u>-</u>	<u>(5,497)</u>	<u>(5,497)</u>
	<u>(10,593)</u>	<u>(86)</u>	<u>(6,675)</u>	<u>(17,354)</u>
<u>Segment profit before income tax</u>	<u>1,102,951</u>	<u>38,641</u>	<u>45,841</u>	<u>1,187,433</u>
Unallocated corporate income				<u>8,297</u>
Profit before income tax				<u>1,195,730</u>
Bank interest income	-	1,540	1,568	
Revaluation surplus on investment properties	1,067,250	-	-	
Net realised gain on financial assets at fair value through profit or loss	-	28,440	-	
Net unrealised gain on financial assets at fair value through profit or loss	-	6,890	-	

The segment assets and liabilities as at 31 December 2013 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	5,126,830	233,580	990,510	6,350,920
Interest in an associated company	-	-	10,795	10,795
Total reportable segment assets	5,126,830	233,580	1,001,305	6,361,715
Inter-segment elimination	-	-	(2,490)	(2,490)
Deferred tax assets				44,944
Taxation recoverable				360
Unallocated assets				<u>2,038</u>
Total assets				<u>6,406,567</u>
Reportable segment liabilities	515,102	-	291,434	806,536
Inter-segment elimination	(2,490)	-	-	(2,490)
Deferred tax liabilities				23,014
Taxation payable				16,863
Unallocated liabilities				<u>3,301</u>
Total liabilities				<u>847,224</u>
Capital expenditure	83,402	-	621	

The segment assets and liabilities as at 31 December 2012 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)	4,259,711	326,137	368,414	4,954,262
Interest in an associated company	-	-	11,701	11,701
<u>Total reportable segment assets</u>	<u>4,259,711</u>	<u>326,137</u>	<u>380,115</u>	<u>4,965,963</u>
Inter-segment elimination	-	-	(475)	(475)
Deferred tax assets				912
Taxation recoverable				1,614
Unallocated assets				<u>3,723</u>
Total assets				<u>4,971,737</u>
<u>Reportable segment liabilities</u>	<u>556,730</u>	-	<u>188,676</u>	745,406
Inter-segment elimination	(475)	-	-	(475)
Deferred tax liabilities				23,296
Taxation payable				3,689
Unallocated liabilities				<u>2,855</u>
Total liabilities				<u>774,771</u>
<u>Capital expenditure</u>	<u>56,092</u>	-	183	

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.

	Revenue from external customers		Specified non-current assets	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	222,955	118,435	4,848,253	4,032,673
Americas				
- U.S.A.	1,114,966	302,576	635	808
- Others	84,505	19,945	-	-
Europe	356,293	36,381	250,201	223,218
Asia Pacific other than Hong Kong	96,264	13,040	-	-
Others	5,835	22	-	-
	1,657,863	371,964	250,836	224,026
	1,880,818	490,399	5,099,089	4,256,699

Major customers

The Group's customer base is diversified and includes four (2012: 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\$466.0 million, HK\$295.7 million, HK\$216.1 million and HK\$215.8 million (2012: HK\$108.2 million, HK\$83.3 million and HK\$74.0 million) respectively.

4. Profit before income tax

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cost of inventories sold	601,777	137,957
Write-down of inventories	21	130
Product development costs	8,005	4,377
Royalties paid	212,077	45,997
Direct operating expenses arising from investment properties that generate rental income	15,021	3,176
Direct operating expenses arising from investment properties that did not generate rental income	491	2,012
Provision for customer concession	-	1,319
Provision for consumer returns, cooperative advertising and cancellation charges	56,656	13,671
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges	(451)	(1,854)
Depreciation of other property, plant and equipment	11,369	8,973
Employee benefit expense, including directors' remuneration	123,885	69,053
Operating leases expense on office and warehouse facilities	2,101	2,094
Loss on disposal of other property, plant and equipment	182	-
Net foreign exchange gain	(11,793)	(10,222)
Interest on overdrafts and bank loans wholly repayable within five years	9,492	7,018
Interest on bank loans wholly repayable after five years	-	2,844
Bank interest income	(2,440)	(3,108)
Compensation received from a tenant	(6,255)	-
Net realised gain on financial assets at fair value through profit or loss	-	(28,440)
Net unrealised loss / (gain) on financial assets at fair value through profit or loss	3,417	(6,890)

5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Overseas taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	21,011	6,298
Overseas taxation	49,709	390
(Over) / Under provision in prior years – Hong Kong	(111)	2,476
	70,609	9,164
Deferred taxation		
Origination and reversal of temporary differences	(44,314)	(2,819)
Income tax expense	26,295	6,345

6. Dividends

(a) Dividends attributable to the year

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2012: HK\$0.05) per Share	11,679	11,849
Second interim dividend of HK\$0.05 (2012: HK\$0.05) per Share	11,550	11,821
Special dividend of HK\$0.40 (2012: HK\$nil) per Share	92,400	-
	115,629	23,670

At a meeting held on 27 August 2013, the Board declared a first interim dividend of HK\$0.05 per Share, which was paid on 27 September 2013.

At a meeting held on 26 March 2014, the Board:

- (i) declared a second interim dividend of HK\$0.05 per Share to be paid on or around 6 June 2014 to Shareholders whose names appear on the Company's register of members on 26 May 2014; and
- (ii) proposed to declare and distribute a special dividend of HK\$0.40 per Share subject to the approval of Shareholders at the AGM and is conditional upon the approval of the Share Premium Reduction. The special dividend, if approved at the AGM, will be payable on or around 6 June 2014 to Shareholders whose names appear on the Company's register of members on 26 May 2014. Details of the special dividend and the Share Premium Reduction are set out in the section headed "Share Premium Reduction and Special Dividend" of this announcement.

The above second interim dividend declared and the special dividend proposed after the balance sheet date have not been recognised as liabilities in the financial statements for the year ended 31 December 2013.

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

	2013	2012
	HK\$'000	HK\$'000
Second interim dividend in respect of previous financial year and paid during the year of HK\$0.05 (2012: HK\$0.05) per Share	11,803	12,293

7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$1,177,727,000 (2012: HK\$1,170,133,000) and the weighted average number of ordinary shares of 234,726,000 (2012: 241,446,000) in issue during the year.

Diluted earnings per share for the year ended 31 December 2013 equals to the basic earnings per share as the potential ordinary shares on exercise of share options were not included in the calculation of diluted earnings per share because they are anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2012 is based on the profit attributable to equity holders of the Company of HK\$1,170,133,000 and the weighted average number of ordinary shares of 241,453,000 in issue during the year, adjusted for the effects of 7,000 dilutive potential shares on exercise of share options.

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 at the balance sheet date:

	2013	2012
	HK\$'000	HK\$'000
0 – 30 days	406,286	176,971
31 – 60 days	3,434	1,631
Over 60 days	2,343	309
	412,063	178,911

9. Trade payables

The following is an aging analysis of trade payables at the balance sheet date:

	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	58,446	38,758
31 – 60 days	2,682	7,527
<u>Over 60 days</u>	422	<u>1,613</u>
	61,550	<u>47,898</u>

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 2013.

11. Comparative figures

Certain comparative figures have been reclassified from administration expenses to other income to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Overview

Playmates Holdings group global revenue for the year ended 31 December 2013 was HK\$1,880.8 million (2012: HK\$490.4 million); reflected an increase of 283.5% compared to the prior year. The Group reported an operating profit of HK\$1,434.6 million (2012: HK\$1,202.1 million) and net profit attributable to shareholders was HK\$1,177.7 million (2012: HK\$1,170.1 million). Basic earnings per share was HK\$5.02 (2012: HK\$4.85).

Property Investments and Associated Businesses

In 2013 revenue from the property investments and property management businesses increased 129.8% to HK\$184.1 million (2012: HK\$80.1 million), while revenue from the food and beverage business increased by 3.9% to about HK\$36.6 million (2012: HK\$35.2 million). Aggregate turnover increased by approximately 91.2% to about HK\$220.7 million (2012: HK\$115.4 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of about HK\$4.9 billion (2012: about HK\$4.1 billion). A revaluation surplus of HK\$766.8 million was reported in the consolidated income statement of the Group. Segment operating profit was HK\$891.9 million including revaluation surplus, compared to HK\$1,113.5 million (including revaluation surplus of HK\$1,067.3 million) for 2012.

(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. Overall occupancy rate of the property investment portfolio in Hong Kong was about 96% as at 31 December 2013 (2012: 90%). The Group's property portfolio also includes two investment properties in the United Kingdom.

(i) *The Toy House*

Rental income generated by The Toy House was about HK\$137.2 million, a substantial increase of 226.9% from last year (2012: HK\$42.0 million), driven by the start of a long term lease with a leading global brand on the commercial podium floors of the building. With this significant lease in place, and as Canton Road continues to develop as a high-end shopping, entertainment and dining destination, we are optimistic that the value and recurring rental income of The Toy House will remain strong over the long term.

(ii) *Hillview*

Rental income generated by the residential properties at Hillview was about HK\$15.4 million, an increase of 18.9% from last year (2012: HK\$12.9 million). The negative impact on leasing activity due to nearby construction works began to alleviate during the first half of 2013, and occupancy rate improved during the year. Over the long term, we are optimistic that this investment will benefit from growing demand for and limited supply of up-market residential properties in Mid-Levels.

(iii) *Playmates Factory Building*

Rental income generated by Playmates Factory Building was about HK\$15.6 million, an increase of 24.2% over last year (2012: HK\$12.5 million), driven by rental increases from lease renewals that had a full-year impact during 2013, and a high occupancy rate of close to 100%. We are optimistic that the investment will benefit from continual developments in the Tuen Mun area.

(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 about HK\$15.1 million, an increase of 26.8% from last year (2012: HK\$11.9 million), driven by the start of a long term lease with a leading global brand in The Toy House.

(c) *Food & Beverage Business*

Revenue generated from the food and beverage business for the year increased by 3.9% to HK\$36.6 million (2012: HK\$35.2 million). For the third consecutive year, Fandango was listed in the “Michelin Guide Hong Kong and Macau” with positive reviews on its quality and authentic Spanish cuisine.

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

Playmates Toys

Playmates Toys group global revenue for the year ended 31 December 2013 was HK\$1,659 million (2012: HK\$372 million), an increase of 346.3% compared to the prior year. The significant increase in revenue was mainly attributed to strong sales of *Teenage Mutant Ninja Turtles*® (“*TMNT*” or “*Turtles*”) products throughout the whole year as well as expanded distribution in additional markets in 2013, compared to the late launch of the *Turtles* program in the third quarter of 2012 only in the US and Canada. Sales of *TMNT* products contributed over 90% of our revenue in 2013.

The US continued to be our biggest market in 2013, contributing 67% of revenue. Europe as a whole contributed 22%, the rest of the Americas 5% and 4% came from Australasia. During the year, the key markets in North America and Europe reported clearer signs of recovery from the 2008 economic recession, prompting the US Federal Reserve to start trimming down its market intervention program. At the end of the year, consumer confidence in the US was at the highest year-end level since 2007 as job market improved and home values rebounded. However, according to NPD, the leading provider of toys point-of-sale market research data, 2013 US retail dollar sales of toys were down by about 1% year-on-year apparently due to a shorter holiday shopping season.¹

Gross profit ratio on toy sales was 62.8% (2012: 60.3%). The increase in gross profit ratio was attributable to more efficient utilization of investments in product design, development and tooling at higher sales volume, partially offset by a higher portion of sales to markets with lower gross margin structure. Recurring operating expenses were higher than last year by 188.2%, reflecting increases in selling and distribution, marketing and administrative expenses to support the significantly higher sales volume. Recognition of tax credits due to accumulated losses in prior years resulted in non-recurring reductions in tax liabilities for the year 2013.

Playmates Toys reported an operating profit for 2013 of HK\$547 million (2012: HK\$52 million).

Barring unforeseen material adverse circumstances, Playmates Toys expects that strong entertainment, new market penetration and an expanded *TMNT* product line will drive further growth and good performance in 2014. Going forward, Playmates Toys will continue to adhere to the strategy of focusing its efforts and resources to nurture established brands for long term profitability while selectively seeking out new concepts and investment opportunities.

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 income.

Management had substantially reduced the Group's exposure to equities in 2012 and has since maintained approximately the same level of exposure. As at 31 December 2013, fair market value of the Group's investment portfolio was HK\$29.4 million (2012: HK\$33.0 million). The Group reported a net loss from investments of approximately HK\$3.4 million in 2013. In comparison, a net gain from investments of approximately HK\$35.3 million was recorded in 2012. In 2013, dividend and interest income generated from portfolio investments were around HK\$1.6 million (2012: HK\$3.4 million) and has been included in the revenue of the Group.

In light of continued uncertainties in global economies and capital markets, the Group will remain vigilant in monitoring and adjusting the investment portfolio.

¹ Source: The NPD Group/Retail Tracking Services; Dollars, 52 weeks vs. YAG (1/6/2013-1/4/2014 vs. 1/8/2012-1/5/2013)

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2013, trade receivables related to toy operation were HK\$411,831,000 (2012: HK\$177,304,000) and inventories related to toy operation were at a seasonal low level of HK\$36,959,000 (2012: HK\$21,783,000) or 2.2% (2012: 5.9%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 96% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2013. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2013 was 7.4% compared to 10.6% at 31 December 2012. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.8 at 31 December 2013 compared to 1.2 at 31 December 2012.

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 2013, the Group's cash and bank balances were HK\$739,098,000 (2012: HK\$465,772,000), of which HK\$ HK\$476,250,000 (2012: HK\$250,991,000) was denominated in United States dollar, HK\$23,187,000 (2012: HK\$3,695,000) in British pound and the remaining balance was mainly denominated in Hong Kong dollar. In addition, the amount invested in various securities was HK\$29,434,000 (2012: HK\$32,968,000).

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year, 5,542,400 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$6.08 to HK\$10.98 per share through the Stock Exchange.

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 2013, except in respect of one Code Provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals.

In respect of the segregation of the roles of the chairman and chief executive officer, the Group's practice is that the Chairman also acts as chief executive officer. This allows him to focus on Group strategy and at the same time ensure that all key issues are considered by the board in a timely manner. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is suitable and effective in facilitating the operations and business development of the Company and maintaining the checks and balances between the board and the management of the business of the Group. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial information for the year ended 31 December 2013.

SHARE PREMIUM REDUCTION AND SPECIAL DIVIDEND

The Board intends to make a proposal to the Shareholders at the AGM for a reduction of the Share Premium Account. The audited amount standing to the credit of the Share Premium Account as at 31 December 2013 was approximately HK\$1,194.3 million. Subject to the conditions set out in the sub-section headed "Conditions" below, it is proposed that:

- (a) the entire amount standing to the credit of the Share Premium Account as at the date of the AGM be reduced to nil pursuant to Section 46 of the Companies Act and Bye-law 6 of the Bye-laws; and
- (b) the credit arising from the Share Premium Reduction be transferred to the Contributed Surplus Account of the Company.

Reasons for the Share Premium Reduction

The Board considers that the Share Premium Reduction will give the Company greater flexibility in relation to its dividend distributions in the future if and when the Board considers appropriate. The Board considers that it is in the best interest of the Company and its Shareholders as a whole to implement the Share Premium Reduction.

Effects of the Share Premium Reduction

The Share Premium Reduction does not involve any reduction in the authorized or issued share capital of the Company, nor does it involve any reduction in the nominal value of the Shares or trading arrangements concerning the Shares. Save for the expenses to be incurred in relation to the Share Premium Reduction, the Board considers that the implementation of the Share Premium Reduction will not, in itself, have any material adverse effect on the underlying assets, liabilities, business operations, management or financial position of the Company and its subsidiaries or the proportionate interests of the Shareholders in the underlying assets of the Company. There are no reasonable grounds for believing that the Company is, or after the Share Premium Reduction would be, unable to pay its liabilities as they become due.

Conditions

The Share Premium Reduction is conditional upon:

- (a) the passing of the necessary special resolution by the Shareholders at the AGM to approve the Share Premium Reduction; and
- (b) the due compliance with the relevant procedures and requirement under Bermuda laws to effect the Share Premium Reduction, including but not limited to the publication of a notice in an appointed newspaper in Bermuda in respect of the Share Premium Reduction.

In the event that the above conditions are fulfilled, it is expected that the Share Premium Reduction will become effective on the date of the AGM.

General

A circular containing, inter alia, details of the Share Premium Reduction together with a notice convening the AGM will be despatched to the Shareholders on or before 11 April 2014 in accordance with the Listing Rules.

Special Dividend

- (a) As mentioned in note 6 to the financial statements in this announcement, the Board proposed to declare and distribute a special dividend for the year ended 31 December 2013 of HK\$0.40 per Share.
- (b) The declaration of the said special dividend is
 - (i) subject to the approval of Shareholders at the AGM; and
 - (ii) conditional upon the approval of the Share Premium Reduction at the AGM as mentioned in the above sub-section headed "Conditions".

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the entitlements of the Shareholders to the declared second interim dividend and proposed special dividend, the register of members of the Company will be closed from 23 May 2014 to 26 May 2014, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for the said dividends, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 22 May 2014. The special dividend, if approved at the AGM, and the second interim dividend will be payable on or around 6 June 2014 to Shareholders whose names appear on the Company's register of members on 26 May 2014.

CHANGE OF ADDRESS OF BRANCH SHARE REGISTRAR

With effect from 31 March 2014, the Branch Share Registrar will change its address from 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“AGM”	the annual general meeting of the Company to be held on 19 May 2014;
“Board”	the board of Directors;
“Branch Share Registrar”	Tricor Abacus Limited, the Hong Kong branch share registrar and transfer office of the Company;
“Bye-laws”	the bye-laws of the Company;
“Companies Act”	the Companies Act 1981 of Bermuda (as amended from time to time);
“Company”	Playmates Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Contributed Surplus Account”	the contributed surplus account of the Company;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Share Premium Account”	the share premium account of the Company;
“Share Premium Reduction”	the proposed reduction of the entire amount standing to the credit of the Share Premium Account as at the date of the AGM;
“Shareholders”	shareholders of the Company;

“Shares”	ordinary shares of par value of HK\$0.1 each in the capital of the Company; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 26 March 2014

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*)