PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code：869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018 as follows:

Consolidated Income Statement

For the year ended 31 December 2018

	Note	**2018** ***US$'000*** *(Note 11)*	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	3	**60,793**	**474,182**	758,329
Cost of sales		**(28,627)**	**(223,293)**	(347,003)
Gross profit		**32,166**	**250,889**	411,326
Marketing expenses		**(14,053)**	**(109,613)**	(187,346)
Selling and distribution expenses		**(3,475)**	**(27,108)**	(30,627)
Administration expenses		**(15,668)**	**(122,199)**	(119,222)
Impairment loss on trade receivables		**(678)**	**(5,287)**	-
Operating (loss)/profit		**(1,708)**	**(13,318)**	74,131
Other net income	4	**2,669**	**20,822**	20,263
Finance costs		**(401)**	**(3,130)**	(5,735)
Share of loss of an associated company		**-**	**-**	(133)
Profit before income tax	5	**560**	**4,374**	88,526
Income tax expense	6	**(489)**	**(3,812)**	(32,762)
Profit for the year attributable to owners of the Company		**71**	**562**	55,764

Earnings per share	Note	**2018**	**2018**	2017
		US cents	***HK cents***	*HK cents*
	8	*(Note 11)*		
Basic		**0.01**	**0.05**	4.63
Diluted		**0.01**	**0.05**	4.61

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018	**2018**	2017
	US$'000	***HK$'000***	*HK$'000*
	(Note 11)		
Profit for the year	**71**	**562**	55,764
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	**-**	**-**	4,722
Total comprehensive income for the year attributable to owners of the Company	**71**	**562**	60,486

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	**2018** **US$'000** *(Note 11)*	**2018** **HK$'000**	2017 HK$'000
Non-current assets				
Property, plant and equipment		**868**	**6,773**	10,799
Interest in an associated company		**759**	**5,920**	5,920
Deferred tax assets		**4,163**	**32,472**	27,871
		5,790	**45,165**	44,590
Current assets				
Inventories		**3,107**	**24,237**	22,728
Trade receivables	*9*	**17,949**	**140,005**	169,379
Deposits paid, other receivables and prepayments		**1,917**	**14,952**	12,104
Taxation recoverable		**349**	**2,720**	16,114
Financial assets at fair value through profit or loss		-	-	18,595
Cash and bank balances		**129,248**	**1,008,131**	1,021,159
		152,570	**1,190,045**	1,260,079
Current liabilities				
Trade payables	*10*	**4,668**	**36,411**	24,387
Deposits received, other payables and accrued charges		**14,459**	**112,779**	151,690
Loan from an associated company		**748**	**5,831**	5,831
Provisions		**5,979**	**46,637**	42,157
Taxation payable		**2,027**	**15,813**	15,858
		27,881	**217,471**	239,923
Net current assets		**124,689**	**972,574**	1,020,156
Net assets		**130,479**	**1,017,739**	1,064,746
Equity				
Share capital		**1,513**	**11,800**	11,958
Reserves		**128,966**	**1,005,939**	1,052,788
Total equity		**130,479**	**1,017,739**	1,064,746

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 2017, 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 2018. 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 standards, amendments and interpretations to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers and related amendments*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

Upon initial application of the above new standards, amendments and interpretations, there is no significant impact to the Group's financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

(a) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Group's financial assets measured at amortised cost and FVPL continue with their respective classification and measurements upon initial application of HKFRS 9. The Group does not have any financial assets classified as FVOCI.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVPL that is attributable to changes of that financial liabilities' credit risk to be recognised in other comprehensive income (non-recycling).

The Group does not have any financial liabilities designated at FVPL and therefore the new requirement on financial liabilities does not have any impact on the Group.

(ii) Impairment

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost. Financial assets measured at fair value through profit or loss are not subject to the ECL assessment.

As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group's financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

(b) HKFRS 15, *Revenue from contracts with customers and related amendments*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(i) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

A - When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B - When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C - When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have any impact on the timing the Group recognises revenue.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

HKFRS 15 does not prohibit an entity from using alternative descriptions in the statement of financial position for contract assets and contract liabilities, provided that sufficient information is available for a financial statements user to distinguish between receivables and contract assets, payables and contract liabilities. The Group does not have any significant contract asset and continues to use the term "deposits from customers and distributors" instead of contract liability in the financial statements.

(iii) Disclosures

HKFRS 15 requires that an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Accordingly, the Group has disclosed the timing of revenue recognition in note 3 "Revenue and segment information".

(c) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any significant impact on the financial position and the financial result of the Group.

3. Revenue and segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products. Revenue represented sales of toys and was recognised at the point in time when customers obtain the control of the goods.

Revenue recognised during the year ended 31 December 2018 from sales of toys was HK$474,182,000 (2017: HK$758,329,000).

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**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**642**	815	**11,160**	14,110
Americas				
- U.S.A.	**302,896**	495,680	**1,533**	2,609
- Others	**39,898**	49,206	**-**	-
Europe	**93,708**	163,586	**-**	-
Asia Pacific other than Hong Kong	**32,286**	43,795	**-**	-
Others	**4,752**	5,247	**-**	-
	473,540	757,514	**1,533**	2,609
	474,182	758,329	**12,693**	16,719

Major customers

The Group's customer base includes two (2017: 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$129,951,000 and HK$87,384,000 (2017: HK$186,022,000, HK$126,885,000, HK$114,339,000 and HK$107,504,000) respectively.

4. Other net income

	2018	2017
	HK$'000	*HK$'000*
Interest income	**15,767**	10,572
Dividend income	**254**	236
Net gain on financial assets at fair value through profit or loss	**4,731**	4,424
Others	**70**	5,031
	20,822	20,263

5. Profit before income tax

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**188,260**	298,353
Write-down of inventories	**685**	184
Product development and tooling costs	**30,660**	37,351
Royalties expenses	**63,597**	113,889
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	**36,096**	21,211
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	**(10,649)**	(1,274)
Depreciation of property, plant and equipment	**5,023**	5,320
Directors' and staff remunerations	**75,409**	75,984
Impairment loss on trade receivables	**5,287**	-
Allowance for customer concession	**6,875**	13,598
Reversal of allowance for customer concession	**(2,769)**	-
Operating leases expense on office	**8,387**	8,391
Net foreign exchange gain	**(2,207)**	(5,721)
Gain on disposal of property, plant and equipment	**(100)**	-
Auditors' remuneration	**1,200**	1,200

6. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2018	2017
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**-**	6,372
Overseas taxation	**8,433**	26,305
Over provision in prior years – Hong Kong	**(20)**	-
	8,413	32,677
Deferred taxation		
Origination and reversal of temporary differences	**(4,601)**	(6,782)
Impact of change in US tax rate *(Note)*	**-**	6,867
	(4,601)	85
Income tax expense	**3,812**	32,762

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

7. Dividends

(a) Dividends attributable to the year

	2018	2017
	HK$'000	*HK$'000*
Interim dividend of HK cents nil (2017: First interim dividend of HK cents 3) per share	**-**	36,014
Interim dividend of HK cents nil (2017: Second interim dividend of HK cents 3) per share	**-**	35,409
	-	71,423

At a meeting held on 10 August 2018, the board of directors did not recommend the payment of interim dividend.

At a meeting held on 28 February 2019, the board of directors did not recommend the payment of dividend.

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

	2018	2017
	HK$'000	*HK$'000*
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 3 (2017: HK cents 5) per share	**35,409**	60,535

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$562,000 (2017: HK$55,764,000) and the weighted average number of ordinary shares of 1,182,693,000 shares (2017: 1,204,424,000 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$562,000 (2017: HK$55,764,000) and the weighted average number of ordinary shares of 1,185,421,000 shares (2017: 1,210,579,000 shares) in issue during the year, adjusted for the effects of 2,728,000 (2017: 6,155,000) dilutive potential shares on exercise of share options.

9. Trade receivables

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**94,295**	125,151
61 – 90 days	**39,858**	34,080
91 – 180 days	**3,182**	2,408
Over 180 days	**2,670**	7,740
	140,005	169,379

10. Trade payables

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

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**35,163**	20,984
31 – 60 days	**415**	2,645
Over 60 days	**833**	758
	36,411	24,387

11. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2018 was HK$474 million (2017: HK$758 million), a decrease of 37% compared to the prior year. The decrease in turnover was a result of the planned limiting of the supply of ***Teenage Mutant Ninja Turtles***© (***"TMNT"***) products during the first nine months of 2018, in preparation for the brand's relaunch in the fourth quarter.

The US continued to be our biggest market in 2018, contributing 63.9% of revenue. Europe as a whole contributed 19.8%, the rest of the Americas 8.4% and 6.9% came from Asia Pacific. According to The NPD Group, the leading provider of toys point-of-sale market research data, the US toy market contracted 2.0%[1] in 2018, reflecting a challenging retail environment driven by the Toys"R"Us® bankruptcy, softening consumer sentiments in the fourth quarter, competition from video games, among other factors. The UK and European toy markets were impacted by similar factors, while several Latin American toy markets encountered macroeconomic challenges.

Gross profit ratio on toy sales was 52.9% (2017: 54.2%). The decrease in gross profit ratio was attributable mainly to higher development and tooling expenses as a percentage of sales to prepare for new product introductions starting in Fall 2018. Recurring operating expenses decreased by 23% from 2017, reflecting lower marketing, selling, and distribution expenses, and stable overhead expenses.

Net profit attributable to shareholders was HK$0.6 million (2017: Net profit of HK$55.8 million) which included a HK$5.3 million write-off of Toys"R"Us® trade receivables.

Brand Overview

Teenage Mutant Ninja Turtles©

Nickelodeon© re-launched the ***TMNT*** franchise in an all-new animated series, ***Rise of the Teenage Mutant Ninja Turtles***©, during Fall 2018. The TV show is off to a good start, and will be supported by regular airings, on-air promotions, as well as additional short-form content throughout 2019. Nickelodeon© has already announced that Season 2 will premiere in Fall 2019.

We remain confident in Nickelodeon's© long-term ***TMNT*** plans to maintain the brand as an evergreen entertainment franchise.

Ben 10TM & ©

Cartoon Network's*TM & ©* ***Ben 10***^TM & ©^ animated TV series continues to be popular in the US and in many international markets. Season 3 will premiere in Spring 2019 and introduce plenty of transformations and never-before-seen aliens and foes. We are actively developing product line extensions for Fall 2019 and beyond.

Power Players©

We have partnered with ZAG®, a global independent entertainment studio, on the upcoming animated series, ***ZAG HEROEZ: Power Players***©. Utilizing groundbreaking CGI-hybrid animation, the action-comedy series follows the adventures of Axel, an adventurous boy who transforms into a living action figure, and his unlikely team of toy heroes as they embark on the biggest "small" adventures a kid could imagine.

---

[1] *Source: The NPD Group / Retail Tracking Service Annual 2018 Adjusted Dollars.*

Cartoon Network™ & © has secured the television rights to the series, which is scheduled to debut in Fall 2019. Our multi-segment toy line is in development and will launch in early 2020, giving kids worldwide the chance to immerse themselves in the on-screen action just like the heroes of the show.

While the operating environment remains challenging, we will adhere 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 2018, trade receivables were HK$140,005,000 (2017: HK$169,379,000) and inventories were HK$24,237,000 or 5.1% of turnover (2017: HK$22,728,000 or 3.0% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 5.5 at 31 December 2018 and 5.3 at 31 December 2017.

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 2018, the Group's cash and bank balances were HK$1,008,131,000 (2017: HK$1,021,159,000), of which HK$734,041,000 (2017: HK$980,053,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

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, 15,450,000 shares of HK$0.01 each were repurchased by the Company at prices ranging from HK$1.06 to HK$1.11 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 2018, 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.

The Company does not have a designated chief executive officer. The board oversees the management, businesses, strategy and financial performance of the Group. The day-to-day business of the Group is handled by the executive directors collectively. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is adequate to ensure an effective management and control of the Group's businesses and operations. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the risk management and internal control system, the effectiveness of the internal audit function and financial reporting matters including a review of the accounts for the year ended 31 December 2018.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 28 February 2019

As at the date hereof, the board of directors of the Company comprises the following directors:

Mr. To Shu Sing, Sidney *(Chairman),* Mr. Chan Kong Keung, Stephen *(Executive Director),* Mr. Cheng Bing Kin, Alain *(Executive Director),* Mr. Chow Yu Chun, Alexander *(Independent Non-executive Director)*, Mr. Lee Ching Kwok, Rin *(Independent Non-executive Director)* and Mr. Yang, Victor *(Independent Non-executive Director)*