PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code：869)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 as follows:

Consolidated Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	**2019** ***US$'000*** *(Note 11)*	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*3*	**45,992**	**358,739**	474,182
Cost of sales		**(22,370)**	**(174,485)**	(223,293)
Gross profit		**23,622**	**184,254**	250,889
Marketing expenses		**(10,330)**	**(80,575)**	(109,613)
Selling and distribution expenses		**(2,495)**	**(19,466)**	(27,108)
Administration expenses		**(15,358)**	**(119,789)**	(122,199)
Impairment loss on trade receivables		**-**	**-**	(5,287)
Operating loss		**(4,561)**	**(35,576)**	(13,318)
Other net income	*4*	**2,637**	**20,568**	20,822
Finance costs		**(188)**	**(1,469)**	(3,130)
(Loss)/Profit before income tax	*5*	**(2,112)**	**(16,477)**	4,374
Income tax expense	*6*	**(2,667)**	**(20,801)**	(3,812)
(Loss)/Profit and total comprehensive income for the year attributable to owners of the Company		**(4,779)**	**(37,278)**	562
(Loss)/Earnings per share	*8*	***US cents***	***HK cents***	*HK cents*
Basic		**(0.41)**	**(3.16)**	0.05
Diluted		**(0.41)**	**(3.16)**	0.05

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 US$'000 (Note 11)	2019 HK$'000	2018 HK$'000
Non-current assets				
Property, plant and equipment		**292**	**2,276**	6,773
Right-of-use assets		**391**	**3,050**	-
Interest in an associated company		**-**	**-**	5,920
Deferred tax assets		**2,898**	**22,608**	32,472
		3,581	**27,934**	45,165
Current assets				
Inventories		**2,502**	**19,518**	24,237
Trade receivables	*9*	**8,476**	**66,116**	140,005
Deposits paid, other receivables and prepayments		**6,391**	**49,846**	14,952
Taxation recoverable		**349**	**2,720**	2,720
Cash and bank balances		**128,917**	**1,005,556**	1,008,131
		146,635	**1,143,756**	1,190,045
Current liabilities				
Trade payables	*10*	**4,422**	**34,489**	36,411
Deposits received, other payables and accrued charges		**12,026**	**93,812**	112,779
Loan from an associated company		**-**	**-**	5,831
Provisions		**5,429**	**42,348**	46,637
Lease liabilities		**406**	**3,169**	-
Taxation payable		**1,615**	**12,594**	15,813
		23,898	**186,412**	217,471
Net current assets		**122,737**	**957,344**	972,574
Net assets		**126,318**	**985,278**	1,017,739
Equity				
Share capital		**1,513**	**11,800**	11,800
Reserves		**124,805**	**973,478**	1,005,939
Total equity		**126,318**	**985,278**	1,017,739

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 2018, 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 2019. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the 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 in this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

There is no impact to the Group's existing contracts under this new lease definition. Contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to lease of offices.

For further details on the Group's lease accounting policies, please see note 2.9 of the Group's financial statements.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The incremental borrowing rate used for determination of the present value of the remaining lease payments was 5%.

To ease the transition to HKFRS 16, the Group elected to adopt the practical expedient by not applying the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application, i.e. where the lease term ends on or before 31 December 2019.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitment as at 31 December 2018	11,201
Less: short-term lease commitments	(5,426)
Remaining lease payments for leases subject to capitalisation	5,775
Less: discounting impact	(293)
Lease liabilities as at 1 January 2019	**5,482**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities as at 1 January 2019.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position at initial application:

	At 31 December 2018 *HK$'000*	Adoption of HKFRS 16 *HK$'000*	At 1 January 2019 *HK$'000*
Non-current assets			
Right-of-use assets	-	5,482	**5,482**
Current liabilities			
Lease liabilities	-	2,630	**2,630**
Non-current liabilities			
Lease liabilities	-	2,852	**2,852**
Equity			
Retained profits	951,852	672	**952,524**

(c) Impact on the financial result of the Group after the adoption of HKFRS 16

In the consolidated income statement, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The financial impact to the Group's consolidated income statement is not significant.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows. Total cash flows are unaffected and the adoption of HKFRS 16 does not have a significant impact to the Group's consolidated cash flow statement.

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 2019 from sales of toys was HK$358,739,000 (2018: HK$474,182,000).

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, right-of-use assets 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 right-of-use assets, and the place of domicile in case of interest in an associated company.

	Revenue		**Specified non-current assets**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**282**	642	**1,978**	11,160
Americas				
- U.S.A.	**203,164**	302,896	**3,348**	1,533
- Others	**33,027**	39,898	**-**	-
Europe	**104,447**	93,708	**-**	-
Asia Pacific other than Hong Kong	**17,219**	32,286	**-**	-
Others	**600**	4,752	**-**	-
	358,457	473,540	**3,348**	1,533
	358,739	474,182	**5,326**	12,693

Major customers

The Group's customer base includes two (2018: two) 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$113,670,000 and HK$39,382,000 (2018: HK$129,951,000 and HK$87,384,000) respectively.

4. Other net income

	2019	2018
	HK$'000	*HK$'000*
Interest income	**20,447**	15,767
Dividend income	**24**	254
Net gain on financial assets at fair value through profit or loss	**-**	4,731
Others	**97**	70
	20,568	20,822

5. (Loss)/Profit before income tax

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold	**149,395**	188,260
Write down of inventories	**156**	685
Product development and tooling costs	**22,159**	30,660
Royalties expenses	**50,905**	63,597
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	**20,540**	36,096
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	**(3,277)**	(10,649)
Depreciation		
- property, plant and equipment	**4,521**	5,023
- right-of-use assets	**3,051**	-
Directors' and staff remunerations	**73,870**	75,409
Impairment loss on trade receivables	**-**	5,287
Allowance for customer concession	**4,959**	6,875
Reversal of allowance for customer concession	**(36)**	(2,769)
Operating leases expense on office	**-**	8,387
Lease charges for short-term leases	**5,426**	-
Net foreign exchange loss/(gain)	**87**	(2,207)
Loss/(Gain) on disposal of property, plant and equipment	**97**	(100)
Auditors' remuneration	**1,200**	1,200

6. Income tax expense

No Hong Kong profits tax has been provided as the Group companies which are subject to Hong Kong profits tax either incurred tax losses or have tax losses brought forward to set off assessable profit for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2019	2018
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**-**	-
Overseas taxation	**10,745**	8,433
Over provision in prior years – Hong Kong	**-**	(20)
Under provision in prior years – overseas	**192**	-
	10,937	8,413
Deferred taxation		
Origination and reversal of temporary differences	**9,864**	(4,601)
Income tax expense	**20,801**	3,812

7. Dividends

(a) Dividends attributable to the year

The directors do not recommend the payment of dividend.

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

	2019	2018
	HK$'000	*HK$'000*
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents nil (2018: HK cents 3) per share	**-**	35,409

8. (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$37,278,000 (2018: profit of HK$562,000) and the weighted average number of ordinary shares of 1,179,998,000 shares (2018: 1,182,693,000 shares) in issue during the year.

Diluted loss per share for the year ended 31 December 2019 equals to the basic loss 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 per share.

The calculation of diluted earnings per share for the year ended 31 December 2018 is based on the profit attributable to owners of the Company of HK$562,000 and the weighted average number of ordinary shares of 1,185,421,000 shares in issue during the year, adjusted for the effects of 2,728,000 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:

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**43,546**	94,295
61 – 90 days	**16,753**	39,858
91 – 180 days	**3,231**	3,182
Over 180 days	**2,586**	2,670
	66,116	140,005

10. Trade payables

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

	2019	2018
	HK$'000	*HK$'000*
0 – 30 days	**27,559**	35,163
31 – 60 days	**5,198**	415
Over 60 days	**1,732**	833
	34,489	36,411

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 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2019 was HK$359 million (2018: HK$474 million), a decrease of 24% compared to the prior year. The decrease in turnover was a result of contraction in our main continuing brands: ***Teenage Mutant Ninja Turtles***© (“***TMNT***”) and ***Ben 10***™ & ©.

The US continued to be our biggest market in 2019, contributing 56.6% of revenue. Europe as a whole contributed 29.1%, the rest of the Americas 9.2% and 4.9% 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 4.3%[1] in 2019, reflecting a challenging retail environment driven by a difficult comparison during the first half of 2019 against the Toys “R” Us® liquidation in 2018, six fewer shopping days between Thanksgiving and Christmas, competition from video games, among other factors. Many other major international toy markets were impacted by similar factors, in addition to macroeconomic challenges.

Gross profit ratio on toy sales was 51.4% (2018: 52.9%). The slight decrease in gross profit ratio was attributable mainly to a higher percentage of overall sales generated in international markets with lower gross margin. Recurring operating expenses decreased by 15% from 2018, reflecting lower marketing, selling, and distribution expenses, and stable overhead expenses.

Loss before income tax was HK$16 million (2018: Profit before tax of HK$4.4 million). Net loss attributable to shareholders was HK$37 million (2018: Net profit of HK$0.6 million). The tax expense for 2019 was HK$21 million (2018: HK$3.8 million), mainly comprised of a U.S. tax provision and a write down of deferred tax assets due to the uncertainties in global business environment and the potential adverse impact on the China-based supply chain of the Group in light of the ongoing viral epidemic.

The manufacturing facilities of the principal suppliers of our finished goods are based in southern China. At present, although most of our suppliers are gradually resuming production subject to further government advice or restrictions due to the ongoing viral epidemic, it is expected that our supply chain would be severely affected at least in the first half of 2020. We will monitor the risks and uncertainties in connection with the epidemic and work closely with the suppliers to mitigate the adverse impact arising therefrom.

Brand Overview

Teenage Mutant Ninja Turtles©

Although sales of ***Rise of the Teenage Mutant Ninja Turtles***© line were below expectations in 2019, we remain confident in the brand’s long-term future as an evergreen entertainment franchise. ***TMNT*** will go on a planned hiatus starting in 2020 as work begins on the next reimagination of the Turtles.

Ben 10™ & ©

Cartoon Network’s™ & © ***Ben 10***™ & © animated TV series continues to attract a significant fan base in the US and in many international markets, with Season 4 premiering in Spring 2020. We are developing product line extensions for 2020, and expect continued positive contribution from the brand in the coming year.

[1] *Source: The NPD Group / Retail Tracking Service Annual 2019 Adjusted Dollars.*

Power Players©

As the master toy licensee for ZAG's© action-comedy animation series ***Power Players***©, currently airing on Cartoon Network™ & © and soon to debut on Netflix, we have introduced a robust toy line that brings the heroes of the series to life off-screen. Our products are launching in the US in early 2020, and will roll out across many major international markets throughout the year.

Godzilla vs. Kong©

Through a partnership with Legendary Entertainment™ & © and Toho©, we have secured the rights to create an extensive product line for Legendary's™ & © ***MonsterVerse***™, beginning with ***Godzilla vs. Kong***©, this Fall's highly anticipated film from Legendary Entertainment™ & © and Warner Bros. Pictures™ & ©. In addition, we will introduce products inspired by Toho's© Classic Monsters starting in Spring 2020.

Miraculous: Tales of Ladybug & Cat Noir™

We are launching a collection of toys inspired by ZAG's© hit entertainment property, ***Miraculous: Tales of Ladybug & Cat Noir***™ starting in Fall 2020 in selected international markets. The property has become a global phenomenon, airing in over 120 countries worldwide, with new seasons in production.

Disney's© Frozen 2© Adventure Storytelling Figures

Playmates Toys is introducing Disney's© ***Frozen 2© Adventure Storytelling Figures***, which sing and talk with each other. The figures have interactive technology that activates multiple phrases, songs and adventure play. With two or more figures, they talk and sing together. The first wave of figures launching in Spring 2020 includes Elsa, Anna and Olaf, with additional figures in development.

Billie Eilish©

In partnership with Bravado©, we are developing a collection of figures inspired by the breakthrough music artist and five-time Grammy award© winner, Billie Eilish. Eilish is the first artist born in this millennium to achieve the #1 spot on the Billboard© 200 chart and the youngest female to do so since 2009. As an artist with 19 billion streams globally and over 100 million social media followers, our collection will resonate with fans and collectors of all ages.

Pikwik Pack©

In collaboration with Toronto-based entertainment company Guru Studio©, we will bring to market a complete line of pre-school figures, playsets, vehicles, plush and role play toys inspired by the new ***Pikwik Pack©*** series, which is currently under development and slated to air on Disney Junior© channel in the US and a number of key markets.

The series follows team leader Suki the hedgehog, Axel the racoon, Hazel the cat, and Tibor the hippo, as they work together to deliver surprise-filled parcels to the colorful residents of ***Pikwik©***. The episodes are packed with big adventures, silly hijinks, and heartfelt charm that will entertain pre-schoolers while underscoring the social value of team work, responsibility, and critical thinking.

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 2019, trade receivables were HK$66,116,000 (2018: HK$140,005,000) and inventories were HK$19,518,000 or 5.4% of revenue (2018: HK$24,237,000 or 5.1% of revenue).

The current ratio, calculated as the ratio of current assets to current liabilities, was 6.1 at 31 December 2019 and 5.5 at 31 December 2018.

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 2019, the Group's cash and bank balances were HK$1,005,556,000 (2018: HK$1,008,131,000), of which HK$970,877,000 (2018: HK$734,041,000) 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, 184,000 shares of HK$0.01 each were repurchased by the Company at a price of HK$0.81 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 2019, 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 2019.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 6 March 2020

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. Lam Wai Hon, Ambrose *(Independent Non-executive Director)*; Mr. Lee Ching Kwok, Rin *(Independent Non-executive Director)* and Mr. Tran Vi-hang William *(Executive Director)*