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PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
For the six months ended 30 June		
Revenue	83,988	157,156
Gross profit	38,684	80,014
Operating loss	(54,301)	(31,071)
Loss before income tax	(49,426)	(21,282)
Income tax (expense)/credit	(3,212)	1,381
Loss attributable to owners of the Company	(52,638)	(19,901)
Loss per share	<i>HK cents</i>	<i>HK cents</i>
- Basic	(4.46)	(1.69)
- Diluted	(4.46)	(1.69)

Playmates Toys group worldwide turnover during the first half of 2020 was HK\$84 million (same period in 2019: HK\$157 million), representing a decrease of 47% compared to the prior year period. The decline in turnover was partly due to the planned hiatus of *Teenage Mutant Ninja Turtles*® (“*TMNT*”) and a contraction in *Ben 10*™ & © – both were main brands during the prior year. In addition, the COVID-19 pandemic severely disrupted the global supply chain, had a significant negative impact on retail sales around the world starting in March, and created an extremely challenging environment in which to launch new brands. As a result, sales from our new brand launches during the first half of 2020 did not offset the contraction in *TMNT* and *Ben 10*™ & ©.

Gross profit ratio on toy sales was 46% (same period in 2019: 51%). The decrease in gross profit ratio was attributable to higher product development and tooling expenses related to new product introductions, partially offset by a higher percentage of overall sales generated in the U.S. market, which carries a higher gross margin. Recurring operating expenses decreased by 16% compared to the prior year period, reflecting: (i) lower marketing expenses, which increased however as a percentage of turnover, driven by promotional expenses and provisions for unfulfilled advanced royalties related to

new brands; and (ii) a reduction in overhead expenses, which increased however as a percentage of turnover.

The Group reported an operating loss for the period of HK\$54 million (same period in 2019: operating loss of HK\$31 million). Net loss attributable to shareholders during the first half of 2020 was HK\$53 million (same period in 2019: net loss of HK\$20 million).

The COVID-19 pandemic continues to present severe challenges to our operating environment in the near term. However, we will continue to prudently manage operating costs and adhere to the proven strategy of focusing our resources and efforts on selective new opportunities that are good fits for our core competence and reflect the changing consumer behaviours.

Brand Overview

***Ben 10*^{TM & ©}**

Cartoon Network's^{TM & ©} ***Ben 10*^{TM & ©}** animated TV series, currently in season 4, continues to attract a significant fan base in the U.S. and in many international markets. New upcoming ***Ben 10*^{TM & ©}** content includes the animated movie ***Ben 10 vs. The Universe*^{TM & ©}** premiering this Fall. We expect continued positive contribution from the brand in 2020.

***Godzilla vs. Kong*[©]**

The COVID-19 pandemic has upended movie release schedules, including the ***Godzilla vs. Kong*[©]** movie from Legendary Entertainment^{TM & ©} and Warner Bros. Pictures^{TM & ©}, which has been delayed to 2021. We will launch our ***Godzilla vs. Kong*[©]** movie product line in Fall 2020 as previously planned, although major promotions will occur closer to the movie release date next year. In the meantime, we will continue to sell products inspired by Toho's[©] Classic Monsters, which have performed to expectations since launching in Spring 2020.

***Power Players*[©]**

Following its debut on Cartoon Network^{TM & ©}, ZAG's[©] action-comedy animation series ***Power Players*[©]** is now streaming on Netflix. While the retail shut-down as a result of the COVID-19 pandemic hampered our product launch in the U.S. earlier this year, we are rolling out our ***Power Players*[©]** product line across many major international markets throughout the rest of this year.

***Miraculous: Tales of Ladybug & Cat Noir*TM**

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

Spy Ninjas[®]

Spy Ninjas[®] is a popular, action-packed YouTube[®] adventure series featuring a team of best friends who use martial arts and detective skills to solve puzzles to defeat the evil hacker organization Project Zorgo[®]. With multiple weekly episodes, the web series generates more than 400 million monthly views on YouTube[®] – with an astounding 1 million views tallied within the first hour of every new daily episode.

The first wave of ***Spy Ninjas***[®] products from Playmates Toys will be available this Fall. It includes secret spy ninja gear, decoders, ninja weapons, a new Project Zorgo[®] mask and other spy gadgets from the series.

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, Billie Eilish is today's cultural icon. Our collection will be available starting this Fall to Billie Eilish fans and collectors of all ages.

Pikwik[®]

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 U.S. and a number of key international 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.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Note	Unaudited Six months ended 30 June		
		2020 US\$'000 (Note 11)	2020 HK\$'000	2019 HK\$'000
Revenue	3	10,768	83,988	157,156
Cost of sales		(5,808)	(45,304)	(77,142)
Gross profit		4,960	38,684	80,014
Marketing expenses		(4,297)	(33,518)	(41,184)
Selling and distribution expenses		(835)	(6,513)	(8,608)
Administration expenses		(6,789)	(52,954)	(61,293)
Operating loss		(6,961)	(54,301)	(31,071)
Other net income	4	766	5,976	10,468
Finance costs		(141)	(1,101)	(679)
Loss before income tax	5	(6,336)	(49,426)	(21,282)
Income tax (expense)/credit	6	(412)	(3,212)	1,381
Loss for the period and total comprehensive income for the period attributable to owners of the Company		(6,748)	(52,638)	(19,901)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	8			
Basic		(0.57)	(4.46)	(1.69)
Diluted		(0.57)	(4.46)	(1.69)

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

		Unaudited 30 June 2020 US\$'000 (Note 11)	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Non-current assets				
Property, plant and equipment		297	2,317	2,276
Right-of-use assets		1,905	14,861	3,050
Deferred tax assets		2,701	21,064	22,608
		4,903	38,242	27,934
Current assets				
Inventories		1,354	10,564	19,518
Trade receivables	9	1,533	11,955	66,116
Deposits paid, other receivables and prepayments		9,251	72,157	49,846
Taxation recoverable		-	-	2,720
Financial assets at fair value through profit or loss		558	4,349	-
Cash and bank balances		124,170	968,526	1,005,556
		136,866	1,067,551	1,143,756
Current liabilities				
Trade payables	10	1,478	11,525	34,489
Deposits received, other payables and accrued charges		12,269	95,697	93,812
Provisions		4,519	35,246	42,348
Lease liabilities		820	6,394	3,169
Taxation payable		1,832	14,292	12,594
		20,918	163,154	186,412
Net current assets		115,948	904,397	957,344
Total assets less current liabilities		120,851	942,639	985,278
Non-current liabilities				
Lease liabilities		1,132	8,833	-
		1,132	8,833	-
Net assets		119,719	933,806	985,278
Equity				
Share capital		1,513	11,800	11,800
Reserves		118,206	922,006	973,478
Total equity		119,719	933,806	985,278

Notes to the Condensed Consolidated Financial Information

1. Basis of preparation and accounting policies

This condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

This condensed consolidated financial information should be read in conjunction with the 2019 annual financial statements.

The accounting policies used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2019.

2. Changes in accounting policies

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group. None of these amendments have had a material effect on the Group’s results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and segment reporting

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.

Revenue represented sales of toys and was recognised at the point in time when customers obtain the control of the goods.

3.1 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 right-of-use assets ("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 property, plant and equipment and right-of-use assets.

	Revenue		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	24	10	14,436	1,978
Americas				
- U.S.A.	63,168	85,898	1,124	3,348
- Others	7,455	16,172	-	-
Europe	11,774	45,799	1,618	-
Asia Pacific other than Hong Kong	1,076	8,873	-	-
Others	491	404	-	-
	83,964	157,146	2,742	3,348
	83,988	157,156	17,178	5,326

3.2 Major customers

The Group's customer base includes one (2019: two) customer with whom transactions exceeded 10% of the Group's total revenue. Revenue from sales to this customer amounted to approximately HK\$40,441,000 (2019: HK\$52,967,000 and HK\$16,832,000 respectively).

4. Other net income

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest income	5,476	10,382
Dividend income	13	12
Net gain on financial assets at fair value through profit or loss	441	-
Others	46	74
	5,976	10,468

5. Loss before income tax

Loss before income tax is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories sold	34,763	68,199
Product development and tooling costs	9,992	8,898
Royalties expenses	11,856	21,715
Directors' and staff remunerations	32,368	35,695
Depreciation		
- property, plant and equipment	664	2,396
- right-of-use assets	4,221	1,525
Lease charges for short-term leases	-	2,713
<u>Interest expenses on lease liabilities</u>	<u>457</u>	<u>138</u>

6. Income tax expense/(credit)

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 period. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current taxation		
Overseas taxation	1,698	4,254
<u>Over provision in prior years – Hong Kong</u>	<u>(30)</u>	<u>-</u>
	<u>1,668</u>	<u>4,254</u>
Deferred taxation		
<u>Origination and reversal of temporary differences <Note></u>	<u>1,544</u>	<u>(5,635)</u>
<u>Income tax expense/(credit)</u>	<u>3,212</u>	<u>(1,381)</u>

Note:

The Group has not recognised any deferred tax credit in relation to tax loss during the period ended 30 June 2020 due to the uncertainties in global business environment in light of the ongoing pandemic (2019: the Group recognised HK\$7,652,000 deferred tax credit in relation to tax loss).

The Group's cumulative unrecognised tax losses as of 30 June 2020 amounted to HK\$183,509,000 (31 December 2019: HK\$123,508,000). These tax losses do not expire under respective current tax legislation.

7. Dividends

The directors do not recommend the payment of dividend (2019: HK\$ nil).

8. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$52,638,000 (2019: HK\$19,901,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2019: 1,179,996,000 shares) in issue during the period.

Diluted loss per share for the six months ended 30 June 2020 and 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.

9. Trade receivables

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	29,752	82,899
Less: Allowance for customer concession	(17,797)	(16,783)
	11,955	66,116

The Group grants credits to retail customers to facilitate the sale of slow moving merchandise held by such customers. Such allowance for customer concession is arrived at by using available contemporary and historical information to evaluate the exposure.

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:

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	8,859	43,546
61 – 90 days	661	16,753
91 – 180 days	818	3,231
Over 180 days	1,617	2,586
	11,955	66,116

10. Trade payables

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

	30 June	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	10,523	27,559
31 – 60 days	248	5,198
Over 60 days	754	1,732
	<hr/> 11,525	<hr/> 34,489

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 30 June 2020.

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 30 June 2020, trade receivables were HK\$11,955,000 (31 December 2019: HK\$66,116,000) and inventories were HK\$10,564,000 (31 December 2019: HK\$19,518,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 6.5 at 30 June 2020 compared to 6.1 at 31 December 2019.

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 30 June 2020, the Group's cash and bank balances were HK\$968,526,000 (31 December 2019: HK\$1,005,556,000), of which HK\$940,031,000 (31 December 2019: HK\$970,877,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 30 June 2020, the Group also has treasury investment in equities listed overseas, namely The Walt Disney Company (DIS.US) amounted to HK\$4,349,000 (31 December 2019: HK\$nil) representing 0.4% of the total assets of the Group.

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

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

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 six months ended 30 June 2020, 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 internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2020.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 21 August 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*)