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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 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	94,047	733,559	1,009,261
Cost of sales		(31,374)	(244,715)	(367,224)
Gross profit		62,673	488,844	642,037
Marketing expenses		(14,053)	(109,613)	(187,346)
Selling and distribution expenses		(3,475)	(27,108)	(30,627)
Administration expenses		(21,706)	(169,293)	(160,097)
Impairment loss on trade receivables		(678)	(5,287)	-
Net (loss)/gain on financial assets at fair value through profit or loss		(393)	(3,065)	29,754
Revaluation surplus on investment properties		42,721	333,223	81,136
Operating profit		65,089	507,701	374,857
Other net income	4	8,396	65,486	16,514
Finance costs		(2,641)	(20,601)	(19,119)
Share of loss of an associated company		-	-	(133)
Profit before income tax	5	70,844	552,586	372,119
Income tax expense	6	(4,107)	(32,038)	(61,932)
Profit for the year		66,737	520,548	310,187

	<i>Note</i>	2018 <i>US\$'000</i> <i>(Note 11)</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(Loss) for the year attributable to:				
Owners of the Company		66,747	520,625	282,196
Non-controlling interests		(10)	(77)	27,991
		66,737	520,548	310,187
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	8			
Basic		3.30	25.74	13.54
Diluted		3.30	25.74	13.54

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 <i>US\$'000</i> <i>(Note 11)</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year	66,737	520,548	310,187
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	(1,481)	(11,550)	31,873
Total comprehensive income for the year	65,256	508,998	342,060
Total comprehensive income attributable to:			
Owners of the Company	65,266	509,075	311,716
Non-controlling interests	(10)	(77)	30,344
	65,256	508,998	342,060

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				
Fixed assets				
- Investment properties		749,238	5,844,058	5,502,632
- Other property, plant and equipment		31,477	245,518	264,119
		780,715	6,089,576	5,766,751
Prepayments for fixed assets		357	2,781	4,110
Goodwill		766	5,976	5,976
Interest in an associated company		759	5,920	5,920
Deferred tax assets		4,377	34,141	29,165
		786,974	6,138,394	5,811,922
Current assets				
Inventories		3,132	24,431	22,904
Trade receivables	9	18,114	141,289	170,640
Deposits paid, other receivables and prepayments		11,989	93,518	46,426
Taxation recoverable		452	3,524	17,391
Financial assets at fair value through profit or loss		12,521	97,663	137,955
Cash and bank balances		189,639	1,479,188	1,423,626
		235,847	1,839,613	1,818,942
Current liabilities				
Bank loans		60,824	474,425	478,125
Trade payables	10	4,945	38,571	26,126
Deposits received, other payables and accrued charges		21,169	165,124	198,124
Loan from an associated company		748	5,831	5,831
Provisions		5,979	46,637	42,157
Taxation payable		2,113	16,481	16,376
		95,778	747,069	766,739
Net current assets		140,069	1,092,544	1,052,203
Total assets less current liabilities		927,043	7,230,938	6,864,125

	2018	2018	2017
<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 11)</i>		
Non-current liabilities			
Bank loans	25,753	200,875	103,250
Deferred tax liabilities	3,969	30,958	31,023
	29,722	231,833	134,273
Net assets	897,321	6,999,105	6,729,852
Equity			
Share capital	2,692	21,000	20,278
Reserves	830,557	6,478,342	6,179,207
Equity attributable to the owners of the Company			
	833,249	6,499,342	6,199,485
Non-controlling interests	64,072	499,763	530,367
Total equity	897,321	6,999,105	6,729,852

Notes:

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial statements have been prepared under the historical cost basis except for investment properties and financial assets at fair value through profit or loss which are stated at fair values.

The accounting policies used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31 December 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*
- Amendments to HKAS 40, *Investment property: Transfer of investment property*

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, distributors and tenants” 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 expanded its revenue disclosures in note 3 “Revenue and segment information” to include the timing of revenue recognition.

(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.

(d) Amendments to HKAS 40, *Investment property: Transfer of investment property*

The amendments provide guidance on deciding when there is a change in use to transfer a property to or from investment property. The amendments clarify that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. The amendments also re-characterise the list of evidence provided in the standard as a non-exhaustive list of examples i.e. other forms of evidence may support a transfer. The adoption of amendments to HKAS 40 does not have any 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, 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:

	2018	2017
	HK\$'000	HK\$'000
Revenue from contracts with customers:		
- Sale of toys	474,182	758,329
- Restaurant income	22,376	22,742
- <u>Property management income</u>	18,942	18,219
	515,500	799,290
Revenue from other sources:		
- Rental income from investment properties	206,164	204,493
- Dividend income	6,410	2,870
- <u>Interest income</u>	5,485	2,608
	218,059	209,971
<u>Total revenue</u>	733,559	1,009,261

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 2018 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 revenue from contracts with customers by timing of revenue recognition				
- Point in time	22,376	-	474,182	496,558
- Over time	21,462	-	-	21,462
Gross revenue from other sources	216,468	11,895	-	228,363
<u>Inter-segment revenue</u>	<u>(12,824)</u>	<u>-</u>	<u>-</u>	<u>(12,824)</u>
Revenue from external customers	247,482	11,895	474,182	733,559
Segment profit/(loss) before depreciation	535,238	8,464	(8,295)	535,407
<u>Depreciation</u>	<u>(12,456)</u>	<u>-</u>	<u>(5,023)</u>	<u>(17,479)</u>
<u>Segment operating profit/(loss)</u>	<u>522,782</u>	<u>8,464</u>	<u>(13,318)</u>	<u>517,928</u>
Other net (loss)/income	(1,436)	-	20,822	19,386
<u>Finance costs</u>	<u>(17,195)</u>	<u>(18)</u>	<u>(3,130)</u>	<u>(20,343)</u>
	<u>(18,631)</u>	<u>(18)</u>	<u>17,692</u>	<u>(957)</u>
<u>Segment profit before income tax (Note)</u>	<u>504,151</u>	<u>8,446</u>	<u>4,374</u>	<u>516,971</u>
Unallocated other income				46,100
Unallocated corporate expenses				<u>(10,485)</u>
Profit before income tax				<u>552,586</u>

Note:

Segment profit before income tax included the following:

Interest income	-	5,485	15,767
Dividend income	-	6,410	254
Revaluation surplus on investment properties	333,223	-	-
Net (loss)/gain on financial assets at fair value through profit or loss	-	(3,065)	4,731

The segment results for the year ended 31 December 2017 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 revenue from contracts with customers by timing of revenue recognition				
- Point in time	22,742	-	758,329	781,071
- Over time	20,751	-	-	20,751
Gross revenue from other sources	214,443	5,478	-	219,921
<u>Inter-segment revenue</u>	<u>(12,482)</u>	<u>-</u>	<u>-</u>	<u>(12,482)</u>
Revenue from external customers	245,454	5,478	758,329	1,009,261
Segment profit before depreciation	279,775	34,840	79,451	394,066
<u>Depreciation</u>	<u>(12,599)</u>	<u>-</u>	<u>(5,320)</u>	<u>(17,919)</u>
<u>Segment operating profit</u>	<u>267,176</u>	<u>34,840</u>	<u>74,131</u>	<u>376,147</u>
Other net (loss)/income	(3,750)	-	20,263	16,513
Finance costs	(12,867)	(16)	(5,735)	(18,618)
Share of loss of an associated company	-	-	(133)	(133)
	<u>(16,617)</u>	<u>(16)</u>	<u>14,395</u>	<u>(2,238)</u>
<u>Segment profit before income tax (Note)</u>	<u>250,559</u>	<u>34,824</u>	<u>88,526</u>	<u>373,909</u>
Unallocated corporate expenses				<u>(1,790)</u>
Profit before income tax				<u>372,119</u>

Note:

Segment profit before income tax included the following:

Interest income	-	2,608	10,572
Dividend income	-	2,870	236
Revaluation surplus on investment properties	81,136	-	-
Net gain on financial assets at fair value through profit or loss	-	29,754	4,424

The segment assets and liabilities as at 31 December 2018 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Reportable segment assets (including cash and bank balances)	6,144,691	545,467	1,194,097	7,884,255
Interest in an associated company	-	-	5,920	5,920
Total reportable segment assets	6,144,691	545,467	1,200,017	7,890,175
Inter-segment elimination	(53)	-	(1,670)	(1,723)
Deferred tax assets				34,141
Taxation recoverable				3,524
Unallocated assets (Note)				<u>51,890</u>
Total assets				<u>7,978,007</u>
Reportable segment liabilities	724,718	3,900	201,658	930,276
Inter-segment elimination	(1,670)	-	(53)	(1,723)
Deferred tax liabilities				30,958
Taxation payable				16,481
Unallocated liabilities				<u>2,910</u>
Total liabilities				<u>978,902</u>
Capital expenditure	16,382	-	1,077	

Note:

Included the amount to be received by PPL pursuant to the Decision of the High Court of Hong Kong dated 5 December 2018, details of which are disclosed in Note 4.

The segment assets and liabilities as at 31 December 2017 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)	5,815,481	508,199	1,254,764	7,578,444
Interest in an associated company	-	-	5,920	5,920
<u>Total reportable segment assets</u>	<u>5,815,481</u>	<u>508,199</u>	<u>1,260,684</u>	<u>7,584,364</u>
Inter-segment elimination	-	-	(1,669)	(1,669)
Deferred tax assets				29,165
Taxation recoverable				17,391
Unallocated assets				<u>1,613</u>
Total assets				<u>7,630,864</u>
<u>Reportable segment liabilities</u>	<u>629,130</u>	<u>-</u>	<u>224,064</u>	<u>853,194</u>
Inter-segment elimination	(1,669)	-	-	(1,669)
Deferred tax liabilities				31,023
Taxation payable				16,376
Unallocated liabilities				<u>2,088</u>
Total liabilities				<u>901,012</u>
<u>Capital expenditure</u>	<u>27,960</u>	<u>-</u>	<u>10,943</u>	

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, prepayments for 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	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
<u>Hong Kong (place of domicile)</u>	255,555	249,102	5,603,550	5,263,581
Americas				
- U.S.A.	303,380	495,951	197,283	198,461
- Others	39,898	49,206	-	-
Europe	95,811	164,350	207,918	228,338
Asia Pacific other than Hong Kong	34,163	45,405	95,502	92,377
Others	4,752	5,247	-	-
	478,004	760,159	500,703	519,176
	733,559	1,009,261	6,104,253	5,782,757

Major customers

The Group's customer base includes three (2017: five) 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\$159,829,000, HK\$129,951,000 and HK\$87,384,000 (2017: HK\$186,022,000, HK\$153,972,000, HK\$126,885,000, HK\$114,339,000 and HK\$107,504,000) respectively.

4. Other net income

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net foreign exchange loss on translation of bank loans	(2,000)	(3,750)
Net investment gain and income from Playmates Toys' treasury investments	20,752	15,232
Others (Note)	46,734	5,032
	<u>65,486</u>	<u>16,514</u>

Note:

Others included a recognition as net income of approximately HK\$46 million, being the net income received by Profit Point Limited ("PPL"), an indirect wholly-owned subsidiary of the Company pursuant to the Decision of the High Court of Hong Kong dated 5 December 2018. The said payment had been received by PPL in January 2019. Please refer to the announcements published by the Company on 17 February 2017, 25 May 2016, 24 December 2013 and 10 September 2003 for the details of the related legal case.

5. Profit before income tax

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cost of inventories sold	195,374	305,257
Write-down of inventories	685	184
Product development and tooling costs	30,660	37,351
Royalties expenses	63,597	113,889
Direct operating expenses arising from investment properties that generate rental income	4,072	4,445
Direct operating expenses arising from investment properties that did not generate rental income	1,194	752
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 other property, plant and equipment	17,904	18,553
Directors' and staff remunerations	95,037	97,362
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	2,706	2,692
Gain on disposal of other property, plant and equipment	(99)	(53)
Auditors' remuneration	1,800	1,800

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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	28,817	35,469
Overseas taxation	8,433	26,305
Over provision in prior years – Hong Kong	(140)	(100)
	<u>37,110</u>	<u>61,674</u>
Deferred taxation		
Origination and reversal of temporary differences	(5,072)	(6,609)
Impact of change in US tax rate (<i>Note</i>)	-	6,867
	<u>(5,072)</u>	<u>258</u>
Income tax expense	<u>32,038</u>	<u>61,932</u>

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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
First interim dividend of HK cents 1.5 per share (2017: HK cents 1.0 per share)	29,760	20,608
First special interim dividend of HK cents 10.0 per share (2017: HK cents 2.0 per share)	198,400	41,216
Second interim dividend of HK cents 1.5 per share (2017: HK cents 1.0 per share)	31,500	20,070
Second special interim dividend of HK cents 1.5 per share (2017: HK cents 2.0 per share)	31,500	40,140
	<u>291,160</u>	<u>122,034</u>

At a meeting held on 10 August 2018, the board of directors resolved to pay in cash first interim dividend of HK cents 1.5 per share (“First Interim Dividend”). In addition, in view of the surplus cash available in the Group and current uncertainties in the global investment climate, the board of directors resolved to pay in cash with a scrip dividend alternative a one-time special interim dividend of HK cents 10 per share (“First Special Interim Dividend”). The First Interim Dividend and the First Special Interim Dividend were paid on 4 October 2018.

At a meeting held on 28 February 2019, the board of directors declared a second interim dividend of HK cents 1.5 per share (“Second Interim Dividend”) and a second special interim dividend of HK cents 1.5 per share (“Second Special Interim Dividend”) to be paid on 3 April 2019 to shareholders whose names appear on the Company’s register of members on 19 March 2019. The Second Interim Dividend and Second Special Interim Dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2018.

(b) Dividends attributable to 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 1.00 per share (2017: HK cents 0.75 per share)	20,070	16,050
Special interim dividend of HK cents 2.00 per share (2017: HK cents 1.50 per share)	40,140	32,100
	60,210	48,150

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$520,625,000 (2017: HK\$282,196,000) and the weighted average number of ordinary shares of 2,022,276,000 shares (2017: 2,084,891,000 shares) in issue during the year.

Diluted earnings per share for the year ended 31 December 2018 and 2017 equals to the basic earnings per share as there were no potential ordinary shares.

The dilutive effect of the share options issued by the Group’s listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2018 and 2017.

9. Trade receivables

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

	2018	2017
	HK\$’000	HK\$’000
0 – 60 days	95,565	126,361
61 – 90 days	39,872	34,096
91 – 180 days	3,182	2,442
Over 180 days	2,670	7,741
	141,289	170,640

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	37,182	22,583
31 – 60 days	415	2,647
Over 60 days	974	896
	<hr/> 38,571	<hr/> 26,126

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

Group Overview

Playmates Holdings group's global revenue for the year ended 31 December 2018 was HK\$733.6 million (2017: HK\$1,009.3 million); reflecting a decrease of 27.3% compared to the prior year. The Group reported an operating profit of HK\$507.7 million (2017: HK\$374.9 million) and net profit attributable to shareholders was HK\$520.6 million (2017: HK\$282.2 million). Basic earnings per share was HK cents 25.74 (2017: HK cents 13.54). Net asset value per share was HK\$3.33 as at 31 December 2018 (2017: HK\$3.32).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2018 was HK\$247.5 million (2017: HK\$245.5 million), reflecting a 0.8% increase compared to the prior year. Revenue from the property investments and property management businesses increased 1.1% to HK\$225.1 million (2017: HK\$222.7 million), while revenue from the food and beverage business was approximately flat compared to 2017 at HK\$22.4 million (2017: HK\$22.7 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$5.8 billion (2017: HK\$5.5 billion). A revaluation surplus of HK\$333.2 million (2017: HK\$81.1 million) was reported in the consolidated income statement of the Group. Segment operating profit including revaluation surplus was HK\$522.8 million (2017: HK\$267.2 million).

(a) Property Investments

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes a number of overseas investment properties in the United Kingdom, the United States of America and Japan, which accounted for 7.4% of the fair value of the Group's overall investment property portfolio (2017: 8.1%).

Aggregate rental income generated from the investment properties of the Group was HK\$206.2 million, an increase of 0.8% from the prior year (2017: HK\$204.5 million). Overall occupancy rate was 77% as at 31 December 2018 (2017: 80%).

(i) Commercial

The Group's investments in commercial properties consist of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With a flagship store of a leading global brand, the building is a landmark on Canton Road, which is one of the premier shopping districts in Hong Kong. With the opening of the HK high speed railway system in Western Kowloon in 2018, the Tsimshatsui district is well positioned to benefit from the increased volumes of mainland tourists visiting the area.

(ii) Residential

The Group's principal investments in residential properties include a number of units in Hillview on Macdonnell Road, Mid-Levels, Hong Kong. The demand for luxury residential units in Hong Kong Mid-Levels continued to be subdued throughout 2018. Over the longer term, we remain confident that Hillview will benefit from resilient demand for and limited supply of up-market residential properties in Mid-Levels.

(iii) Industrial

The Group's investments in industrial properties consist of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. In the 2018 Policy Address, the announcement by the HKSAR Chief Executive to revitalize and optimize the use of existing industrial buildings will enhance our property value.

(b) Property Management

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

Income generated from the property management business segment was HK\$18.9 million, an increase of 3.8% from prior year (2017: HK\$18.2 million).

(c) Food & Beverage Business

Revenue generated from the food and beverage business was approximately flat compared to 2017 at HK\$22.4 million (2017: HK\$22.7 million).

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

Playmates Toys

Playmates Toys group worldwide turnover for the year ended 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.

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

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.

Playmates Toys group reported a net profit of 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.

Portfolio Investments

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

As at 31 December 2018, fair market value of the Group's investment portfolio was HK\$97.7 million (2017: HK\$119.4 million) representing 1.2% of the total assets of the Group (2017: 1.6%). This comprised of HK\$74.2 million of equities listed in Hong Kong (2017: HK\$56.5 million), HK\$19.9 million of equities listed overseas (2017: HK\$57.1 million) and HK\$3.6 million of unlisted managed funds (2017: HK\$5.8 million). None of the individual securities positions held by the Group had a market value that exceeded 0.2% of the total assets of the Group. The top 10 listed securities in aggregate represented 1.2% of the total assets of the Group and included Sun Hung Kai Properties Limited (16.HK), Wharf Real Estate Investment Company Limited (1997.HK), Henderson Land Development Company Limited (12.HK), New World Development Company Limited (17.HK), HSBC Holdings plc (5.HK), Amazon.com, Inc. (AMZN.US), Apple Inc. (AAPL.US), Hong Kong Exchanges and Clearing Limited (388.HK), Kerry Properties Limited (683.HK), Bayerische Motoren Werke AG (BMW.GR).

The Group reported a net loss from investments of HK\$3.1 million in 2018 (2017: net gain of HK\$29.8 million). In 2018, dividend and interest income generated from the portfolio were HK\$11.9 million (2017: HK\$5.5 million).

The Group will remain vigilant in monitoring and balancing the investment portfolio, taking into account developments in major global economies and securities markets.

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 related to toy operation were HK\$140,005,000 (2017: HK\$169,379,000) and inventories related to toy operation were HK\$24,237,000 (2017: HK\$22,728,000) or 5.1% (2017: 3.0%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Overall occupancy rate was 77% as at 31 December 2018 (2017: 80%). Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2018, the Group's financial assets at fair value through profit or loss amounted to HK\$97,663,000 (2017: HK\$137,955,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2018 was 8.5% compared to 7.6% at 31 December 2017. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.5 at 31 December 2018 (2017: 2.4).

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\$1,479,188,000 (2017: HK\$1,423,626,000), of which HK\$1,007,638,000 (2017: HK\$1,202,748,000) was denominated in United States dollar, HK\$21,835,000 (2017: HK\$27,823,000) in British pound, HK\$49,358,000 (2017: HK\$52,548,000) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year, 46,585,752 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.00 to HK\$1.10 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 March 2019 to 19 March 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 15 March 2019. The Second Interim Dividend and Second Special Interim Dividend will be paid on 3 April 2019 to the shareholders on the Register of Members of the Company on 19 March 2019.

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*), Ms. Chan, Helen (*Executive Director*), 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. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)