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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 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

For the year ended 31 December 2019

	Note	2019 US\$'000 (Note 11)	2019 HK\$'000	2018 HK\$'000
Revenue	3	79,815	622,566	733,559
Cost of sales		(25,132)	(196,028)	(244,715)
Gross profit		54,683	426,538	488,844
Marketing expenses		(10,330)	(80,575)	(109,613)
Selling and distribution expenses		(2,495)	(19,466)	(27,108)
Administration expenses		(20,866)	(162,749)	(169,293)
Impairment loss on trade receivables		-	-	(5,287)
Net gain/(loss) on financial assets at fair value through profit or loss		2,132	16,627	(3,065)
Net revaluation surplus on investment properties		33,505	261,338	333,223
Operating profit		56,629	441,713	507,701
Other net income	4	3,660	28,551	65,486
Finance costs		(3,005)	(23,442)	(20,601)
Profit before income tax	5	57,284	446,822	552,586
Income tax expense	6	(6,336)	(49,423)	(32,038)
Profit for the year		50,948	397,399	520,548

	<i>Note</i>	2019 <i>US\$'000</i> <i>(Note 11)</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit/(Loss) for the year attributable to:				
Owners of the Company		53,425	416,717	520,625
Non-controlling interests		(2,477)	(19,318)	(77)
		50,948	397,399	520,548
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	8			
Basic		2.59	20.21	25.74
Diluted		2.59	20.21	25.74

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 <i>US\$'000</i> <i>(Note 11)</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year	50,948	397,399	520,548
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	872	6,801	(11,550)
Total comprehensive income for the year	51,820	404,200	508,998
Total comprehensive income attributable to:			
Owners of the Company	54,297	423,518	509,075
Non-controlling interests	(2,477)	(19,318)	(77)
	51,820	404,200	508,998

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				
Fixed assets				
- Investment properties		784,543	6,119,436	5,844,058
- Other property, plant and equipment		29,479	229,932	245,518
		814,022	6,349,368	6,089,576
Prepayments for fixed assets		2,868	22,374	2,781
Right-of-use assets		351	2,741	-
Goodwill		766	5,976	5,976
Interest in an associated company		-	-	5,920
Deferred tax assets		3,078	24,007	34,141
		821,085	6,404,466	6,138,394
Current assets				
Inventories		2,524	19,691	24,431
Trade receivables	9	8,619	67,226	141,289
Deposits paid, other receivables and prepayments		10,338	80,640	93,518
Taxation recoverable		349	2,720	3,524
Financial assets at fair value through profit or loss		9,238	72,060	97,663
Cash and bank balances		197,607	1,541,334	1,479,188
		228,675	1,783,671	1,839,613
Current liabilities				
Bank loans		68,244	532,300	474,425
Trade payables	10	4,546	35,461	38,571
Deposits received, other payables and accrued charges		18,248	142,346	165,124
Loan from an associated company		-	-	5,831
Provisions		5,429	42,348	46,637
Lease liabilities		366	2,852	-
Taxation payable		5,321	41,505	16,481
		102,154	796,812	747,069
Net current assets		126,521	986,859	1,092,544
Total assets less current liabilities		947,606	7,391,325	7,230,938

	2019	2019	2018
<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 11)</i>		
Non-current liabilities			
Bank loans	29,625	231,075	200,875
Deferred tax liabilities	3,881	30,273	30,958
	33,506	261,348	231,833
Net assets	914,100	7,129,977	6,999,105
Equity			
Share capital	2,714	21,169	21,000
Reserves	849,487	6,625,995	6,478,342
Equity attributable to the owners of the Company			
	852,201	6,647,164	6,499,342
Non-controlling interests	61,899	482,813	499,763
Total equity	914,100	7,129,977	6,999,105

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 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 2.10 of the Group's financial statements.

(iii) Lessor accounting

The Group leases out a number of properties under its property investments and associated businesses segment. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(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:

	<i>HK\$'000</i>
Operating lease commitment as at 31 December 2018	5,775
<u>Less: discounting impact</u>	<u>(293)</u>
<u>Lease liabilities as at 1 January 2019</u>	<u>5,482</u>

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
<i>Non-current assets</i>			
Right-of-use assets	-	5,482	5,482
<i>Current liabilities</i>			
Lease liabilities	-	2,630	2,630
<i>Non-current liabilities</i>			
Lease liabilities	-	2,852	2,852
<i>Equity</i>			
Retained profits	6,175,255	341	6,175,596
Non-controlling interests	499,763	331	500,094

(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, 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:

	2019	2018
	HK\$'000	HK\$'000
Revenue from contracts with customers:		
- Sale of toys	358,739	474,182
- Restaurant income	19,886	22,376
- Property management income	21,287	18,942
	399,912	515,500
Revenue from other sources:		
- Rental income from investment properties	211,083	206,164
- Dividend income	2,722	6,410
- Interest income	8,849	5,485
	222,654	218,059
Total revenue	622,566	733,559

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 2019 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	19,886	-	358,739	378,625
- Over time	23,867	-	-	23,867
Gross revenue from other sources	221,478	11,571	-	233,049
Inter-segment revenue	(12,975)	-	-	(12,975)
Revenue from external customers	252,256	11,571	358,739	622,566
Segment profit/(loss) before depreciation	468,081	27,840	(28,314)	467,607
Depreciation	(12,081)	-	(7,262)	(19,343)
Segment operating profit/(loss)	456,000	27,840	(35,576)	448,264
Other net (loss)/income	(873)	-	20,568	19,695
Finance costs	(21,456)	(22)	(1,469)	(22,947)
	(22,329)	(22)	19,099	(3,252)
Segment profit/(loss) before income tax (Note)	433,671	27,818	(16,477)	445,012
Unallocated other income				8,500
Unallocated corporate expenses				(6,690)
Profit before income tax				446,822

Note:

Segment profit/(loss) before income tax included the following:

Interest income	2	8,849	20,447
Dividend income	-	2,722	24
Net revaluation surplus on investment properties	261,338	-	-
Net gain on financial assets at fair value through profit or loss	-	16,627	-

The segment results for the year ended 31 December 2018 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	22,376	-	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>
Segment profit before income tax (Note)	504,151	8,446	4,374	516,971
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
Net 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 assets and liabilities as at 31 December 2019 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	6,424,395	578,099	1,146,362	8,148,856
Inter-segment elimination	-	-	(1,980)	(1,980)
Deferred tax assets				24,007
Taxation recoverable				2,720
Unallocated assets (<i>Note</i>)				14,534
Total assets				8,188,137
Reportable segment liabilities	808,432	-	173,811	982,243
Inter-segment elimination	(1,670)	-	(310)	(1,980)
Deferred tax liabilities				30,273
Taxation payable				41,505
Unallocated liabilities				6,119
Total liabilities				1,058,160
Capital expenditure	28,146	-	121	

Note:

Included HK\$8.5 million to be received by PPL pursuant to the Decision of the High Court of Hong Kong dated 6 November 2019, details of which are disclosed in Note 4.

The segment assets and liabilities as at 31 December 2018 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)	6,144,691	545,467	1,194,097	7,884,255
Interest in an associated company	-	-	5,920	5,920
<u>Total reportable segment assets</u>	<u>6,144,691</u>	<u>545,467</u>	<u>1,200,017</u>	<u>7,890,175</u>
Inter-segment elimination	(53)	-	(1,670)	(1,723)
Deferred tax assets				34,141
Taxation recoverable				3,524
Unallocated assets				<u>51,890</u>
Total assets				<u>7,978,007</u>
<u>Reportable segment liabilities</u>	<u>724,718</u>	<u>3,900</u>	<u>201,658</u>	<u>930,276</u>
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>
<u>Capital expenditure</u>	<u>16,382</u>	<u>-</u>	<u>1,077</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, right-of-use 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 and right-of-use assets, the location of operation to which they are allocated in case of goodwill, and the place of domicile in case of interest in an associated company.

	Revenue from external customers		Specified non-current assets	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
<u>Hong Kong (place of domicile)</u>	260,177	255,555	5,869,619	5,603,550
Americas				
- U.S.A.	203,191	303,380	181,448	197,283
- Others	33,027	39,898	-	-
Europe	104,572	95,811	232,518	207,918
Asia Pacific other than Hong Kong	20,999	34,163	96,874	95,502
Others	600	4,752	-	-
	362,389	478,004	510,840	500,703
	622,566	733,559	6,380,459	6,104,253

Major customers

The Group's customer base includes two (2018: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK\$166,886,000 and HK\$113,670,000 (2018: HK\$159,829,000, HK\$129,951,000 and HK\$87,384,000) respectively.

4. Other net income

	2019 HK\$'000	2018 HK\$'000
Net foreign exchange loss on translation of bank loans	(875)	(2,000)
Net investment gain and income from Playmates Toys' treasury investments	20,471	20,752
Others (<i>Note</i>)	8,955	46,734
	28,551	65,486

Note:

Others in 2019 included a recognition as net income of HK\$8.5 million (2018: HK\$46.1 million), being the net income to be 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 6 November 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:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	156,561	195,374
Write down of inventories	156	685
Product development and tooling costs	22,159	30,660
Royalties expenses	50,905	63,597
Direct operating expenses arising from investment properties that generate rental income	4,152	4,072
Direct operating expenses arising from investment properties that did not generate rental income	1,243	1,194
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		
- other property, plant and equipment	16,801	17,904
- right-of-use assets	2,741	-
Directors' and staff remunerations	93,943	95,037
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	-	2,706
Loss/(Gain) on disposal of other property, plant and equipment	97	(99)
<u>Auditors' remuneration</u>	1,800	1,800

6. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	29,047	28,817
Overseas taxation	10,755	8,433
Over provision in prior years – Hong Kong	-	(140)
Under provision in prior years – overseas	192	-
	<u>39,994</u>	<u>37,110</u>
Deferred taxation		
Origination and reversal of temporary differences	9,429	(5,072)
Income tax expense	<u>49,423</u>	<u>32,038</u>

7. Dividends

(a) Dividends attributable to the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
First interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	30,405	29,760
First special interim dividend of HK cents 10.0 per share (2018: HK cents 10.0 per share)	202,700	198,400
Second interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	31,748	31,500
Second special interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	31,748	31,500
	<u>296,601</u>	<u>291,160</u>

At a meeting held on 12 August 2019, 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 uncertainties in the global investment climate, the board of directors resolved to pay in cash with a scrip dividend alternative first 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 23 October 2019.

At a meeting held on 6 March 2020, the board of directors declared a second interim dividend of HK cents 1.5 per share and a second special interim dividend of HK cents 1.5 per share to be paid on 9 April 2020 to shareholders whose names appear on the Company’s register of members on 25 March 2020. This 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 2019.

(b) *Dividends attributable to 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 1.50 per share (2018: HK cents 1.00 per share)	31,500	20,070
Second special interim dividend of HK cents 1.50 per share (2018: HK cents 2.00 per share)	31,500	40,140
	63,000	60,210

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$416,717,000 (2018: HK\$520,625,000) and the weighted average number of ordinary shares of 2,061,987,000 shares (2018: 2,022,276,000 shares) in issue during the year.

Diluted earnings per share for the years ended 31 December 2019 and 2018 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 2019 and 2018.

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:

	2019	2018
	HK\$'000	HK\$'000
0 – 60 days	44,648	95,565
61 – 90 days	16,761	39,872
91 – 180 days	3,231	3,182
Over 180 days	2,586	2,670
	67,226	141,289

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	28,382	37,182
31 – 60 days	5,248	415
Over 60 days	1,831	974
	<hr/> 35,461	<hr/> 38,571

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

Group Overview

Playmates Holdings group's global revenue for the year ended 31 December 2019 was HK\$622.6 million (2018: HK\$733.6 million); reflecting a decrease of 15.1% compared to the prior year. The Group reported an operating profit of HK\$441.7 million (2018: HK\$507.7 million) and net profit attributable to shareholders was HK\$416.7 million (2018: HK\$520.6 million). Basic earnings per share was HK cents 20.21 (2018: HK cents 25.74). Net asset value per share was HK\$3.37 as at 31 December 2019 (2018: HK\$3.33).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2019 was HK\$252.3 million (2018: HK\$247.5 million), reflecting a 1.9% increase compared to the prior year. Revenue from the property investments and property management businesses increased 3.2% to HK\$232.4 million (2018: HK\$225.1 million), while revenue from the food and beverage business decreased by 11.2% compared to 2018 at HK\$19.9 million (2018: HK\$22.4 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$6.1 billion (2018: HK\$5.8 billion). A net revaluation surplus of HK\$261.3 million was recorded in the consolidated income statement of the Group (2018: HK\$333.2 million). Segment operating profit including net revaluation surplus was HK\$456.0 million (2018: HK\$522.8 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 overseas investment properties in the United Kingdom, the United States of America and Japan, which in aggregate accounted for 7.2% of the fair value of the Group's overall investment property portfolio (2018: 7.4%).

Aggregate rental income generated from the investment properties of the Group was HK\$211.1 million, an increase of 2.4% from the prior year (2018: HK\$206.2 million). Overall occupancy rate was 68% as at 31 December 2019 (2018: 77%).

(i) Commercial

The Group's investment in commercial properties consists of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With a flagship store of a leading global brand as a tenant, the building is a landmark on Canton Road, which is one of the premier shopping districts in Hong Kong. However, with the social unrest in Hong Kong since the second half of 2019 and the outbreak of the novel coronavirus COVID-19 in early 2020, the number of tourists visiting the area dropped significantly. We will closely monitor the risks and uncertainties in connection with the coronavirus and take appropriate measures as necessary.

(ii) **Residential**

The Group's principal investment in residential properties includes units in Hillview on MacDonnell Road, Mid-Levels, Hong Kong. A major renovation of the exterior and common facilities of the building started in 2019 is expected to enhance the value of the property over the longer term. With resilient demand for and limited supply of up-market residential properties in Mid-Levels, we are optimistic that our investment in the Hillview units will benefit from this renovation.

(iii) **Industrial**

The Group's investment in industrial properties consists of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. In response to the revived government policy to revitalize and optimize the use of existing industrial buildings, the Group had submitted a planning application in June 2019 to the Town Planning Board of Hong Kong to seek permission for the wholesale conversion of Playmates Factory Building for commercial uses. On January 3, 2020, this application was conditionally approved. The property value has been enhanced with this positive development. The Group will continue to monitor the social economic environment before proceeding with the building conversion.

(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\$21.3 million, an increase of 12.7% from prior year (2018: HK\$18.9 million).

(c) **Food & Beverage Business**

Revenue generated from the food and beverage business for the year decreased by 11.2% to HK\$19.9 million (2018: HK\$22.4 million) due to the social unrest and weakened consumer sentiment in the second half of the year.

We will continue to maintain a long term view of our property investments and associated businesses and 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, 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 its main continuing brands: *Teenage Mutant Ninja Turtles*® 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.

Playmates Toys group reported a loss before income tax of HK\$16 million (2018: Profit before tax of HK\$4.4 million). Net loss was HK\$37 million (2018: Net profit of HK\$0.6 million). Playmates Toys group’s 2019 tax expense 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 finished goods for Playmates Toys are based in southern China. At present, although most of the suppliers are gradually resuming production subject to further government advice or restrictions due to the ongoing viral epidemic, it is expected that the 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.

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 2019, fair market value of the Group’s investment portfolio was HK\$72.1 million (2018: HK\$97.7 million) representing 0.9% of the total assets of the Group (2018: 1.2%). This comprised of HK\$58.6 million of equities listed in Hong Kong (2018: HK\$74.2 million), HK\$10.6 million of equities listed overseas (2018: HK\$19.9 million) and HK\$2.9 million of unlisted managed funds (2018: HK\$3.6 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 0.8% of the total assets of the Group and included Wharf Real Estate Investment Company Limited (1997.HK), Amazon.com, Inc. (AMZN.US), Sun Hung Kai Properties Limited (16.HK), CK Hutchison Holdings Limited (1.HK), Hong Kong Exchanges and Clearing Limited (388.HK), Henderson Land Development Company Limited (12.HK), New World Development Company Limited (17.HK), HSBC Holdings plc (5.HK), Bayerische Motoren Werke AG (BMW.GR), Kerry Properties Limited (683.HK).

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

The Group reported a net gain from investments of HK\$16.6 million in 2019 (2018: net loss of HK\$3.1 million). In 2019, dividend and interest income generated from the portfolio were HK\$11.6 million (2018: HK\$11.9 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 2019, trade receivables related to toy operation were HK\$66,116,000 (2018: HK\$140,005,000) and inventories related to toy operation were HK\$19,518,000 (2018: HK\$24,237,000) or 5.4% (2018: 5.1%) of revenue of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Overall occupancy rate was 68% as at 31 December 2019 (2018: 77%). 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 2019, the Group's financial assets at fair value through profit or loss amounted to HK\$72,060,000 (2018: HK\$97,663,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2019 was 9.3% compared to 8.5% at 31 December 2018. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.2 at 31 December 2019 (2018: 2.5).

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\$1,541,334,000 (2018: HK\$1,479,188,000), of which HK\$1,374,760,000 (2018: HK\$1,007,638,000) was denominated in United States dollar, HK\$16,810,000 (2018: HK\$21,835,000) in British pound, HK\$45,763,000 (2018: HK\$49,358,000) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the period, 76,177,128 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$1.02 to HK\$1.16 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 March 2020 to 25 March 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 23 March 2020. The second interim dividend and second special interim dividend will be paid on 9 April 2020 to the shareholders on the Register of Members of the Company on 25 March 2020.

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*); Ms. Chan, Helen (*Executive Director*), Mr. Cheng Bing Kin, Alain (*Executive Director*); Mr. Ip Shu Wing, Charles (*Independent Non-executive Director*); Mr. Lee Ka Sze, Carmelo (*Non-executive Director*); Mr. Lo Kai Yiu, Anthony (*Independent Non-executive Director*); Mr. Tang Wing Yung, Thomas (*Independent Non-executive Director*); Mr. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*); Mr. Yu Hon To, David (*Independent Non-executive Director*)