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PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020 as follows:

Consolidated Income Statement

For the year ended 31 December 2020

	Note	2020 US\$'000 (Note 12)	2020 HK\$'000	2019 HK\$'000
Revenue	3	37,321	289,240	358,739
Cost of sales		(18,998)	(147,231)	(174,485)
Gross profit		18,323	142,009	184,254
Other revenue	4	2,319	17,976	-
Marketing expenses		(10,605)	(82,191)	(80,575)
Selling and distribution expenses		(845)	(6,552)	(19,466)
Administration expenses		(13,390)	(103,782)	(119,789)
Operating loss		(4,198)	(32,540)	(35,576)
Other net income	5	1,550	12,015	20,568
Finance costs		(264)	(2,045)	(1,469)
Loss before income tax	6	(2,912)	(22,570)	(16,477)
Income tax expense	7	(967)	(7,493)	(20,801)
Loss for the year attributable to owners of the Company		(3,879)	(30,063)	(37,278)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	9			
Basic		(0.33)	(2.55)	(3.16)
Diluted		(0.33)	(2.55)	(3.16)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 US\$'000 (Note 12)	2020 HK\$'000	2019 HK\$'000
Loss for the year	(3,879)	(30,063)	(37,278)
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	(680)	(5,269)	-
Total comprehensive income for the year attributable to owners of the Company	(4,559)	(35,332)	(37,278)

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 US\$'000 (Note 12)	2020 HK\$'000	2019 HK\$'000
Non-current assets				
Property, plant and equipment		232	1,798	2,276
Right-of-use assets		1,465	11,353	3,050
Prepayments		2,000	15,500	-
Deferred tax assets		2,201	17,060	22,608
		5,898	45,711	27,934
Current assets				
Inventories		1,327	10,283	19,518
Trade receivables	10	5,328	41,291	66,116
Deposits paid, other receivables and prepayments		4,690	36,349	49,846
Taxation recoverable		-	-	2,720
Financial assets at fair value through profit or loss		906	7,021	-
Cash and bank balances		122,573	949,943	1,005,556
		134,824	1,044,887	1,143,756
Current liabilities				
Trade payables	11	1,337	10,365	34,489
Deposits received, other payables and accrued charges		10,922	84,639	93,812
Provisions		3,018	23,391	42,348
Lease liabilities		735	5,694	3,169
Taxation payable		1,133	8,781	12,594
		17,145	132,870	186,412
Net current assets		117,679	912,017	957,344
Total assets less current liabilities		123,577	957,728	985,278
Non-current liabilities				
Lease liabilities		772	5,986	-
Net assets		122,805	951,742	985,278
Equity				
Share capital		1,523	11,800	11,800
Reserves		121,282	939,942	973,478
Total equity		122,805	951,742	985,278

Notes:

1. Basis of preparation

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

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

The accounting policies used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019, 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 2020. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and segment information

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

Revenue recognised during the year ended 31 December 2020 from sales of toys was HK\$289,240,000 (2019: HK\$358,739,000).

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group’s senior executive management for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components. Based on the internal reports reviewed by the senior executive management of the Group that are used to make strategic decision, the only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, prepayments 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, and the location of operation to which they are related in case of prepayments.

	Revenue		Specified non-current assets	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Hong Kong (place of domicile)	24	282	26,939	1,978
Americas				
- U.S.A.	164,058	203,164	418	3,348
- Others	22,348	33,027	-	-
Europe	87,816	104,447	1,294	-
Asia Pacific other than Hong Kong	14,006	17,219	-	-
Others	988	600	-	-
	289,216	358,457	1,712	3,348
	289,240	358,739	28,651	5,326

Major customers

The Group's customer base includes two (2019: two) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK\$100,923,000 and HK\$46,838,000 (2019: HK\$113,670,000 and HK\$39,382,000) respectively.

4. Other revenue

Other revenue represents forfeiture of unrecouped purchase commitment guarantee deposits from toy distributors at the expiry of distribution agreements (2019: HK\$nil).

5. Other net income

	2020 HK\$'000	2019 HK\$'000
Interest income	6,351	20,447
Dividend income	-	24
Net gain on financial assets at fair value through profit or loss	3,113	-
Government subsidies	2,006	-
Others	545	97
	12,015	20,568

6. Loss before income tax

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold	124,479	149,395
(Reversal of write down)/ Write down of inventories	(139)	156
Product development and tooling costs	20,275	22,159
Royalties expenses	54,498	50,905
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	11,428	20,540
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	(14,634)	(3,277)
Depreciation		
- property, plant and equipment	1,224	4,521
- right-of-use assets	7,718	3,051
Directors' and staff remunerations	67,926	73,870
Allowance for customer concession	2,408	4,959
Reversal of allowance for customer concession	(116)	(36)
Lease charges for short-term leases	-	5,426
Net foreign exchange loss	1,510	87
Loss on disposal of property, plant and equipment	5	97
<u>Auditors' remuneration</u>	<u>1,200</u>	<u>1,200</u>

7. Income tax expense

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	-	-
Overseas taxation	2,440	10,745
Over provision in prior years – Hong Kong	(30)	-
<u>(Over)/Under provision in prior years – overseas</u>	<u>(345)</u>	<u>192</u>
	<u>2,065</u>	<u>10,937</u>
Deferred taxation		
<u>Origination and reversal of temporary differences</u>	<u>5,428</u>	<u>9,864</u>
<u>Income tax expense</u>	<u>7,493</u>	<u>20,801</u>

8. Dividends

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

9. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$30,063,000 (2019: HK\$37,278,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2019: 1,179,998,000 shares) in issue during the year.

Diluted loss per share for the years ended 31 December 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.

10. Trade receivables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 60 days	28,306	43,546
61 – 90 days	8,267	16,753
91 – 180 days	917	3,231
Over 180 days	3,801	2,586
	<u>41,291</u>	<u>66,116</u>

11. Trade payables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 30 days	7,528	27,559
31 – 60 days	1,725	5,198
Over 60 days	1,112	1,732
	<u>10,365</u>	<u>34,489</u>

12. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2020 was HK\$289 million (2019: HK\$359 million), a decrease of 19% compared to the prior year. The decrease in turnover was the result of a contraction in our *Teenage Mutant Ninja Turtles*^{TM & ©} (“*TMNT*”) and *Ben 10*^{TM & ©} product lines, partially offset by new product launches in 2020, primarily *Godzilla vs. Kong*[©] and *Miraculous: Tales of Ladybug & Cat Noir*TM.

Gross profit ratio on toy sales was 49% (2019: 51%). The decrease in gross profit ratio was attributable mainly to higher tooling and development expenses as a percentage of sales related to new products, and a sales mix shift to slightly lower margin products. Recurring operating expenses decreased by 12% from 2019, reflecting continued cost control measures.

Net loss attributable to shareholders was HK\$30 million (2019: Net loss of HK\$37 million).

The US continued to be our biggest market in 2020, contributing 57% of revenue. Europe as a whole contributed 30%, the rest of the Americas 8% and 5% came from Asia Pacific. In a tumultuous year for the consumer products industry, overall toy sales in the US market were up by 16%¹ in 2020, driven by a surge in demand for games and puzzles, outdoor and sports toys, and building sets, as consumers looked to activity-based products during the pandemic to entertain the entire family at home. On the other hand, the Action Figure category was down 3.2% in 2020. In other regions, toy market performance varied depending on the spread of the COVID-19 pandemic and the maturity of the online shopping channels. The eight major European toy markets were up 2.4% in sales in 2020, while Latin America as a whole was down 10%².

Brand Overview

Godzilla vs. Kong

Godzilla vs. Kong, the highly anticipated movie from Legendary Entertainment^{TM & ©} and Warner Bros. Pictures^{TM & ©}, will premiere in late March 2021 in most global markets. The movie will also be released simultaneously in theaters and through streaming services, including HBOMax, which will give fans and kids multiple viewing options.

We launched our *Godzilla vs. Kong*[©] movie product line in Fall 2020 in the U.S., where consumer demand has been strong, even absent major movie promotions, which will occur closer to the March 2021 release date. We will also continue to offer products inspired by Toho[©]'s Classic Monsters.

Miraculous: Tales of Ladybug & Cat Noir

We launched our extensive new line based on ZAG[©]'s hit animated series *Miraculous: Tales of Ladybug & Cat Noir*TM in a number of major international markets in Fall 2020, where we quickly saw strong consumer demand. The product line will debut in North America in 2021. The TV show is currently in its third season, airing in over 120 countries worldwide and streaming across multiple digital platforms, including Disney Channel, Disney+ and Netflix. ZAG[©]'s *Miraculous: Tales of Ladybug & Cat Noir*TM currently ranks as a top girls' series on Disney in Europe and North America. On YouTube, themed-music videos and other exclusive content have garnered over 200 million views.

¹ Source: The NPD Group/Retail Tracking Service/U.S. Toys/Adjusted Dollars.

² Source: Source: The NPD Group | Retail Tracking Service USD Projected G13 & China ecomm | FY 2020.

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 one million views tallied within the first hour of every new daily episode.

The first wave of ***Spy Ninjas***[©] products launched online in late 2020 with promising initial results. Spring 2021 will see an expansion of the product line and the first placement on retail shelves. The product line includes secret spy ninja gear, decoders, ninja weapons, a new Project Zorgo mask and other spy gadgets from the series.

Vlad & Niki^{TM & ©}

Vlad & Niki^{TM & ©} have become a global YouTube phenomenon, by creating one of the highest rated boys channels on the platform. ***Vlad & Niki***^{TM & ©} capture more than five billion monthly views on 16 YouTube channels in 13 languages, with more than 120 million subscribers worldwide. ***Vlad & Niki***^{TM & ©} engage kids with bright, fun short stories full of comedy, animation, music and more! Our line of ***Vlad & Niki***^{TM & ©} toys will be found in the pre-school aisle starting this Fall.

Pikwik Pack[©]

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

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

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. As a result, a disproportionately high balance of trade receivables is typically generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2020, trade receivables were HK\$41,291,000 (2019: HK\$66,116,000) and inventories were HK\$10,283,000 or 3.6% of revenue (2019: HK\$19,518,000 or 5.4% of revenue).

The current ratio, calculated as the ratio of current assets to current liabilities, was 7.9 at 31 December 2020 and 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 31 December 2020, the Group's cash and bank balances were HK\$949,943,000 (2019: HK\$1,005,556,000), of which HK\$922,758,000 (2019: HK\$970,877,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 31 December 2020, the Group also has treasury investment in equities listed overseas, namely The Walt Disney Company (DIS.US) amounted to HK\$7,021,000 (31 December 2019: HK\$nil) representing 0.6% 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

No share was repurchased by the Company during the year.

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 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 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 2020.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 5 March 2021

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*)