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PLAYMATES TOYS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
For the six months ended 30 June		
Revenue	267,462	213,988
Gross profit	130,563	111,025
Operating profit	18,746	15,498
(Loss)/Profit before income tax	(7,326)	14,459
Income tax credit	5,914	24
(Loss)/Profit attributable to owners of the Company	(1,412)	14,483
(Loss)/Earnings per share	<i>HK cents</i>	<i>HK cents</i>
- Basic	(0.12)	1.23
- Diluted	(0.12)	1.23

Playmates Toys group worldwide revenue during the first half of 2022 was HK\$267 million (same period in 2021: HK\$214 million), representing an increase of 25% compared to the prior year period. The favourable comparison was driven by the expansion of our *Miraculous: Tales of Ladybug & Cat Noir* toy line, partially offset by a contraction in *Godzilla vs. Kong* product sales compared to last year.

Gross profit ratio on toy sales was 49% (same period in 2021: 52%). Lower gross profit margin in the first half of 2022 reflected higher ocean freight costs and provision on inventory writedown. Operating expenses increased by 17% compared to the prior year period, reflecting contractual incentive payment to a licensor in the current year period based on brand profitability, partially offset by a 15% reduction in administration expenses.

The group reported an operating profit for the period of HK\$18.7 million (same period in 2021: HK\$15.5 million). The group's loss before income tax of HK\$7.3 million (same period in 2021: profit before income tax of HK\$14.5 million) included a HK\$26.2 million mark-to-market unrealized loss on our equities investment position. The group's equity investments represented 5% of total assets at period-end. These equity investments are in companies that are leaders within their industries, with strong balance sheets. We believe these companies are well-positioned to navigate through economic cycles, and ultimately deliver strong shareholder returns over the long run. Net loss attributable to shareholders during the first half of 2022 was HK\$1.4 million (same period in 2021: net profit of HK\$14.5 million).

We expect our operating environment to be challenging in the second half of the year. Many major economies are experiencing persistent high inflation. As a result, non-essential goods (including toys) are experiencing a slowdown, as many families struggle with dramatically higher food and energy prices. At the same time, supply chain disruptions over the past year prompted a pull-forward in inventory purchases, which has become a challenge to digest this year, just as consumer spending is slowing. Many retailers are also pulling back on orders, which has further compounded inventory issues that many, including us, are facing. As the supply chain bottleneck has shifted to warehouse capacity, we are taking decisive steps to reduce our inventory level, which will result in additional costs in the near-term, but will allow us to capitalize on upcoming opportunities.

Despite these near-term challenges, our team remains dedicated to bringing innovative toys to fans around the world, and building profitable, long-term, brand franchises.

Brand Overview

Miraculous: Tales of Ladybug & Cat Noir

Retail distribution of our ***Miraculous: Tales of Ladybug & Cat Noir*** toy line continued to expand during the first half of 2022. We are working on product line expansions for 2023.

The highly popular TV show continues to air in over 120 countries worldwide and stream across multiple digital platforms, including Disney Channel, Disney+ and Netflix. An upcoming animated musical movie, ***Ladybug & Cat Noir Awakening***, is scheduled for global release in 2023.

Star Trek

Playmates Toys will make a much-anticipated return as the global master licensee for figures, vehicles and ships, role play and other categories for all ***ViacomCBS Star Trek*** properties. Some of the most iconic characters in the Star Trek universe, including its most famous Captains and First Officers, are among the collection featured in the Summer 2022 launch of our toy line.

Later in 2022, Playmates Toys will also launch the first action figures from the new Paramount+ and Nickelodeon animated series ***Star Trek: Prodigy***.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2022

	Note	Unaudited		
		Six months ended 30 June		
		2022	2022	2021
		US\$'000	HK\$'000	HK\$'000
		(Note 11)		
Revenue	3	34,511	267,462	213,988
Cost of sales		(17,664)	(136,899)	(102,963)
Gross profit		16,847	130,563	111,025
Marketing and licensing expenses		(7,227)	(56,009)	(34,137)
Selling and distribution expenses		(1,804)	(13,981)	(11,919)
Administration expenses		(5,396)	(41,827)	(49,471)
Operating profit		2,420	18,746	15,498
Other net (loss)/income	4	(3,205)	(24,835)	387
Finance costs		(160)	(1,237)	(1,426)
(Loss)/Profit before income tax	5	(945)	(7,326)	14,459
Income tax credit	6	763	5,914	24
(Loss)/Profit for the period and total comprehensive income for the period attributable to owners of the Company		(182)	(1,412)	14,483
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/Earnings per share	8			
Basic		(0.02)	(0.12)	1.23
Diluted		(0.02)	(0.12)	1.23

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

		Unaudited 30 June 2022 US\$'000 (Note 11)	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Non-current assets				
Property, plant and equipment		115	892	1,119
Right-of-use assets		2,140	16,584	20,823
Deferred tax assets		5,351	41,469	32,130
		7,606	58,945	54,072
Current assets				
Inventories		8,750	67,815	58,007
Trade receivables	9	7,648	59,270	124,378
Deposits paid, other receivables and prepayments		7,370	57,114	57,331
Financial assets at fair value through profit or loss		7,807	60,505	71,241
Cash and bank balances		117,709	912,244	893,997
		149,284	1,156,948	1,204,954
Current liabilities				
Trade payables	10	3,026	23,451	28,476
Deposits received, other payables and accrued charges		19,635	152,163	165,702
Provisions		5,287	40,977	37,287
Lease liabilities		788	6,104	8,503
Taxation payable		1,419	10,996	10,044
		30,155	233,691	250,012
Net current assets		119,129	923,257	954,942
Total assets less current liabilities		126,735	982,202	1,009,014
Non-current liabilities				
Lease liabilities		1,550	12,016	13,816
Net assets		125,185	970,186	995,198
Equity				
Share capital		1,523	11,800	11,800
Reserves		123,662	958,386	983,398
Total equity		125,185	970,186	995,198

Notes to the Condensed Consolidated Financial Information

1. Basis of preparation and accounting policies

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

This condensed consolidated financial information should be read in conjunction with the 2021 annual financial statements.

The accounting policies used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2021.

2. Changes in accounting policies

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

3. Revenue and segment reporting

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

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

3.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment and right-of-use assets ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the property, plant and equipment and right-of-use assets.

	Revenue		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	82	349	2,581	4,641
Americas				
- U.S.A.	156,553	136,758	14,572	16,330
- Others	25,591	14,235	-	-
Europe	67,786	49,422	323	971
Asia Pacific other than Hong Kong	16,137	13,224	-	-
Others	1,313	-	-	-
	267,380	213,639	14,895	17,301
	267,462	213,988	17,476	21,942

3.2 Major customers

The Group's customer base includes three (2021: three) customers with whom transactions exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK\$53,193,000, HK\$52,685,000 and HK\$43,263,000 (2021: HK\$84,832,000, HK\$29,688,000 and HK\$25,175,000) respectively.

4. Other net (loss)/income

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Net unrealised loss on financial assets at fair value through profit or loss	(26,173)	(210)
Government subsidies	496	-
Interest income	621	587
Dividend income	221	-
Others	-	10
	(24,835)	387

5. (Loss)/Profit before income tax

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Cost of inventories sold	125,949	94,968
Product development and tooling costs	7,864	6,264
Royalties expenses	36,684	30,249
Directors' and staff remunerations	25,034	30,922
Depreciation		
- property, plant and equipment	383	479
- right-of-use assets	4,239	4,519
<u>Interest expenses on lease liabilities</u>	<u>514</u>	<u>731</u>

6. Income tax credit

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax expense		
Hong Kong profits tax	-	-
Overseas taxation	3,425	1,810
	<u>3,425</u>	<u>1,810</u>
Deferred tax credit		
Origination and reversal of temporary differences	(9,339)	(1,834)
<u>Income tax credit</u>	<u>(5,914)</u>	<u>(24)</u>

The Group's cumulative unrecognised tax losses as of 30 June 2022 amounted to HK\$85,048,000 (31 December 2021: HK\$93,217,000). These tax losses do not expire under respective tax legislation.

7. Dividends

7.1 Dividends attributable to the interim period

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (2021: HK\$ nil).

7.2 Dividends attributable to the previous financial year and paid during the interim period

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Dividends in respect of the previous financial year and paid during the interim period:		
Interim dividend of HK cents 2 per share (2021: HK\$ nil)	23,600	-

8. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK\$1,412,000 (2021: profit of HK\$14,483,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2021: 1,180,000,000 shares) in issue during the period.

Diluted loss per share for the six months ended 30 June 2022 equals to the basic loss per share as the potential ordinary share on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted loss per share.

Diluted earnings per share for the six months ended 30 June 2021 is calculated based on the profit attributable to owners of the Company of HK\$14,483,000 and the weighted average number of ordinary shares of 1,180,252,000 shares in issue during the period, adjusted for the effects of 252,000 dilutive potential shares on exercise of share options.

9. Trade receivables

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Trade receivables	79,111	141,091
Less: Allowance for customer concession	(19,841)	(16,713)
	59,270	124,378

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

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
0 – 60 days	36,233	83,410
61 – 90 days	14,310	34,754
91 – 180 days	2,637	3,625
Over 180 days	6,090	2,589
	59,270	124,378

10. Trade payables

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
0 – 30 days	22,211	27,046
31 – 60 days	-	5
Over 60 days	1,240	1,425
	23,451	28,476

11. 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 30 June 2022.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. As a result, a disproportionately high balance of trade receivables is typically generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 30 June 2022, trade receivables were HK\$59,270,000 (31 December 2021: HK\$124,378,000) and inventories were HK\$67,815,000 (31 December 2021: HK\$58,007,000). Higher inventories at 30 June 2022 reflected the Group's pull-forward inventory purchases in response to the global supply chain disruptions over the past year.

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 5.0 at 30 June 2022 compared to 4.8 at 31 December 2021.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 30 June 2022, the Group's cash and bank balances were HK\$912,244,000 (31 December 2021: HK\$893,997,000), of which HK\$891,781,000 (31 December 2021: HK\$877,895,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 30 June 2022, the Group's treasury investment in listed equities amounted to HK\$60,505,000 (31 December 2021: HK\$71,241,000) representing 5.0% of the total assets of the Group (31 December 2021: 5.7%). This comprised HK\$16,768,000 of equities listed in Hong Kong (31 December 2021: HK\$19,027,000) and HK\$43,737,000 of equities listed overseas (31 December 2021: HK\$52,214,000). None of the individual securities positions held by the Group had a market value that exceeded 1.0% of the total assets of the Group. The top 10 listed securities in aggregate represented 4.5% of the total assets of the Group and included The Walt Disney Company (DIS.US), Amazon.com, Inc. (AMZN.US), New World Development Co Limited (17.HK), Alphabet Inc. (GOOG.US), Microsoft Corporation (MSFT.US), NVIDIA Corporation (NVDA.US), Apple Inc. (AAPL.US), Vitasoy International Holdings Limited (345.HK), Walmart Inc. (WMT.US) and Tencent Holdings Limited (700.HK).

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

The Company has applied the principles and complied with all the applicable code provisions (“**Code Provisions**”) of Part 2 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2022, except the followings:

The Code Provision C.2.1 provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The Company does not have a designated chief executive. 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.

Further information of the corporate governance practices of the Company will be set out in the corporate governance report in the annual report of the Company for the year ending 31 December 2022. The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2022.

On behalf of the Board
Chan Kwong Fai, Michael
Chairman

Hong Kong, 19 August 2022

As at the date hereof, the board of directors of the Company comprises the following directors:

Mr. Chan Kwong Fai, Michael (*Chairman*); Mr. Chan Kong Keung, Stephen (*Executive Director*); Mr. Chow Yu Chun, Alexander (*Independent Non-executive Director*); Mr. Ip Shu Wing, Charles (*Independent Non-executive Director*); Mr. Lam Wai Hon, Ambrose (*Independent Non-executive Director*); Mr. Tran Vi-hang William (*Executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)