

2019 Interim Report



CONTENTS

Management Discussion and Analysis

Highlights	2
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Brand Overview	3
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Condensed Consolidated Financial Information

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income	4
---	---

Condensed Consolidated Statement of Financial Position	5
---	---

Condensed Consolidated Cash Flow Statement	7
---	---

Condensed Consolidated Statement of Changes in Equity	8
--	---

Notes to the Condensed Consolidated Financial Information	10
--	----

Information Provided in Accordance with the Listing Rules	25
--	----

Corporate Information	32
------------------------------	----

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MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

For the six months ended 30 June	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	157,156	136,694
Gross profit	80,014	64,490
Operating loss	(31,071)	(41,536)
Loss before income tax	(21,282)	(33,767)
Income tax credit	1,381	3,224
Loss attributable to owners of the Company	(19,901)	(30,543)
Loss per share	<i>HK cents</i>	<i>HK cents</i>
– Basic	(1.69)	(2.58)
– Diluted	(1.69)	(2.58)

Playmates Toys group worldwide turnover during the first half of 2019 was HK\$157 million (same period in 2018: HK\$137 million), representing an increase of 15% compared to the prior year period. The increase in turnover was driven by the rollout of *Rise of the Teenage Mutant Ninja Turtles* products across many markets around the world starting in Fall 2018 and continuing throughout the first half of 2019.

Gross profit ratio on toy sales was 51% (same period in 2018: 47%). The increase in gross profit ratio was attributable mainly to: (i) fewer clearance of non-carry forward products in the US market compared to the prior year period, and (ii) lower tooling expenses related to new product introductions. Recurring operating expenses increased by 15% compared to the prior year period (excluding one-time write-off of Toys “R” Us receivables in 2018), reflecting higher marketing and selling expenses for the relaunch of *Teenage Mutant Ninja Turtles (“TMNT”)*, higher distribution expenses in line with the increase in sales, and stable overhead expenses.

The group reported an operating loss for the period of HK\$31.1 million (same period in 2018: HK\$41.5 million). Operating loss during the first half of 2018 included a provision for doubtful debts of HK\$9.5 million for Toys “R” Us trade receivables. Net loss attributable to shareholders during the first half of 2019 was HK\$19.9 million (same period in 2018: HK\$30.5 million).

Despite the continuation of *Rise of the Teenage Mutant Ninja Turtles* and *Ben 10* toy shipments throughout the year, we expect macroeconomic uncertainties and competitive pressure to persist and intensify in the second half of 2019.

While the operating environment remains challenging, we will adhere to the proven strategy of focusing our resources and efforts to manage our established brands for long term profitability, while actively pursuing selective new opportunities that are good fits for our core competence.

Brand Overview

Teenage Mutant Ninja Turtles

TMNT is celebrating its 35th anniversary in 2019! Nickelodeon's *Rise of the Teenage Mutant Ninja Turtles* TV show and our *TMNT* product line are rolling out across many international markets throughout 2019. Season 2 is scheduled to premiere in Fall 2019, supported by the continued flow of digital content.

We remain confident in Nickelodeon's long-term plans to maintain the *TMNT* brand as an evergreen entertainment franchise.

Ben 10

Cartoon Network's *Ben 10* animated TV series continues to be popular in the US and in many international markets. Season 3 of the TV series will continue to air throughout 2019, and Season 4 is scheduled to debut in 2020. We are actively developing the 2019 and 2020 product line extensions.

Power Players

We have partnered with ZAG, a global independent entertainment studio, on the upcoming animated series, *ZAG HEROEZ: Power Players*. Utilizing ground-breaking CGI-hybrid animation, the action-comedy series follows the adventures of Axel, an adventurous boy who transforms into a living action figure, and his unlikely team of toy heroes as they embark on the biggest "small" adventures a kid could imagine.

Cartoon Network has secured the television rights to the series, which is scheduled to debut in Fall 2019. Our multi-segment toy line is in development and will launch in early 2020, giving kids worldwide the chance to immerse themselves in the on-screen action just like the heroes of the show. Initial shipments may occur in late 2019.

Godzilla vs. Kong

In 2020, Legendary, Toho and Warner Bros. will bring together Godzilla and King Kong in an on-screen battle that has been anticipated by fans around the world for decades. We are developing a full toy line for the *Godzilla vs. Kong* blockbuster movie that will give kids worldwide the chance to immerse themselves in the play of epic monster battles.

Pikwik

In collaboration with Toronto-based entertainment company Guru Studio, we will bring to market a complete line of figures, playsets, vehicles, plush and role play toys inspired by the new *Pikwik* series, which is scheduled to air in 2020 on Disney Junior channel in the US and a number of key markets.

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

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Note	Unaudited		
		Six months ended 30 June		
		2019	2019	2018
		US\$'000	HK\$'000	HK\$'000
		(Note 17)		
Revenue	3	20,148	157,156	136,694
Cost of sales		<u>(9,890)</u>	<u>(77,142)</u>	<u>(72,204)</u>
Gross profit		10,258	80,014	64,490
Marketing expenses		(5,280)	(41,184)	(30,050)
Selling and distribution expenses		(1,104)	(8,608)	(6,975)
Administration expenses		(7,857)	(61,293)	(59,470)
Impairment loss on trade receivables		–	–	(9,531)
Operating loss		(3,983)	(31,071)	(41,536)
Other net income	4	1,342	10,468	9,883
Finance costs		<u>(87)</u>	<u>(679)</u>	<u>(2,114)</u>
Loss before income tax	5	(2,728)	(21,282)	(33,767)
Income tax credit	6	177	1,381	3,224
Loss for the period and total comprehensive income for the period attributable to owners of the Company		<u>(2,551)</u>	<u>(19,901)</u>	<u>(30,543)</u>
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	8			
Basic		<u>(0.22)</u>	<u>(1.69)</u>	<u>(2.58)</u>
Diluted		<u>(0.22)</u>	<u>(1.69)</u>	<u>(2.58)</u>

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

		Unaudited 30 June 2019 US\$'000 (Note 17)	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Non-current assets				
Property, plant and equipment	9	558	4,351	6,773
Right-of-use assets		587	4,576	–
Interest in an associated company		759	5,920	5,920
Deferred tax assets		4,886	38,107	32,472
		<u>6,790</u>	<u>52,954</u>	<u>45,165</u>
Current assets				
Inventories		2,380	18,567	24,237
Trade receivables	10	4,086	31,870	140,005
Deposits paid, other receivables and prepayments		3,761	29,333	14,952
Taxation recoverable		349	2,720	2,720
Cash and bank balances		136,555	1,065,127	1,008,131
		<u>147,131</u>	<u>1,147,617</u>	<u>1,190,045</u>
Current liabilities				
Trade payables	11	3,933	30,678	36,411
Deposits received, other payables and accrued charges	12	13,680	106,689	112,779
Loan from an associated company		748	5,831	5,831
Provisions		5,097	39,758	46,637
Lease liabilities		391	3,048	–
Taxation payable		1,463	11,409	15,813
		<u>25,312</u>	<u>197,413</u>	<u>217,471</u>
Net current assets		<u>121,819</u>	<u>950,204</u>	<u>972,574</u>
Total assets less current liabilities		<u>128,609</u>	<u>1,003,158</u>	<u>1,017,739</u>

		Unaudited 30 June 2019 <i>US\$'000</i> <i>(Note 17)</i>	Unaudited 30 June 2019 <i>HK\$'000</i>	Audited 31 December 2018 <i>HK\$'000</i>
Non-current liabilities				
Lease liabilities		<u>208</u>	<u>1,622</u>	–
		<u>208</u>	<u>1,622</u>	–
Net assets		<u><u>128,401</u></u>	<u><u>1,001,536</u></u>	<u><u>1,017,739</u></u>
Equity				
Share capital	<i>13</i>	<u>1,513</u>	<u>11,800</u>	11,800
Reserves		<u>126,888</u>	<u>989,736</u>	<u>1,005,939</u>
Total equity		<u><u>128,401</u></u>	<u><u>1,001,536</u></u>	<u><u>1,017,739</u></u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019

	Unaudited		
	Six months ended 30 June		
	2019	2019	2018
	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 17)</i>		
Operating activities			
Cash generated from operations	7,303	56,972	45,263
Overseas tax paid	(1,110)	(8,658)	(5,086)
Hong Kong tax refunded	–	–	13,414
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities	6,193	48,314	53,591
	<u> </u>	<u> </u>	<u> </u>
Investing activities			
Purchases of financial assets at fair value through profit or loss	–	–	(42,113)
Proceeds from disposal of financial assets at fair value through profit or loss	–	–	24,018
Other cash flows arising from investing activities	1,324	10,323	7,141
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) investing activities	1,324	10,323	(10,954)
	<u> </u>	<u> </u>	<u> </u>
Financing activities			
Dividends paid	–	–	(35,409)
Repurchase of shares of the Company	(19)	(149)	(16,927)
Issue of shares	10	76	419
Other cash flows arising from financing activities	(201)	(1,568)	–
	<u> </u>	<u> </u>	<u> </u>
Net cash used in financing activities	(210)	(1,641)	(51,917)
	<u> </u>	<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents	7,307	56,996	(9,280)
Cash and cash equivalents at 1 January	129,248	1,008,131	1,021,159
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at 30 June	136,555	1,065,127	1,011,879
	<u> </u>	<u> </u>	<u> </u>
<i>Analysis of cash and cash equivalents</i>			
Cash and bank balances	136,555	1,065,127	1,011,879
	<u> </u>	<u> </u>	<u> </u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Share capital HK\$'000	Share premium HK\$'000	Share repurchase reserve HK\$'000	Capital redemption reserve HK\$'000	Unaudited			Retained profits HK\$'000	Total HK\$'000
					Capital reserve HK\$'000	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000		
At 1 January 2018	<u>11,958</u>	<u>–</u>	<u>(907)</u>	<u>245</u>	<u>38,285</u>	<u>4,174</u>	<u>7,199</u>	<u>1,003,792</u>	<u>1,064,746</u>
Loss and total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(30,543)</u>	<u>(30,543)</u>
Share option scheme									
– value of services	–	–	–	–	–	–	2,298	–	2,298
– shares issued	4	703	–	–	–	–	(288)	–	419
Repurchase of shares of the Company	(162)	(703)	907	162	–	–	–	(17,131)	(16,927)
2017 second interim dividend paid	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(35,409)</u>	<u>(35,409)</u>
Transactions with owners	<u>(158)</u>	<u>–</u>	<u>907</u>	<u>162</u>	<u>–</u>	<u>–</u>	<u>2,010</u>	<u>(52,540)</u>	<u>(49,619)</u>
At 30 June 2018	<u><u>11,800</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>407</u></u>	<u><u>38,285</u></u>	<u><u>4,174</u></u>	<u><u>9,209</u></u>	<u><u>920,709</u></u>	<u><u>984,584</u></u>

	Unaudited							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained profits HK\$'000	
At 31 December 2018	<u>11,800</u>	<u>-</u>	<u>407</u>	<u>38,285</u>	<u>4,174</u>	<u>11,221</u>	<u>951,852</u>	<u>1,017,739</u>
Impact on initial application of HKFRS 16	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>672</u>	<u>672</u>
Adjusted balance at 1 January 2019	<u>11,800</u>	<u>-</u>	<u>407</u>	<u>38,285</u>	<u>4,174</u>	<u>11,221</u>	<u>952,524</u>	<u>1,018,411</u>
Loss and total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,901)</u>	<u>(19,901)</u>
Share option scheme								
– value of services	-	-	-	-	-	3,099	-	3,099
– shares issued	2	131	-	-	-	(57)	-	76
– share options lapsed	-	-	-	-	-	(830)	830	-
Repurchase of shares of the Company	<u>(2)</u>	<u>(131)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18)</u>	<u>(149)</u>
Transactions with owners	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>2,212</u>	<u>812</u>	<u>3,026</u>
At 30 June 2019	<u><u>11,800</u></u>	<u><u>-</u></u>	<u><u>409</u></u>	<u><u>38,285</u></u>	<u><u>4,174</u></u>	<u><u>13,433</u></u>	<u><u>933,435</u></u>	<u><u>1,001,536</u></u>

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 2018 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 2018, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2. Changes in accounting policies

The HKICPA has issued a new Hong Kong Financial Reporting Standard (“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 interim 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) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 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 (“Short-Term Leases”) 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.

When the Group enters into a lease in respect of a low value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, leases of low value assets are typically for office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments (if any) that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

(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 disclosed in note 15.2 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	11,201
Less: Short-Term Lease commitments	<u>(5,426)</u>
Remaining lease payments for leases subject to capitalisation	5,775
Less: discounting impact	<u>(293)</u>
Lease liabilities as at 1 January 2019	<u><u>5,482</u></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 <i>HK\$'000</i>	Adoption of HKFRS 16 <i>HK\$'000</i>	At 1 January 2019 <i>HK\$'000</i>
<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	<u>951,852</u>	<u>672</u>	<u><u>952,524</u></u>

(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. The capital element is classified as financing cash flow and interest element is classified as operating cash flow. 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 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, right-of-use assets 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 property, plant and equipment and right-of-use assets, and the place of domicile in case of interest in an associated company.

	Revenue		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	<u>10</u>	<u>282</u>	<u>9,772</u>	<u>11,160</u>
Americas				
– U.S.A.	85,898	70,138	5,075	1,533
– Others	16,172	19,816	–	–
Europe	45,799	27,666	–	–
Asia Pacific other than				
Hong Kong	8,873	17,038	–	–
Others	<u>404</u>	<u>1,754</u>	<u>–</u>	<u>–</u>
	<u>157,146</u>	<u>136,412</u>	<u>5,075</u>	<u>1,533</u>
	<u>157,156</u>	<u>136,694</u>	<u>14,847</u>	<u>12,693</u>

3.2 Major customers

The Group’s customer base includes two (2018: two) 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\$52,967,000 and HK\$16,832,000 (2018: HK\$33,207,000 and HK\$16,759,000) respectively.

4. Other net income

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	10,382	7,162
Dividend income	12	156
Net gain on financial assets at fair value through profit or loss	–	2,537
Others	74	28
	<u>10,468</u>	<u>9,883</u>

5. Loss before income tax

Loss before income tax is stated after charging the following:

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	68,199	60,575
Product development and tooling costs	8,898	10,734
Royalties expenses	21,715	19,787
Directors' and staff remunerations	35,695	35,037
Depreciation		
– property, plant and equipment	2,396	2,520
– right-of-use assets	1,525	–
Impairment loss on trade receivables	–	9,531
Interest on lease liabilities	138	–
	<u>138</u>	<u>–</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	
	2019	2018
	HK\$'000	HK\$'000
Current taxation		
Overseas taxation	4,254	1,685
Over provision in prior years – Hong Kong	–	(20)
	<u>4,254</u>	<u>1,665</u>
Deferred taxation		
Origination and reversal of temporary differences	<u>(5,635)</u>	<u>(4,889)</u>
Income tax credit	<u>(1,381)</u>	<u>(3,224)</u>

7. Dividends

7.1 Dividends attributable to the interim period

The directors do not recommend the payment of dividend.

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Dividends in respect of the previous financial year and paid during the interim period:		
Second interim dividend of HK cents nil (2018: HK cents 3) per share	–	35,409
	<u>–</u>	<u>35,409</u>

8. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$19,901,000 (2018: HK\$30,543,000) and the weighted average number of ordinary shares of 1,179,996,000 shares (2018: 1,185,430,000 shares) in issue during the period.

Diluted loss per share for the six months ended 30 June 2019 and 2018 equals to the basic loss per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted loss per share.

9. Property, plant and equipment

	<i>HK\$'000</i>
Opening net book amount as at 1 January 2019	6,773
Additions	70
Depreciation	(2,396)
Disposals	(96)
	<hr/>
Closing net book amount as at 30 June 2019	4,351
	<hr/> <hr/>
Opening net book amount as at 1 January 2018	10,799
Additions	177
Depreciation	(2,520)
	<hr/>
Closing net book amount as at 30 June 2018	8,456
Additions	900
Depreciation	(2,503)
Disposals	(80)
	<hr/>
Closing net book amount as at 31 December 2018	6,773
	<hr/> <hr/>

10. Trade receivables

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Trade receivables	47,170	159,458
Less: Allowance for impairment	–	(2,664)
Less: Allowance for customer concession	<u>(15,300)</u>	<u>(16,789)</u>
	<u>31,870</u>	<u>140,005</u>

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 2019 HK\$'000	31 December 2018 HK\$'000
0 – 60 days	22,912	94,295
61 – 90 days	5,172	39,858
91 – 180 days	2,043	3,182
Over 180 days	<u>1,743</u>	<u>2,670</u>
	<u>31,870</u>	<u>140,005</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:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
0 – 30 days	29,247	35,163
31 – 60 days	–	415
Over 60 days	1,431	833
	<u>30,678</u>	<u>36,411</u>

12. Deposits received, other payables and accrued charges

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Deposits from customers and distributors	63,758	60,642
Accrued product development, sales, marketing and distribution expenses	2,606	6,088
Accrued royalties	28,538	33,925
Accrued directors' and staff remunerations	4,358	4,656
Withholding tax payable	4,814	2,996
Accrued administrative expenses and professional fees	2,615	4,472
	<u>106,689</u>	<u>112,779</u>

13. Share capital

	Authorised Ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2018 and 30 June 2019	3,000,000,000	30,000
	Issued and fully paid Ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2018	1,195,770,000	11,958
Exercise of share options	450,000	4
Cancellation of repurchased shares	(16,220,000)	(162)
At 31 December 2018 and 1 January 2019	1,180,000,000	11,800
Exercise of share options	184,000	2
Cancellation of repurchased shares (<i>Note</i>)	(184,000)	(2)
At 30 June 2019	1,180,000,000	11,800

Note:

During the six months ended 30 June 2019, the Company repurchased a total of 184,000 shares of the Company on the Stock Exchange as follows:

Month/year	Par value per share <i>HK\$</i>	Number of shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Aggregate price paid <i>HK\$'000</i>
March 2019	0.01	184,000	0.81	0.81	149

All of the above repurchased shares were cancelled during the period. The issued capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or the retained profits. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

14. Fair value measurement of financial instruments

14.1 Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

As at 30 June 2019 and 31 December 2018, there were no financial assets or liabilities measured at fair value.

During the six months ended 30 June 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

14.2 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, trade payables, other payables and accrued charges and loan from an associated company carried at amortised cost) approximate their fair values as at 30 June 2019 and 31 December 2018.

15. Commitments

15.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2019 were payable as follows:

	30 June 2019	31 December 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	67,876	43,852
In the second to fifth years	53,058	43,368
	120,934	87,220

15.2 Lease commitments

The Group acts as lessee under leases for its offices. The lease commitment as at 30 June 2019 presented below represents the future aggregate minimum lease payments for Short-Term Lease (i.e. lease term less than one year) only. Leases with lease terms over one year have been recognised as lease liabilities as at 30 June 2019 under HKFRS 16. The lease commitment as at 31 December 2018 presented below represents the future minimum lease payments under all non-cancellable operating leases.

	30 June 2019	31 December 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,713	8,271
In the second to fifth years	–	2,930
	2,713	11,201

Details of the impact on initial application of HKFRS 16 are disclosed in note 2.

16. Related party transactions

16.1 The Group entered into the following significant transactions with related parties:

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rent and building management fee paid to fellow subsidiaries, Bagnols Limited and Belmont Limited	3,368	3,279

16.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).

17. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2019.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Liquidity and Financial Resources

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 2019, trade receivables were HK\$31,870,000 (31 December 2018: HK\$140,005,000) and inventories were HK\$18,567,000 (31 December 2018: HK\$24,237,000).

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 5.8 at 30 June 2019 compared to 5.5 at 31 December 2018.

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 2019, the Group's cash and bank balances were HK\$1,065,127,000 (31 December 2018: HK\$1,008,131,000), of which HK\$1,039,679,000 (31 December 2018: HK\$734,041,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

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.

Employees

As at 30 June 2019, the Group had a total of 66 employees in Hong Kong and the United States of America.

There was no material change in remuneration policies compared to those disclosed in the most recently published annual report.

Share Options

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme adopted on 25 January 2008 (“2008 PTL Scheme”) and the Share Option Scheme adopted on 21 May 2018 (“2018 PTL Scheme”), that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”):

Participant	Date of grant	Exercise Price HK\$	Number of share options				Balance at 30 June 2019
			Balance at 1 January 2019	Granted during the period (Note (1))	Exercised during the period (Note (2))	Lapsed during the period	
2018 PTL Scheme							
<i>Directors of the Company</i>							
TO Shu Sing, Sidney Chairman	29 June 2018	0.826	2,000,000	–	–	–	2,000,000
CHAN Kong Keung, Stephen	29 June 2018	0.826	1,000,000	–	–	–	1,000,000
CHENG Bing Kin, Alain	29 June 2018	0.826	1,200,000	–	–	–	1,200,000
CHOW Yu Chun, Alexander	29 June 2018	0.826	500,000	–	–	–	500,000
LEE Ching Kwok, Rin	29 June 2018	0.826	500,000	–	–	–	500,000
YANG, Victor	29 June 2018	0.826	500,000	–	–	–	500,000
<i>Continuous Contract Employees, excluding Directors</i>	29 June 2018	0.826	17,772,000	–	–	100,000	17,672,000
<i>Other Participants</i>	29 June 2018	0.826	5,780,000	–	–	–	5,780,000
	12 April 2019	0.792	–	20,000,000	–	–	20,000,000

Participant	Date of grant	Exercise Price HK\$	Number of share options				Balance at 30 June 2019
			Balance at 1 January 2019	Granted during the period (Note (1))	Exercised during the period (Note (2))	Lapsed during the period	
2008 PTL Scheme							
<i>Directors of the Company</i>							
CHOW Yu Chun,	13 April 2012	0.415	250,000	–	–	–	250,000
Alexander	15 May 2013	0.930	525,000	–	–	–	525,000
YANG, Victor	13 April 2012	0.415	125,000	–	–	–	125,000
	15 May 2013	0.930	525,000	–	–	–	525,000
<i>Continuous Contract Employees, excluding Directors</i>	20 January 2010	0.828	981,000	–	–	–	981,000
	18 April 2011	0.315	528,000	–	–	–	528,000
	13 April 2012	0.415	1,297,500	–	–	–	1,297,500
	15 May 2013	0.930	3,625,500	–	–	–	3,625,500
<i>Other Participants</i>	20 January 2010	0.828	443,000	–	–	443,000	–
	30 March 2010	0.673	1,110,000	–	–	–	1,110,000
	18 April 2011	0.315	574,000	–	–	–	574,000
	13 April 2012	0.415	1,122,000	–	184,000	186,000	752,000
	15 May 2013	0.930	1,562,500	–	–	600,000	962,500

Notes:

- (1) The closing price of the ordinary shares of the Company on 11 April 2019, being the trading day immediately before the date on which the share options were granted during the period, was HK\$0.70.
- (2) The weighted average closing price of the ordinary shares of the Company immediately before the date on which the share options were exercised by the other participant of the Group during the period was HK\$0.82.

The above share options are exercisable in stages in accordance with the respective terms of the 2008 PTL Scheme and the 2018 PTL Scheme within ten years after the date of grant. No options were cancelled during the period.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

As at 30 June 2019, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares held	Percentage interest held
TO Shu Sing, Sidney	Personal	10,000,000 ordinary shares	0.85%
CHENG Bing Kin, Alain	Personal	1,800,000 ordinary shares	0.15%
CHOW Yu Chun, Alexander	Personal	2,038,000 ordinary shares	0.17%
LEE Ching Kwok, Rin	Personal	1,865,000 ordinary shares	0.16%
YANG, Victor	Personal	1,215,000 ordinary shares	0.10%

Long positions in underlying shares and debentures of the Company

Name of Director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
TO Shu Sing, Sidney	Personal	2,000,000 share options	2,000,000 shares	0.17%
CHAN Kong Keung, Stephen	Personal	1,000,000 share options	1,000,000 shares	0.08%
CHENG Bing Kin, Alain	Personal	1,200,000 share options	1,200,000 shares	0.10%
CHOW Yu Chun, Alexander	Personal	1,275,000 share options	1,275,000 shares	0.11%
LEE Ching Kwok, Rin	Personal	500,000 share options	500,000 shares	0.04%
YANG, Victor	Personal	1,150,000 share options	1,150,000 shares	0.10%

Long positions in shares of Playmates Holdings Limited (“PHL”)

Name of Director	Nature of interest	Number of shares held	Percentage interest held
TO Shu Sing, Sidney	Personal	20,000,000 ordinary shares	0.99%
CHAN Kong Keung, Stephen	Personal	2,600,000 ordinary shares	0.13%
CHENG Bing Kin, Alain	Personal	2,300,000 ordinary shares	0.11%

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 30 June 2019.

Details of the share options held by the directors of the Company are disclosed in the above section headed “Share Options”.

Save as disclosed above, as at 30 June 2019, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

Shareholders’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company Required to be Recorded under Section 336 of the SFO

As at 30 June 2019, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company’s issued share capital, which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal <i>(Note (i))</i>	600,000,000 ordinary shares	50.85%
TGC Assets Limited	Corporate <i>(Note (i))</i>	600,000,000 ordinary shares	50.85%
PHL	Corporate <i>(Note (ii))</i>	600,000,000 ordinary shares	50.85%
PIL Management Limited	Corporate <i>(Note (ii))</i>	600,000,000 ordinary shares	50.85%
PIL Investments Limited	Corporate <i>(Note (ii))</i>	600,000,000 ordinary shares	50.85%

Name	Nature of interest	Number of shares held	Percentage interest held
PIL Toys Limited	Corporate	600,000,000 ordinary shares	50.85%
Pandanus Associates Inc.	Corporate (<i>Note (iii)</i>)	82,156,000 ordinary shares	6.96%
Pandanus Partners L.P.	Corporate (<i>Note (iii)</i>)	82,156,000 ordinary shares	6.96%
FIL Limited	Corporate (<i>Note (iii)</i>)	82,156,000 ordinary shares	6.96%

Notes:

- (i) Mr. Chan Chun Hoo, Thomas (“Mr. Chan”) is the beneficial owner of all of the issued share capital of TGC Assets Limited (“TGC”), since TGC directly owns approximately 49.68% of the shareholding of PHL and is deemed to be interested in the 600,000,000 shares of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 600,000,000 shares of the Company in aggregate which PHL is interested in.
- (ii) PIL Management Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of PIL Management Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, PIL Management Limited and PIL Investments Limited are therefore deemed to be interested in the 600,000,000 shares of the Company in aggregate which PIL Toys Limited is beneficially interested in.
- (iii) Pandanus Partners L.P. is a wholly-owned subsidiary of Pandanus Associates Inc.; Pandanus Partners L.P. holds 38.10% shareholding of FIL Limited; Pandanus Associates Inc., Pandanus Partners L.P. and FIL Limited are therefore deemed to be interested in the 82,156,000 shares of the Company

Purchase, Sale or Redemption of Shares

During the period, 184,000 shares of HK\$0.01 each were repurchased by the Company at the price of HK\$0.81 per share through the Stock Exchange. The particulars of the repurchases are set out in note 13 to the condensed consolidated financial information.

Compliance with the Corporate Governance Code

The Company has applied the principles and complied with all the applicable code provisions (“Code Provisions”) of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 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 internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2019.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the period ended 30 June 2019.

On behalf of the Board
To Shu Sing, Sidney
Chairman

Hong Kong, 12 August 2019

CORPORATE INFORMATION

Directors

TO Shu Sing, Sidney
(*Chairman*)

CHAN Kong Keung, Stephen
(*Executive Director*)

CHENG Bing Kin, Alain
(*Executive Director*)

CHOW Yu Chun, Alexander
(*Independent Non-executive Director*)

LAM Wai Hon
(*Independent Non-executive Director*)
– appointed on 12 August 2019

LEE Ching Kwok, Rin
(*Independent Non-executive Director*)

TRAN Vi-hang William
(*Executive Director*)
– appointed on 12 August 2019

YANG, Victor
(*Independent Non-executive Director*)
– resigned on 12 August 2019

Company Secretary

NG Ka Yan

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Auditors

Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman
Deacons

Principal Bankers

The Bank of East Asia, Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
UBS AG

Principal Share Registrars

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Branch Share Registrars

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Stock Code

The shares of Playmates Toys Limited
are listed for trading on The Stock
Exchange of Hong Kong Limited
(Stock Code: 869)

Website

www.playmatestoy.com



Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
www.playmatestoys.com