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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 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
For the six months ended 30 June		
Revenue	347,231	267,462
Gross profit	187,415	130,563
Operating profit	56,227	18,746
Profit/(Loss) before income tax	86,428	(7,326)
Income tax credit	542	5,914
Profit/(Loss) attributable to owners of the Company	86,970	(1,412)
Earnings/(Loss) per share	<i>HK cents</i>	<i>HK cents</i>
- Basic	7.37	(0.12)
- Diluted	7.37	(0.12)
Interim dividend per share	2.00	-

Playmates Toys worldwide turnover during the first half of 2023 was HK\$347 million (same period in 2022: HK\$267 million), representing an increase of 30% compared to the prior year period. The favourable comparison was driven by initial shipments of our *Teenage Mutant Ninja Turtles* toy line supported by the global release of the *Teenage Mutant Ninja Turtles: Mutant Mayhem* animated movie.

Gross profit ratio on toy sales was 54% (same period in 2022: 49%). Higher gross profit margin in the first half of 2023 reflected favourable product mix, lower ocean freight costs and reduced writedowns on excess inventory, partially offset by higher product development and tooling costs. Operating expenses increased by 20% compared to the prior year period, reflecting higher variable costs, in particular distribution expenses. Administration expenses increased 12.5% compared to the prior year period but decreased slightly as a percentage of revenue.

The group reported an operating profit of HK\$56.2 million during the first half of 2023 (same period in 2022: HK\$18.7 million). Other net income during the current year period included a HK\$13.9 million mark-to-market unrealized gain and HK\$2.1 million realized gain on our listed equities investment position and HK\$15.7 million in interest income. During the prior year period, we recorded a HK\$26.2 million unrealized investment loss and HK\$0.6 million in interest income. Net profit attributable to shareholders during the first half of 2023 was HK\$87.0 million (same period in 2022: net loss of HK\$1.4 million).

We continue to be optimistic about the second half of the year. The relaunch of our *Teenage Mutant Ninja Turtles* toy line is off to a strong start in all major markets around the world, driven by the positive response to the *Teenage Mutant Ninja Turtles: Mutant Mayhem* animated film released during the summer. *Miraculous Ladybug & Cat Noir: The Movie* has also gained popularity on Netflix since its debut. We are hopeful that it will have a positive impact on our *Miraculous: Tales of Ladybug & Cat Noir* toy line starting in the second half of the year.

Brand Overview

Teenage Mutant Ninja Turtles (“TMNT”)

The Paramount Pictures animated movie *Teenage Mutant Ninja Turtles: Mutant Mayhem*, developed by Paramount Animation and produced by Seth Rogen’s Point Grey Pictures, has delivered strong box office results since its release in August 2023. Consumer response to both the movie and our *TMNT* toy line has been positive. Our multi-platform marketing and promotional efforts will continue throughout this Fall in order to sustain the current momentum.

In addition, Paramount Pictures and Nickelodeon Movies are developing a sequel to *Teenage Mutant Ninja Turtles: Mutant Mayhem* and planning a two-season series that will serve as a “bridge” between the films. The spinoff series, titled *Tales of The Teenage Mutant Ninja Turtles*, will appear on Paramount+. Both the movie sequel and the Paramount+ series will be produced by Seth Rogen’s Point Grey Pictures. We are actively developing new products to coincide with the upcoming content.

Miraculous: Tales of Ladybug & Cat Noir

The highly popular *Miraculous: Tales of Ladybug & Cat Noir* animated series continues to air in over 120 countries worldwide and stream across multiple digital platforms, including Disney Channel, Disney+ and Netflix, with Season 5 rolling out on Disney platforms throughout 2023.

The animated musical feature, *Miraculous Ladybug & Cat Noir: The Movie*, had a strong debut on Netflix during the summer. We are hopeful that it will bring an expanded audience into the *Miraculous* universe and provide a boost to our toy line starting in the second half of the year.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Note	Unaudited Six months ended 30 June		
		2023 US\$'000 (Note 11)	2023 HK\$'000	2022 HK\$'000
Revenue	3	44,517	347,231	267,462
Cost of sales		(20,489)	(159,816)	(136,899)
Gross profit		24,028	187,415	130,563
Marketing and licensing expenses		(7,600)	(59,278)	(56,009)
Selling and distribution expenses		(3,187)	(24,856)	(13,981)
Administration expenses		(6,032)	(47,054)	(41,827)
Operating profit		7,209	56,227	18,746
Other net income/(loss)	4	4,083	31,847	(24,835)
Finance costs		(211)	(1,646)	(1,237)
Profit/(Loss) before income tax	5	11,081	86,428	(7,326)
Income tax credit	6	69	542	5,914
Profit/(Loss) for the period and total comprehensive income for the period attributable to owners of the Company		11,150	86,970	(1,412)
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share	8			
Basic		0.94	7.37	(0.12)
Diluted		0.94	7.37	(0.12)

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

		Unaudited 30 June 2023 US\$'000 (Note 11)	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Non-current assets				
Property, plant and equipment		104	815	678
Right-of-use assets		2,913	22,718	26,958
Deferred tax assets		5,427	42,330	33,082
		8,444	65,863	60,718
Current assets				
Inventories		7,915	61,735	23,700
Trade receivables	9	22,178	172,991	60,962
Deposits paid, other receivables and prepayments		6,219	48,511	45,455
Financial assets at fair value through profit or loss		8,926	69,624	58,584
Cash and bank balances		116,444	908,263	927,922
		161,682	1,261,124	1,116,623
Current liabilities				
Trade payables	10	9,383	73,185	11,764
Deposits received, other payables and accrued charges		15,758	122,925	101,556
Provisions		4,716	36,788	37,924
Lease liabilities		1,096	8,546	8,272
Taxation payable		2,508	19,562	10,856
		33,461	261,006	170,372
Net current assets		128,221	1,000,118	946,251
Total assets less current liabilities		136,665	1,065,981	1,006,969
Non-current liabilities				
Lease liabilities		2,027	15,807	20,165
Net assets		134,638	1,050,174	986,804
Equity				
Share capital		1,513	11,800	11,800
Reserves		133,125	1,038,374	975,004
Total equity		134,638	1,050,174	986,804

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 2022 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 2022.

2. Changes in accounting policies

The HKICPA has issued a new standard and 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
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	-	82	10,917	13,104
Americas				
- U.S.A.	209,899	156,553	11,118	12,735
- Others	31,034	25,591	-	-
Europe	80,492	67,786	1,498	1,797
Asia Pacific other than Hong Kong	25,000	16,137	-	-
Others	806	1,313	-	-
	347,231	267,380	12,616	14,532
	347,231	267,462	23,533	27,636

3.2 Major customers

The Group's customer base includes three (2022: three) customers with whom transactions exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK\$63,012,000, HK\$51,730,000 and HK\$46,491,000 (2022: HK\$53,193,000, HK\$52,685,000 and HK\$43,263,000) respectively.

4. Other net income/(loss)

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Net gain/(loss) on financial assets at fair value through profit or loss		
- unrealised	13,875	(26,173)
- realised	2,063	-
Interest income	15,692	621
Dividend income	217	221
Government subsidies	-	496
	31,847	(24,835)

5. Profit/(Loss) before income tax

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cost of inventories sold	147,480	125,949
Product development and tooling costs	11,656	7,864
Royalties expenses	50,149	36,684
Directors' and staff remunerations	24,692	25,034
Depreciation		
- property, plant and equipment	308	383
- right-of-use assets	4,240	4,239
Interest expenses on lease liabilities	669	514
Net exchange gain	(761)	(1,524)

6. Income tax credit

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits after setting off with tax losses brought forward from the past years (2022: No Hong Kong profits tax has been provided as there were tax losses brought forward to fully 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	
	2023	2022
	HK\$'000	HK\$'000
Current tax expense		
Hong Kong profits tax	2,747	-
Overseas taxation	5,716	3,425
Under provision in prior year – overseas	243	-
	8,706	3,425
Deferred tax credit		
Origination and reversal of temporary differences	(9,248)	(9,339)
Income tax credit	(542)	(5,914)

The Group's cumulative unrecognised tax losses as of 30 June 2023 amounted to HK\$9,335,000 (31 December 2022: HK\$92,210,000). These tax losses do not expire under respective tax legislation.

7. Dividends

7.1 Dividends attributable to the interim period

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend of HK cents 2 per share (2022: HK\$ nil)	23,614	-

At a meeting held on 25 August 2023, the board of directors has resolved to pay an interim dividend of HK cents 2 per share to be paid on 29 September 2023 to shareholders whose names appear on the Company's Register of Members on 12 September 2023.

The interim dividend declared after the end of the reporting period have not been recognised as liabilities in this condensed consolidated financial information for the six months ended 30 June 2023.

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

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the interim period:		
<u>Interim dividend of HK cents 2 per share (2022: HK cents 2)</u>	23,600	23,600

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK\$86,970,000 (2022: loss of HK\$1,412,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2022: 1,180,000,000 shares) in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2023 and 2022 equals to the basic earnings/(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 earnings/(loss) per share.

9. Trade receivables

	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Trade receivables	193,493	82,387
Less: Allowance for customer concession	(20,502)	(21,425)
	172,991	60,962

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 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
0 – 60 days	158,849	38,537
61 – 90 days	14,065	19,606
91 – 180 days	17	2,742
Over 180 days	60	77
	172,991	60,962

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 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
0 – 30 days	73,183	10,964
31 – 60 days	-	33
Over 60 days	2	767
	73,185	11,764

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 30 June 2023.

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 2023, trade receivables were HK\$172,991,000 (31 December 2022: HK\$60,962,000) and inventories were HK\$61,735,000 (31 December 2022: HK\$23,700,000). The higher trade receivables and inventories at interim period end reflected a pickup in customer orders and shipments during the second quarter of 2023.

The Group's current ratio, calculated as the ratio of current assets to current liabilities, was 4.8 at 30 June 2023 compared to 6.6 at 31 December 2022.

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 2023, the Group's cash and bank balances were HK\$908,263,000 (31 December 2022: HK\$927,922,000), of which HK\$886,817,000 (31 December 2022: HK\$913,737,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 30 June 2023, the Group's treasury investment in listed equities amounted to HK\$69,624,000 (31 December 2022: HK\$58,584,000) representing 5.3% of the total assets of the Group (31 December 2022: 5.0%). This comprised HK\$12,658,000 of equities listed in Hong Kong (31 December 2022: HK\$15,250,000) and HK\$56,966,000 of equities listed overseas (31 December 2022: HK\$43,334,000). None of the individual securities positions held by the Group had a market value that exceeded 0.9% of the total assets of the Group. The top 10 listed securities in aggregate represented 4.8% of the total assets of the Group and included The Walt Disney Company (DIS.US), Amazon.com, Inc. (AMZN.US), NVIDIA Corporation (NVDA.US), Apple Inc. (AAPL.US), Microsoft Corporation (MSFT.US), Alphabet Inc. (GOOG.US), Netflix, Inc. (NFLX.US), Walmart Inc. (WMT.US), New World Development Co Limited (17.HK) 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 2023, 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 2023. 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 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 September 2023 to 12 September 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 8 September 2023. The interim dividend will be paid on 29 September 2023 to the shareholders on the Register of Members of the Company on 12 September 2023.

On behalf of the Board
Chan Kwong Fai, Michael
Chairman

Hong Kong, 25 August 2023

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

Mr. Chan Kwong Fai, Michael (*Chairman*), Ms. Chan, Helen (*Executive Director*), Mr. Chan Kong Keung, Stephen (*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*)