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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 2023

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2023 as follows:

Consolidated Income Statement

For the year ended 31 December 2023

	Note	2023 US\$'000 (Note 12)	2023 HK\$'000	2022 HK\$'000
Revenue	3	142,231	1,109,399	504,248
Cost of sales		(60,597)	(472,657)	(268,541)
Gross profit		81,634	636,742	235,707
Other revenue	4	-	-	29,227
Marketing and licensing expenses		(26,051)	(203,199)	(97,412)
Selling and distribution expenses		(12,733)	(99,317)	(38,585)
Administration expenses		(15,946)	(124,376)	(94,405)
Operating profit		26,904	209,850	34,532
Other net income/(loss)	5	7,060	55,068	(17,257)
Finance costs		(535)	(4,171)	(2,370)
Profit before income tax	6	33,429	260,747	14,905
Income tax expense	7	(4,744)	(37,002)	(5,183)
Profit for the year attributable to owners of the Company		28,685	223,745	9,722
Earnings per share	9	US cents	HK cents	HK cents
Basic		2.43	18.96	0.82
Diluted		2.43	18.96	0.82

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 US\$'000 (Note 12)	2023 HK\$'000	2022 HK\$'000
Profit for the year	28,685	223,745	9,722
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
- Exchange differences arising on translation of foreign subsidiaries	-	-	5,441
Items that will not be reclassified subsequently to profit or loss:			
- Remeasurement of long service payment liabilities			
- <i>Gross</i>	(7)	(53)	-
- <i>Tax impact</i>	1	8	-
	(6)	(45)	-
Other comprehensive income for the year	(6)	(45)	5,441
Total comprehensive income for the year attributable to owners of the Company	28,679	223,700	15,163

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	2023 US\$'000 (Note 12)	2023 HK\$'000	2022 HK\$'000
Non-current assets				
Property, plant and equipment		94	730	678
Right-of-use assets		2,369	18,477	26,958
Deferred tax assets		6,374	49,714	33,082
		8,837	68,921	60,718
Current assets				
Inventories		7,549	58,886	23,700
Trade receivables	10	42,157	328,827	60,962
Deposits paid, other receivables and prepayments		5,139	40,083	45,455
Financial assets at fair value through profit or loss		8,791	68,573	58,584
Cash and deposits with banks		128,567	1,002,820	927,922
		192,203	1,499,189	1,116,623
Current liabilities				
Trade payables	11	11,387	88,815	11,764
Deposits received, other payables and accrued charges		22,756	177,503	101,556
Provisions		8,386	65,413	37,924
Lease liabilities		1,136	8,858	8,272
Taxation payable		6,530	50,932	10,856
		50,195	391,521	170,372
Net current assets		142,008	1,107,668	946,251
Total assets less current liabilities		150,845	1,176,589	1,006,969
Non-current liabilities				
Lease liabilities		1,458	11,371	20,165
Long service payment liabilities		167	1,301	-
		1,625	12,672	20,165
Net assets		149,220	1,163,917	986,804
Equity				
Share capital		1,514	11,807	11,800
Reserves		147,706	1,152,110	975,004
Total equity		149,220	1,163,917	986,804

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 2022, 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 2023. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

(a) Adoption of new or amended HKFRSs

The HKICPA has issued the following new and amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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, amendment or interpretation that is not yet effective for the current accounting period.

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022 the Hong Kong SAR Government (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

Applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance. The cessation of applying the practical expedient in paragraph 93(b) of HKAS 19 in conjunction with the enactment of the Amendment Ordinance resulted in a catch-up profit or loss adjustment in June 2022 for the service cost up to that date. Since the amount of the catch-up profit or loss adjustment was not material, the Group did not restate the comparative figures in the consolidated financial statements.

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 2023 from sales of toys was HK\$1,109,399,000 (2022: HK\$504,248,000).

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	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Hong Kong (place of domicile)	844	99	8,740	13,104
Americas				
- U.S.A.	765,727	303,101	9,269	12,735
- Others	68,726	46,765	-	-
Europe	225,291	128,040	1,198	1,797
Asia Pacific other than Hong Kong	47,709	23,573	-	-
Others	1,102	2,670	-	-
	1,108,555	504,149	10,467	14,532
	1,109,399	504,248	19,207	27,636

Major customers

The Group's customer base includes two (2022: three) 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\$292,271,000 and HK\$262,184,000 (2022: HK\$96,769,000, HK\$90,358,000 and HK\$87,766,000) respectively.

4. Other revenue

Other revenue in 2022 represents forfeiture of unrecouped purchase commitment guarantee deposits from toy distributors at the expiry of distribution agreements. There was no such forfeiture in 2023.

5. Other net income/(loss)

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gain/(loss) on financial assets at fair value through profit or loss		
- unrealised	14,643	(29,812)
- realised	3,672	-
Government subsidies	-	744
Interest income	36,089	11,223
<u>Dividend income</u>	664	588
	55,068	(17,257)

6. Profit before income tax

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	437,726	243,563
(Reversal of write down)/write down of inventories	(2,648)	2,942
Product development and tooling costs	30,803	18,348
Royalties expenses	164,879	68,276
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	83,698	30,655
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	(4,445)	(3,880)
Depreciation		
- property, plant and equipment	582	733
- right-of-use assets	8,481	8,500
Directors' and staff remunerations	78,221	59,821
Allowance for customer concession	3,980	14,251
Reversal of allowance for customer concession	-	(9,647)
Net foreign exchange gain	(1,478)	(3,372)
Loss on disposal of property, plant and equipment	6	-
<u>Auditors' remuneration</u>	1,570	1,400

7. Income tax expense

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 year). Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	13,542	-
Overseas taxation	39,840	5,983
Under provision in prior years – overseas	244	8
	<u>53,626</u>	<u>5,991</u>
Deferred taxation		
Origination and reversal of temporary differences	(16,624)	(808)
Income tax expense	<u>37,002</u>	<u>5,183</u>

8. Dividends

(a) Dividends attributable to the year

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
First interim dividend of HK cents 2 per share (2022: HK\$nil)	23,614	-
Second interim dividend of HK cents 3 per share (2022: HK cents 2 per share)	35,421	23,600
Special interim dividend of HK cents 3 per share (2022: HK\$nil)	35,421	-
	<u>94,456</u>	<u>23,600</u>

At a meeting held on 25 August 2023, the board of directors declared a first interim dividend of HK cents 2 per share, which was paid on 29 September 2023.

At a meeting held on 15 March 2024, the board of directors declared a second interim dividend of HK cents 3 per share and a special interim dividend of HK cents 3 per share to be paid on 24 April 2024 to shareholders whose names appear on the Company's register of members on 9 April 2024. This second interim dividend and special interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2023.

(b) Dividends attributable to previous financial year and paid during the year

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

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$223,745,000 (2022: HK\$9,722,000) and the weighted average number of ordinary shares of 1,180,265,000 shares (2022: 1,180,000,000 shares) in issue during the year.

Diluted earnings per share for the year ended 31 December 2023 and 2022 equals to the basic earnings 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 earnings 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 (2022: 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 – 60 days	252,560	38,537
61 – 90 days	71,737	19,606
91 – 180 days	4,250	2,742
Over 180 days	280	77
	<hr/> 328,827	<hr/> 60,962

11. Trade payables

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 – 30 days	88,750	10,964
31 – 60 days	63	33
Over 60 days	2	767
	<hr/> 88,815	<hr/> 11,764

12. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 31 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys worldwide turnover for the year ended 2023 was HK\$1,109 million (2022: HK\$504 million), representing an increase of 120% compared to the prior year period. The favourable comparison was driven by the successful relaunch of our *Teenage Mutant Ninja Turtles* toy line, supported by the global release of the *Teenage Mutant Ninja Turtles: Mutant Mayhem* animated movie during the summer of 2023. The U.S. continued to be our biggest market in 2023, contributing 69% of revenue. Europe as a whole contributed 20%, the rest of the Americas 6% and 5% came from Asia Pacific.

Gross profit ratio on toy sales was 57% (2022: 47%). Higher gross profit margin in 2023 reflected favourable product mix, a higher percentage of overall sales generated in the U.S. market with higher gross margin, lower ocean freight costs, and reduced writedowns and closeout discounts on excess inventory. Operating expenses increased by 122% compared to the prior year period, reflecting higher variable costs in line with the increase in turnover. Administration expenses increased 32% compared to the prior year period but decreased as a percentage of revenue.

The group reported an operating profit of HK\$210 million in 2023 (2022: HK\$34.5 million). Other net income during the current year period included a HK\$18 million unrealized and realized gain on our equities investment position and HK\$36 million in interest income. During the prior year period, we recorded a HK\$30 million unrealized investment loss and HK\$11 million in interest income. Net profit attributable to shareholders in 2023 was HK\$224 million (2022: HK\$9.7 million).

There will be challenges and opportunities in the year ahead. Although we will be lapping the 2023 release of the *Teenage Mutant Ninja Turtles: Mutant Mayhem* movie, Paramount is planning to release a spinoff animated series on Paramount+ during 2024 that should provide support for the brand. Our *Godzilla x Kong* product line is off to a good start at retail, and will be further boosted by the global release of the *Godzilla x Kong: The New Empire* movie in March 2024. *Miraculous Ladybug & Cat Noir* continues to attract a wide fanbase around the world, and our toy line will maintain retail distribution in 2024, supported by new content on Disney and Netflix.

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, delivered solid box office results and drove strong toy sales in 2023. The movie is available for streaming on Paramount+ and other video-on-demand platforms.

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+ starting in 2024. 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.

Godzilla x Kong

In Spring 2024, Legendary Pictures’ cinematic Monsterverse will follow up the explosive showdown of “Godzilla vs. Kong” with the anticipated sequel "*Godzilla x Kong: The New Empire*", which delves further into the histories of these Titans and their origins, as well as the mysteries of Hollow Earth, while uncovering the mythic battle that helped forge these extraordinary beings and tied them to humankind forever.

As the global master licensee, Playmates Toys is producing highly detailed action figures in various collectible sizes, deluxe feature figures that bring the Titans to life, and for the first time ever, role play masks so that kids can become their favorite Titan monster.

Miraculous: Tales of Ladybug & Cat Noir

Disney has acquired seasons six and seven of the popular *Miraculous: Tales of Ladybug & Cat Noir* animated series, along with three new hour-long specials. All of this new content will premiere on Disney Channels worldwide starting Fall 2024, and will subsequently roll out on Disney+. The animated musical feature, *Miraculous Ladybug & Cat Noir: The Movie*, continues to stream on Netflix. This content pipeline will help sustain the brand's popularity around the world and retail support for our toy line in 2024.

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 2023, trade receivables were HK\$328,827,000 (2022: HK\$60,962,000) and inventories were HK\$58,886,000 or 5.3% of revenue (2022: HK\$23,700,000 or 4.7% of revenue). The higher trade receivables and inventories at 2023 year-end reflected increased shipments and customer orders during the fourth quarter of 2023.

The current ratio, calculated as the ratio of current assets to current liabilities, was 3.8 at 31 December 2023 and 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 31 December 2023, the Group's cash and deposits with banks were HK\$1,002,820,000 (2022: HK\$927,922,000), of which HK\$981,894,000 (2022: HK\$913,737,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 31 December 2023, the Group's treasury investment in listed equities amounted to HK\$68,573,000 (2022: HK\$58,584,000) representing 4.4% of the total assets of the Group (2022: 5.0%). This comprised HK\$9,962,000 of equities listed in Hong Kong (2022: HK\$15,250,000) and HK\$58,611,000 of equities listed overseas (2022: HK\$43,334,000). None of the individual securities positions held by the Group had a market value that exceeded 0.8% of the total assets of the Group. The top 10 listed securities in aggregate represented 4.1% 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), Netflix, Inc. (NFLX.US), Microsoft Corporation (MSFT.US), Alphabet Inc. (GOOG.US), Walmart Inc. (WMT.US), Tencent Holdings Limited (700.HK) and New World Development Co Limited (17.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

No share was repurchased by the Company during the year.

CORPORATE GOVERNANCE

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of 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 (“Code”) as set out in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the year ended 31 December 2023, except the followings:

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.

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 2023.

DIVIDENDS

The board of directors declared a second interim dividend of HK cents 3 per share and a special interim dividend of HK cents 3 per share. The said second interim dividend and special interim dividend will be paid on 24 April 2024 to the shareholders on the Register of Members of the Company on 9 April 2024.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 8 April 2024 to 9 April 2024, 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 5 April 2024.

On behalf of the Board
CHAN Kwong Fai, Michael
Chairman

Hong Kong, 15 March 2024

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*)