2021 ANNUAL REPORT

Playmates TOYS

CORPORATE INFORMATION

Directors
CHAN Kwong Fai, Michael
(Chairman and Executive Director)
CHAN Kong Keung, Stephen
(Executive Director)
CHOW Yu Chun, Alexander
(Independent Non-executive Director)
IP Shu Wing, Charles
(Independent Non-executive Director)
LAM Wai Hon, Ambrose
(Independent Non-executive Director)
TRAN Vi-hang William
(Executive Director)
Yu Hon To, David
(Independent Non-executive Director)

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office
23/F., The Toy House
100 Canton Road
Tsimshatsui
Kowloon, Hong Kong

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
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Branch Share Registrars
Tricor Abacus Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

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.playmatestoys.com

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STATEMENT FROM THE CHAIRMAN

Dear Fellow Shareholders,

2021 proved to be the second year in a row of unprecedented challenges to our industry and many others. Although consumer demand remained resilient during the second year of the COVID-19 pandemic (overall toy sales in the US market were up by 8% in unit terms and 13% in dollar terms), supply chain disruptions worsened throughout 2021. From factory worker shortages, to container shortages and congestion at major ports around the world, getting products to consumers was a significant challenge.

Our team navigated through these extraordinary circumstances with hard work and dedication, and delivered a profitable year. The ***Godzilla vs. Kong*** movie was a break-out theatrical success during the pandemic, and our toy line performed strongly. ***Miraculous: Tales of Ladybug & Cat Noir*** continues to be a big hit around the world, driving toy success in every market where we have launched product. We reacted to the supply chain disruptions proactively by committing to inventory and container space early, and were able to mitigate inventory shortages to some extent. However, compared to a normal year, we carried into 2022 a higher level of inventory, as a result of some late shipments that missed the 2021 Holidays, and as preparation for continued supply chain delays in 2022. Our logistics and input costs also remain at elevated levels.

Looking forward to 2022, we expect the expansion of our ***Miraculous: Tales of Ladybug & Cat Noir*** toy program to continue, and the brand to be the main driver of our 2022 results. We will continue to offer products inspired by the broader ***MonsterVerse*** and Toho's Classic Monsters, as well as ***Spy Ninjas*** line extensions. We will also bring to market a line of products based on the ***Star Trek*** franchise, a brand that Playmates had a successful history with, starting with a collector line of products aimed at long time ***Star Trek*** fans, followed by kid-targeted toys based on the hit Paramount+ series ***Star Trek: Prodigy***.

The operational and cost challenges that we faced in 2021 will last into 2022, as new COVID variants emerge, and backlogs appear at various parts of the supply chain. Our team remains as motivated as ever to tackle these challenges, and continue to bring innovative products to fans of hit entertainment franchises around the world.

Last but not least, on behalf of the entire Playmates family, I would like to thank Mr. Sidney To for his many years of service, and wish him a happy retirement. I am grateful to my fellow shareholders and board members, my Playmates teammates, and all our business partners for your trust and support.

Yours truly,

CHAN Kwong Fai, Michael
Chairman of the board

Hong Kong, 4 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2021 was HK$625 million (2020: HK$289 million), representing an increase of 116% compared to the prior year. The favourable comparison was driven by: (i) lower consumer demand for toys during the first half of 2020, when governments in all major markets imposed lockdowns during the initial COVID-19 pandemic surge, (ii) government stimulus leading to increased consumer spending in major markets during 2021, (iii) solid performance of our product line tied to the ***Godzilla vs. Kong*** movie release, and (iv) continued strong demand for our ***Miraculous: Tales of Ladybug & Cat Noir*** toy line. The US continued to be our biggest market in 2021, contributing 55% of revenue. Europe as a whole contributed 31%, the rest of the Americas 7% and 7% came from Asia Pacific.

Gross profit ratio on toy sales was 49% (2020: 49%). Although product development, tooling and packaging expenses were lower compared to the prior year, the benefit was reduced by: (i) a higher percentage of overall sales generated in markets outside the US, which carried a lower gross margin, and (ii) increases in finished product and logistics costs. Operating expenses increased by 38% from the prior year, but moderated as a percentage of revenue, reflecting continued cost control measures.

The group reported an operating profit of HK$37.8 million (2020: operating loss of HK$32.5 million). Net profit attributable to shareholders was HK$43.0 million (2020: net loss of HK$30.1 million).

We expect the COVID-19 pandemic to continue to present severe challenges to our operating environment in 2022, including global supply chain disruptions, and elevated logistics and input costs. We are actively working with our suppliers to minimize cost increases and shipment delays as much as possible.

BRAND OVERVIEW

Godzilla vs. Kong
Consumer demand for our ***Godzilla vs. Kong*** movie product line was strong in 2021, driven by the successful movie release from Legendary Entertainment and Warner Bros. Pictures in March 2021, both in theaters and through streaming services, including HBOMax.

In 2022, we will also continue to offer products inspired by the broader ***MonsterVerse*** and Toho's Classic Monsters.

Miraculous: Tales of Ladybug & Cat Noir

We launched our extensive new line based on ZAG's hit animated series ***Miraculous: Tales of Ladybug & Cat Noir*** in a number of major international markets in Fall 2020, and online in the US market in the summer of 2021. Consumer demand for the brand has been strong, with high sell-through rates in every market where we launched. We expect distribution to continue to expand in 2022.

The highly popular TV show continues to air in over 120 countries worldwide and stream across multiple digital platforms, including Disney Channel, Disney+ and Netflix.

Spy Ninjas

Spy Ninjas is a popular, action-packed YouTube adventure series featuring a team of best friends who use martial arts and detective skills to solve puzzles to defeat the evil hacker organization Project Zorgo. With multiple weekly episodes, the web series generates more than 400 million monthly views on YouTube – with an astounding 1 million views tallied within the first hour of every new daily episode.

2022 will see continued expansion of our ***Spy Ninjas*** product line, including secret spy ninja gear, decoders, ninja weapons, a new Project Zorgo mask and other spy gadgets from the series.

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

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

CHAN Kwong Fai, Michael

Chairman and Executive Director

Mr. Chan, aged 37, was appointed a director of the Company in December 2021. He has been involved in various aspects of the Group's operations since joining the Group in 2010, and has served as president of Playmates Toys Limited's U.S. subsidiary since 2017. Prior to joining the Group, Mr. Chan was part of KKR's Private Equity team in Menlo Park, California, U.S., where he was actively involved in a number of transactions as well as portfolio company management. Prior to joining KKR, Mr. Chan worked at Citigroup in New York City, where he was a member of the Consumer Retail Investment Banking team. Mr. Chan graduated from Yale University with bachelor's degrees in Economics and History. He is also the chairman and executive director of the board of Playmates Holdings Limited. Mr. Chan is a brother of Mr. Chan Kong Keung, Stephen.

CHAN Kong Keung, Stephen

Executive Director

Mr. Chan, aged 34, was appointed a director of the Company in May 2017. He has been a Vice President for Overseas Investments for a fellow subsidiary of the Group since 2014. Prior to joining the Group, Mr. Chan worked as a Management Trainee and a Commercial Banking Relationship Manager for an international banking corporation from 2009 until 2013. He holds a Bachelor of Arts Degree in Philosophy from the University of Cambridge in Britain in 2009. He is also an executive director of the board of Playmates Holdings Limited. Mr. Chan is a brother of Mr. Chan Kwong Fai, Michael.

CHOW Yu Chun, Alexander

Independent Non-executive Director

Mr. Chow, aged 74, joined the Group in 2007. He has over 37 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is currently an independent non-executive director of Symphony Holdings Limited and China Strategic Holdings Limited. On September 7, 2015, he was appointed an independent non-executive director of Aquis Entertainment Limited, a public company listed on the Australian Stock Exchange. He retired as an independent non-executive director of Top Form International Limited on October 31, 2019.

IP Shu Wing, Charles

Independent Non-executive Director

Mr. Ip, aged 71, was appointed a director of the Company in May 2021. Mr. Ip has over 40 years of experience in business management and has held a number of key management positions in various multi-national corporations. He was an independent non-executive director of Playmates Holdings Limited until 21 May 2021.

LAM Wai Hon, Ambrose

Independent Non-executive Director

Mr. Lam, aged 68, was appointed an independent non-executive director of the Company in August 2019. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree from University of Newcastle Upon Tyne in England.

Mr. Lam currently serves as Senior Director of Yue Xiu Securities Holdings Limited. He has over 30 years of experience in merchant banking, investment banking and corporate advisory services and has served in senior management roles in a number of major international banking institutions.

Mr. Lam is currently an independent non-executive director of Pacific On Line Limited which is listed on the Stock Exchange. On June 2, 2020, he resigned as an independent non-executive director of China Agri-Industries Holdings Limited, which was a listed company on the Stock Exchange until the listing of its shares thereon was withdrawn voluntarily on 23 March 2020. On 18 January 2022, he resigned as an independent non-executive director of Genting Hong Kong Limited.

TRAN Vi-hang William

Executive Director

Mr. Tran, aged 52, joined the Group in 2010. He is responsible for overseeing the international market management function, operation and product development of the Group. He has over 25 years of experience in the toy industry with more than 3 years in the OEM manufacturing sector. Mr. Tran graduated from McGill University (Canada) in 1993 with a Bachelor of Commerce degree majoring in Accounting and MIS.

YU Hon To, David

Independent Non-executive Director

Mr. Yu, aged 73, was appointed a director of the Company in May 2021. He is a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. He is an independent non-executive director of listed companies in Hong Kong including MS Group Holdings Limited, China Resources Gas Group Limited, Keck Seng Investments (Hong Kong) Limited and One Media Group Limited. He is also a non-executive director of Haier Smart Home Co., Limited. All these companies are listed on the main board of the Stock Exchange. He resigned as an independent non-executive director of Haier Electronics Group Co., Limited, Media Chinese International Limited, Playmates Holdings Limited and China Renewable Energy Investment Limited on 24 December 2020, 1 July 2021, 21 May 2021 and 1 January 2022 respectively. He also resigned as an independent non-executive director of New Century Asset Management Limited, the Manager of New Century Real Estate Investment Trust ("NCREIT") with effect from 1 September 2021. NCREIT was liquidated and delisted from the Hong Kong Stock Exchange on 31 August 2021.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2021.

Principal Activities and Geographical Analysis of Operation

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 16 to the financial statements.

An analysis of the Group's performance for the year by geographical segments is set out in note 5.1 to the financial statements.

Business Review

Information about a fair review of, and an indication of likely future development in, the Group's business is set out in the "Statement from the Chairman" and "Management Discussion and Analysis" of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year, if any, can also be found in the abovementioned sections and the notes to the financial statements. An analysis of the financial key performance indicators is set out in the "Management Discussion and Analysis" and the "Five Year Financial Summary" of this annual report.

Principal risks and uncertainties

In addition to the risks and uncertainties facing the Company contained in the "Statement from the Chairman" and "Management Discussion and Analysis" of this annual report and the Environmental, Social and Governance Report, the following is a list of principal risks and uncertainties that may affect the business, financial condition, results of operations and growth prospects of the Company. However, this list is not exhaustive as there may be other risks and uncertainties resulting from changes in economic condition and operating environment over time:

1. **Economic and Political Risk:**

   Adverse changes in the economic and political environment and government policies may affect our ability to execute our strategies.

2. **Business Risk:**

   The toy industry is inherently unpredictable. We rely on third party licenses, and our revenue is currently derived from a few licensed brands. Any reduction in sales of these brands may adversely affect our performance and financial condition. We also rely significantly on a few major customers, and any change in their buying patterns and/or reduction in their business volume may adversely affect our financial results and prospects.

3. **Compliance Risk:**

   Non-compliance with product safety and laws and regulations may lead to financial loss and reputational damage. Product safety is the Group's number one priority. We have robust processes and procedures in place to ensure compliance with all applicable laws and regulations. Changes in related laws and regulations may lead to increased compliance costs.

Principal risks and uncertainties (Continued)

4. Financial Risk:

The Group is exposed to financial risks related to currency, pricing, credit and liquidity in the normal course of business. For details of such financial risks, please refer to note 31.2 to the financial statements.

5. People Risk:

Loss of key executives may affect our ability to execute our strategies.

6. Cyber risk and security:

Cyber threats and attacks may affect our reputation and business operations. The Group has a policy in relation to use of computer, email and social media usage in place since 2006 which has been regularly updated in light of the latest changes. Training on various information security awareness is provided to directors and staff regularly. In addition, the Group has implemented protective measures for the security of our network and Information Technology ("IT") systems, and monitors suspicious cyber activities with the assistance of external IT consultants.

7. Data fraud or theft:

Company data, including customer details, financial data as well as other operational data, is important to our business. Any loss of the said data may affect our business operation and cause losses to the Group. The Group has implemented relevant internal control procedures and systems to ensure that such data is properly protected.

The Group has developed a risk management and internal control system to identify current risks and has undertaken necessary measures to mitigate the risks identified. Details of the Group's risk management and internal control system are set out in the Corporate Governance Report of this annual report.

Relationships with stakeholders

Our business requires that we collaborate with an array of stakeholders including customers, licensors, suppliers and employees. We strive to deal fairly with our stakeholders and to establish a long-standing and close relationship with them. We expect our stakeholders to work with us on the basis of a shared commitment to integrity, legal and ethical behaviour and mutual trust.

Customers

We consider customers as one of the most important stakeholders. Our commitment to and continued vigilance over quality and safety are essential in maintaining the trust of our consumers. In the U.S., we sell directly to various customers including national mass merchandise retailers. Outside the U.S., we sell to over 40 countries, primarily in Europe, North America, Latin America and Asia Pacific including Australia. Our international sales and distribution efforts are managed through our network of independent distributors. For more information on the major customers, trade terms and trade receivables, please refer to notes 5.2, 18 and 31.2.3 to the financial statements.

Licensors

The entertainment industry and toy invention and design community are major sources of concepts and ideas for the creation and development of new products. We maintain close working relationships or contacts with major entertainment licensors and the toy invention and design community worldwide. These relationships or contacts help us gain access to licensed rights in entertainment properties, technologies and toy inventions.

Suppliers

Supply chain is a critical part of our operations. Our suppliers must meet our selection criteria, which include security, safety, cost and delivery. Our selection criteria of suppliers are also based on their reliability and quality of products, and with whom we can build long-term relationships. We require all of our suppliers to comply with relevant manufacturing requirements and safety standards of the industry.

Employees

Employees are important to our sustainable development. We are committed to providing equal employment opportunity and a safe and harassment-free working environment. Employees are encouraged to attend trainings including professional development programs offered by professional organizations so as to refresh their skills and knowledge. We also strive to ensure that the employees are fairly and reasonably remunerated based on industry practice.

Environmental policies

We are committed to minimizing the environmental impact of our operations and to complying with all applicable environmental laws in the countries in which we conduct business. We also require our suppliers to obtain all necessary permission from the relevant regulators and operate in strict compliance with all applicable environmental laws including the environmental requirements as required by the International Council of Toys Industries CARE Seal of Compliance or other equivalent standards.

Compliance with laws and regulations

Compliance procedures are in place to ensure compliance with applicable laws and regulations. Our professional employees attend on-going professional development programs in order to keep them abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary. The Company complies with the relevant laws and regulations that have a significant impact on the Company including the Companies Ordinance, Securities and Futures Ordinance ("SFO") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

For more information on our relationship with the stakeholders, environmental policies and compliance with laws and regulations, please refer to the Environmental, Social and Governance Report of this annual report.

Major Suppliers and Customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	22%
– five largest suppliers in aggregate	86%
Sales	
– the largest customer	30%
– five largest customers in aggregate	75%

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the major suppliers or customers noted above.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 66.

The directors have declared an interim dividend of HK cents 2 per ordinary share totally HK$23,600,000, which is calculated on the basis of 1,180,000,000 ordinary shares in issue at the date of board meeting held on 4 March 2022.

Dividend Policy

The Company has adopted a Dividend Policy which allows the shareholders of the Company to share the profits of the Company whilst retaining adequate reserves for the Group's future growth. The declaration and amount of dividends shall be determined at the sole discretion of the Board. Pursuant to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:-

(a) the Company's actual and expected financial performance;

(b) dividends received from the Company's subsidiaries and associates;

(c) retained earnings and distributable reserves of the Company and its subsidiaries and associates;

(d) the liquidity position of the Group;

(e) the Group's expected working capital requirements;

(f) general business conditions and strategies;

(g) taxation considerations;

(h) possible effects on creditworthiness;

(i) legal, statutory and regulatory restrictions;

(j) contractual restrictions; and

(k) any other factors that the Board deem appropriate.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 70 to 71. Movements in the reserves of the Company during the year are set out in note 26.2 to the financial statements.

Distributable reserves of the Company at 31 December 2021, calculated under the Companies Act 1981 of Bermuda, amounted to HK$305,049,000 (2020: HK$235,860,000).

Financial Analysis

Analysis of bank loans and other borrowings

As at 31 December 2021, the Group has no banking facilities (2020: HK$ nil).

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 31 December 2021, trade receivables were HK$124,378,000 (2020: HK$41,291,000) and inventories were HK$58,007,000 or 9.3% of revenue (2020: HK$10,283,000 or 3.6% of revenue).

The current ratio, calculated as the ratio of current assets to current liabilities, was 4.8 at 31 December 2021 and 7.9 at 31 December 2020.

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 2021, the Group's cash and bank balances were HK$893,997,000 (2020: HK$949,943,000), of which HK$877,895,000 (2020: HK$922,758,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

Financial Analysis (Continued)

Liquidity and financial resources (Continued)

As at 31 December 2021, the Group's treasury investment in listed equities amounted to HK$71,241,000 (2020: HK$7,021,000) representing 5.7% of the total assets of the Group (2020: 0.6%). This comprised HK$19,027,000 of equities listed in Hong Kong (2020: HK$nil) and HK$52,214,000 of equities listed overseas (2020: HK$7,021,000). None of the individual securities positions held by the Group had a market value that exceeded 1.4% of the total assets of the Group. The top 10 listed securities in aggregate represented 5.1% of the total assets of the Group and included The Walt Disney Company (DIS.US), Amazon.com, Inc. (AMZN.US), New World Development Co Limited (17.HK), Apple Inc. (AAPL.US), NVIDIA Corporation (NVDA.US), Netflix, Inc. (NFLX.US), Vitasoy International Holdings Limited (345.HK), Tencent Holdings Limited (700.HK), Walmart Inc. (WMT.US) and Microsoft Corporation (MSFT.US).

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 31 December 2021, the Group had a total of 54 employees in Hong Kong and the United States of America (2020: 65 employees).

The Group remunerates its employees largely based on industry practice, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme for all management and staff and share option plans for its employees with awards under both programmes determined annually based upon the performance of the Group and the individual employees.

Donations

Charitable and other donations made by the Group during the year amounted to HK$81,000 (2020: HK$271,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 26.1 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 120.

Purchase, Sale or Redemption of Shares

No share was repurchased by the Company during the year.

Directors

The directors who held office during the year and up to the date of this report were:

Mr. CHAN Kwong Fai, Michael *(Chairman)* – appointed on 3 December 2021
Mr. CHAN Kong Keung, Stephen *(Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. IP Shu Wing, Charles *(Independent Non-executive Director)* – appointed on 21 May 2021
Mr. LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
Mr. TRAN Vi-hang William *(Executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)* – appointed on 21 May 2021

Mr. TO Shu Sing, Sidney *(Chairman)* – resigned and retired on 31 December 2021
Mr. CHENG Bing Kin, Alain *(Executive Director)* – resigned on 31 August 2021
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)* – retired on 21 May 2021

Pursuant to Bye-law 86(2) of the Company, Mr. Chan Kwong Fai, Michael shall hold office until the next following annual general meeting. Mr. Chan will offer himself for re-election at the forthcoming annual general meeting.

Pursuant to Bye-law 87(1) of the Company, Mr. Chan Kong Keung, Stephen, Mr. Lam Wai Hon, Ambrose and Mr. Tran Vi-hang William shall retire by rotation at the forthcoming annual general meeting. Mr. Chan, Mr. Lam and Mr. Tran will offer themselves for re-election at the same meeting.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules and the Company considers such directors to be independent.

Directors' Service Contracts

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which any director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company, the directors are entitled to be indemnified out of the Company's assets against actions and damages in connection with execution of their duties. Pursuant to a code provision of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, the Company has also arranged appropriate director and officer liability insurance policy covering potential legal actions that might be taken against its directors.

Share Options

The following shows the details 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").

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the 2008 PTL Scheme and 2018 PTL Scheme and the percentage of issued share capital that it represents as at 4 March 2022	:	**2008 PTL Scheme** 6,616,500 ordinary shares, representing 0.56% of the issued capital. **2018 PTL Scheme** 45,268,000 ordinary shares, representing 3.84% of the issued capital

Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/ calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the 2008 PTL Scheme and the 2018 PTL Scheme	:	**2008 PTL Scheme** Remained in force until 31 January 2018. **2018 PTL Scheme** Remains in force until 21 May 2028.

Share Options (Continued)

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 2008 PTL Scheme and the 2018 PTL Scheme, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules during the year:

Participant	Date of grant	Exercise Price HK$	Number of share options: Balance at 1 January 2021	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2021	Vesting/ Exercise Period and Remarks (Note)
2018 PTL Scheme								
Directors of the Company								
CHAN Kwong Fai, Michael *Chairman*	29 June 2018	0.826	2,000,000	–	–	–	2,000,000	(1)
CHAN Kong Keung, Stephen	29 June 2018	0.826	1,000,000	–	–	–	1,000,000	(1)
CHENG Bing Kin, Alain	29 June 2018	0.826	1,200,000	–	–	1,200,000	–	(1) & (6)
CHOW Yu Chun, Alexander	29 June 2018	0.826	500,000	–	–	–	500,000	(1)
LEE Ching Kwok, Rin	29 June 2018	0.826	500,000	–	–	500,000	–	(1) & (8)
TO Shu Sing, Sidney *Chairman*	29 June 2018	0.826	2,000,000	–	–	–	2,000,000	(1) & (7)
TRAN Vi-hang William	29 June 2018	0.826	1,000,000	–	–	–	1,000,000	(1)
Continuous Contract Employees, excluding Directors	29 June 2018	0.826	14,552,000	–	–	1,364,000	13,188,000	(1)
Other Participants	29 June 2018	0.826	5,580,000	–	–	–	5,580,000	(1)
	12 April 2019	0.792	20,000,000	–	–	–	20,000,000	(2)

Participant	Date of grant	Exercise Price HK$	Number of share options: Balance at 1 January 2021	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2021	Vesting/ Exercise Period and Remarks *(Note)*
2008 PTL Scheme								
Directors of the Company								
CHOW Yu Chun, Alexander	13 April 2012	0.415	250,000	–	–	–	250,000	(3)
	15 May 2013	0.930	525,000	–	–	–	525,000	(4)
Continuous Contract Employees, excluding Directors	18 April 2011	0.315	528,000	–	–	528,000	–	(5)
	13 April 2012	0.415	1,297,500	–	–	176,000	1,121,500	(3)
	15 May 2013	0.930	3,505,500	–	–	352,000	3,153,500	(4)
Other Participants	18 April 2011	0.315	574,000	–	–	574,000	–	(5)
	13 April 2012	0.415	752,000	–	–	–	752,000	(3)
	15 May 2013	0.930	814,500	–	–	–	814,500	(4)

Notes:

(1) Divided into 4 tranches (with each tranche covering one-fourth of the relevant share options) exercisable from 29 June 2018, 29 June 2019, 29 June 2020 and 29 June 2021 respectively to 28 June 2028.

(2) Divided into 2 tranches: (i) 10,000,000 share options are exercisable from 12 April 2019 to 31 December 2023; and (ii) 10,000,000 share options are exercisable from 31 December 2020 to 31 December 2023.

(3) Divided into 4 tranches (with each tranche covering one-fourth of the relevant share options) exercisable from 13 April 2012, 13 April 2013, 13 April 2014 and 13 April 2015 respectively to 12 April 2022.

(4) Divided into 4 tranches (with each tranche covering one-fourth of the relevant share options) exercisable from 15 May 2013, 15 May 2014, 15 May 2015 and 15 May 2016 respectively to 14 May 2023.

(5) Divided into 4 tranches (with each tranche covering one-fourth of the relevant share options) exercisable from 18 April 2011, 18 April 2012, 18 April 2013 and 18 April 2014 respectively to 17 April 2021.

(6) Mr. Cheng Bing Kin, Alain resigned as an executive director of the Company on 31 August 2021 and his unexercised share options lapsed during the year.

(7) Mr. To Shu Sing, Sidney resigned and retired as the chairman and executive director of the Company on 31 December 2021 and his unexercised share options lapsed in January 2022.

(8) Mr. Lee Ching Kwok, Rin retired as an independent non-executive director on 21 May 2021 and his unexercised share options lapsed during the year.

Share Options (Continued)

No options were cancelled during the year.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2021, 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 Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("**Model Code**") were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Kwong Fai, Michael	Personal	3,274,000 ordinary shares	0.28%
CHOW Yu Chun, Alexander	Personal	2,038,000 ordinary shares	0.17%
IP Shu Wing, Charles	Personal	2,487,026 ordinary shares	0.21%
TO Shu Sing, Sidney *(Note (a))*	Personal	10,000,000 ordinary shares	0.85%
TRAN Vi-hang William	Personal	1,000,000 ordinary shares	0.08%
YU Hon To, David	Personal	176,000 ordinary shares	0.01%
	Corporate *(Note (b))*	1,065,600 ordinary shares	0.09%

Long positions in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Kwong Fai, Michael	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%
CHOW Yu Chun, Alexander	Personal	1,275,000 share options	1,275,000 shares	0.11%
TO Shu Sing, Sidney *(Note (a))*	Personal	2,000,000 share options	2,000,000 shares	0.17%
TRAN Vi-hang William	Personal	1,000,000 share options	1,000,000 shares	0.08%

Long positions in shares of Playmates Holdings Limited ("PHL")

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Kwong Fai, Michael	Personal	104,000,000 ordinary shares	4.98%
CHAN Kong Keung, Stephen	Personal	2,600,000 ordinary shares	0.12%
IP Shu Wing, Charles	Personal	3,320,800 ordinary shares	0.16%
TO Shu Sing, Sidney *(Note (a))*	Personal	20,000,000 ordinary shares	0.96%
TRAN Vi-hang William	Personal	160,000 ordinary shares	0.01%
YU Hon To, David	Personal	228,000 ordinary shares	0.01%
	Corporate *(Note (c))*	5,472,000 ordinary shares	0.26%

Notes:

(a) Mr. To Shu Sing, Sidney resigned and retired as the chairman and executive director on 31 December 2021.

(b) 1,065,600 ordinary shares of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

(c) 5,472,000 ordinary shares of PHL were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

Directors' Interests and Short Positions in Shares and Underlying Shares of the Company or Any Associated Corporation (Continued)

Long positions in shares of Playmates Holdings Limited ("PHL") (Continued)

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 or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2021.

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 31 December 2021, none of the directors of the Company were interested or deemed to be interested in short positions in the shares and underlying shares of equity derivatives of the Company or any associated corporation as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

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

As at 31 December 2021, persons (other than the directors of the Company) who had interests or short positions in the shares and underlying shares 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 *(Note (i))*	626,000,000 ordinary shares	53.05%
TGC Assets Limited	Corporate and Beneficial Owner *(Note (ii))*	626,000,000 ordinary shares	53.05%
PHL	Corporate *(Note (iii))*	600,000,000 ordinary shares	50.85%
PIL Management Limited	Corporate *(Note (iii))*	600,000,000 ordinary shares	50.85%
PIL Investments Limited	Corporate *(Note (iii))*	600,000,000 ordinary shares	50.85%
PIL Toys Limited	Corporate	600,000,000 ordinary shares	50.85%

Notes:

(i) Mr. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC") and is therefore deemed to be interested in the 626,000,000 shares of the Company in aggregate which TGC is interested in.

(ii) TGC is directly interested in 26,000,000 shares of the Company. Furthermore, since TGC directly owns approximately 51.36% of the shareholding of PHL and it is also deemed to be interested in the 600,000,000 shares of the Company in aggregate which PHL is interested in.

(iii) 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 beneficial interested in.

Save as disclosed above, as at 31 December 2021, none of the person (other than the directors of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Pre-emptive Rights

There are no pre-emptive rights provisions with respect to any issue or transfer of shares of the Company in the Bye-laws of the Company nor are there any such pre-emptive rights provisions generally applicable under Bermuda law.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 2007 and subsequently amended in 2009, 2012, 2015 and 2021.

The primary duties of our audit committee are to assist our board to provide an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, to oversee the audit process, and to perform other duties and responsibilities as assigned by the board.

Our audit committee comprises four independent non-executive directors, namely, Mr. Chow Yu Chun, Alexander, Mr. Ip Shu Wing, Charles, Mr. Lam Wai Hon, Ambrose and Mr. Yu Hon To, David. The chairman of our audit committee is Mr. Chow Yu Chun, Alexander.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

Auditors

Grant Thornton Hong Kong Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting. There was no change in auditors of the Company in any of the preceding three years.

On behalf of the board
Chan Kwong Fai, Michael
Chairman

Hong Kong, 4 March 2022

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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 the Corporate Governance Code ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2021, except the followings:

(a) Code Provision A.2.1 provides that the roles of the chairman and the chief executive officer should not performed by the same individual. 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.

(b) Following the retirement of Mr. Lee Ching Kwok, Rin at the annual general meeting on 21 May 2021, (1) the members of the Audit Committee fell below the minimum number of three members as required under Rule 3.21 of the Listing Rules; (2) the chairman of Compensation Committee fell vacant and the members of the Compensation Committee did not comprise a majority of independent non-executive directors ("INEDs") as required under Rule 3.25 of the Listing Rules; and (3) the members of the Nomination Committee did not comprise a majority of INEDs as required under Code Provision A.5.1, during the period from 21 May 2021 to 27 May 2021. As announced by the Company on 28 May 2021, the said vacancies had been filled up in compliance with the relevant Listing Rules and Code Provision.

The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Board of Directors

Composition and Responsibilities

The board of directors of the Company comprises:

CHAN Kwong Fai, Michael *(Chairman)*
CHAN Kong Keung, Stephen *(Executive Director)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
IP Shu Wing, Charles *(Independent Non-executive Director)*
LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
TRAN Vi-hang William *(Executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

TO Shu Sing, Sidney *(Chairman)* – resigned and retired on 31 December 2021
CHENG Bing Kin, Alain *(Executive Director)* – resigned on 31 August 2021
LEE Ching Kwok, Rin *(Independent Non-executive Director)* – retired on 21 May 2021

The board comprises three executive directors (one of whom is the Chairman) and four non-executive directors. All the non-executive directors are independent. Three independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise.

The principal focus of the board is on the overall strategic development of the Group. The board also monitors the financial performance and the internal controls of the Group's business operations. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules. The independent non-executive directors are explicitly identified in all corporate communications.

Appointment and Re-election

Each of the directors of the Company has entered into a service contract with the Company for a term of three years. However, such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Bye-laws of the Company. In accordance with the relevant provisions in the Bye-laws of the Company, the appointment of directors is considered by the board and newly appointed directors are required to stand for election by shareholders at the first annual general meeting following their appointment. Each director, including the chairman of the board and/or the managing director, shall be subject to retirement by rotation at least once every three years.

Support and Professional Development of Directors

All directors are provided with monthly updates on the Group's performance, position and prospects.

There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance policy covering potential legal actions that might be taken against its directors.

Pursuant to the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the year ended 31 December 2021, all directors have participated in continuous professional development programmes such as in-house briefings and external seminars to develop and refresh their knowledge and skills. Materials on new or salient changes to laws and regulations applicable to the Group were provided to the directors. All directors have provided the Company with their respective training record pursuant to the Code.

The participation of each director of the Company in continuous professional development in 2021 was as recorded in the table below:

Directors	**Reading**	**Attending in-house briefings/ seminars/ conferences**
CHAN Kwong Fai, Michael	✓	✓
CHAN Kong Keung, Stephen	✓	✓
CHOW Yu Chun, Alexander	✓	✓
IP Shu Wing, Charles	✓	✓
LAM Wai Hon, Ambrose	✓	✓
TRAN Vi-hang, William	✓	✓
YU Hon To, David	✓	✓
TO Shu Sing, Sidney (resigned and retired on 31 December 2021)	✓	✓

Board Meetings and Proceedings

The board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Senior executives are from time to time invited to attend board meetings to make presentations or answer the board's enquiries. The Chairman focuses on Group strategy and is responsible for ensuring all key issues are considered by the board in a timely manner. Notice of at least 14 days has been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda whenever they consider appropriate and necessary. Agenda and accompanying board papers in respect of regular board meetings are dispatched in full to all directors within a reasonable time before the meeting. Directors have to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the board at board meetings and abstain from voting as appropriate.

Board of Directors (Continued)

Board Meetings and Proceedings (Continued)

Draft minutes of all board meetings are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by duly appointed secretaries of the respective meetings; all directors have access to board papers and related materials, and are provided with adequate information in a timely manner; this enables the board to make informed decision on matters placed before it.

The board held four meetings in 2021. Details of directors' attendance at the board meetings, other committee meetings and the annual general meeting during the year are set out in the following table.

	Meetings attended/held				
Directors	**Board**	**Audit Committee**	**Compensation Committee**	**Nomination Committee**	**AGM**
CHAN Kwong Fai, Michael *Note 1*	N/A	N/A	N/A	N/A	N/A
CHAN Kong Keung, Stephen	4/4	N/A	N/A	N/A	1/1
CHENG Bing Kin, Alain *Note 2*	3/3	N/A	N/A	N/A	1/1
CHOW Yu Chun, Alexander	4/4	2/2	1/1	2/2	1/1
IP Shu Wing, Charles *Note 3*	3/3	1/1	1/1	N/A	N/A
LAM Wai Hon, Ambrose *Note 4*	4/4	2/2	1/1	N/A	1/1
LEE Ching Kwok, Rin *Note 5*	0/1	0/1	0/1	0/1	0/1
TO Shu Sing, Sidney *Note 6*	4/4	N/A	2/2	2/2	1/1
TRAN Vi-hang William	4/4	N/A	N/A	N/A	1/1
YU Hon To, David *Note 7*	3/3	1/1	N/A	1/1	N/A

Notes:

1. Mr. Chan Kwong Fai, Michael was appointed on 3 December 2021. He was appointed as the chairman of the Nomination Committee and a member of the Compensation Committee on 31 December 2021.

2. Mr. Cheng Bing Kin, Alain resigned on 31 August 2021.

3. Mr. Ip Shu Wing, Charles was appointed on 21 May 2021. He was appointed to be the chairman of the Compensation Committee and a member of the Audit Committee on 28 May 2021.

4. Mr. Lam Wai Hon, Ambrose was appointed as a member of the Compensation Committee on 28 May 2021.

5. Mr. Lee Ching Kwok, Rin retired on 21 May 2021. He ceased to be to be the chairman of the Compensation Committee and a member of the Audit Committee and the Nomination Committee on the same day.

6. Mr. To Shu Sing, Sidney resigned and retired on 31 December 2021. He ceased to be the chairman of the Nomination Committee and a member of the Compensation Committee on the same day.

7. Mr. Yu Hon To, David was appointed on 21 May 2021. He was appointed as a member of the Audit Committee and the Nomination Committee on 28 May 2021.

BOARD COMMITTEES

As an integral part of good corporate governance, the board has established the Audit Committee, Compensation Committee and Nomination Committee to oversee particular aspects of the Company's affairs. Each of these Committees comprises a majority of independent non-executive directors with defined written terms of reference.

Audit Committee

The Audit Committee was established in July 2007 and its current members include:

CHOW Yu Chun, Alexander *(Independent Non-executive Director) – Committee Chairman*
IP Shu Wing, Charles *(Independent Non-executive Director)*
LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

All of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference of the Audit Committee are posted on the websites of the Company and the Stock Exchange.

The Audit Committee meets at least twice a year to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the board and the Company's external auditors in matters coming within the scope of its written terms of reference and keeps under review the independence and objectivity of the external auditors.

The Audit Committee has held two meetings during the financial year. During the year, the Audit Committee reviewed the Company's interim and annual results for the year ended 31 December 2021. It 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. It also reviewed the independence and the appointment of the external auditors and its remuneration.

At the meeting held on 4 March 2022, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2021 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

The Compensation Committee was established in July 2007 and its current members include:

IP Shu Wing, Charles *(Independent Non-executive Director) – Committee Chairman*
LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
CHAN Kwong Fai, Michael *(Chairman)*

BOARD COMMITTEES (Continued)

Compensation Committee (Continued)

The majority of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The written terms of reference of the Compensation Committee are posted on the websites of the Company and the Stock Exchange.

The Compensation Committee held two meetings during the year. The Compensation Committee met to determine the policy for the remuneration of directors and the Group and assess the performance of executive directors and members of senior management. It also considered and made recommendations to the board on the remuneration terms of the newly appointed directors.

Remuneration Policy for Non-executive Director and Executive Directors

The Compensation Committee is charged with the duties to advise the board on the Group's overall policy and structure for the remuneration of directors and senior management. The Compensation Committee also makes recommendations to the board from time to time on the remuneration of the non-executive directors. Pursuant to the written terms of reference of the Compensation Committee, the compensation of non-executive directors, including the Compensation Committee members, shall be reviewed by executive directors initially, and the executive directors shall communicate their findings to the Compensation Committee. The Compensation Committee will then consider and make recommendations to the full board for final approval. The Compensation Committee is also responsible for determining the remuneration for executive directors and the Chairman of the board. In carrying out its functions and responsibilities, the Compensation Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and the desirability of performance-based remuneration. The Compensation Committee ensures that no director or any of his associate is involved in deciding his own remuneration.

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 13.1 to the financial statements.

Nomination Committee

The Nomination Committee was established in February 2012 and its current members include:

CHAN Kwong Fai, Michael *(Chairman) – Committee Chairman*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

The majority of the Nomination Committee members are independent non-executive directors. The principal responsibility of the Nomination Committee is to review the size, structure and composition of the board, identify individuals suitably qualified to become board members, and assess the independence of independent non-executive directors. The written terms of reference of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

The Nomination Committee held two meetings during the year. The Nomination Committee reviewed the structure, size and diversity of the Board and assessed the independence of all independent non-executive directors and made recommendation to the board on the appointment and re-appointment of directors. During the year, the Nomination Committee considered nomination of Mr. Chan Kwong Fai, Michael, Mr. Ip Shu Wing, Charles and Mr. Yu Hon To, David as new directors of the Company in accordance with the process and objective criteria contained in the Nomination Policy (including but not limited to skills, knowledge, experience, expertise, professional and educational qualifications), with due regard to the benefits of diversity as set out in the Board Diversity Policy.

Board Diversity Policy

The board has adopted a Board Diversity Policy since August 2013. Such policy aims at achieving board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the board.

Nomination Policy

The board has adopted a Nomination Policy in December 2018. Such policy sets out the criteria and procedures of considering candidates to be appointed or re-appointed as directors of the Company. When the Board recognises the need to appoint a director, the Nomination Committee may identify or select candidates recommended to the Committee, with or without assistance from external agencies. The Nomination Committee may then use any process that it considers appropriate in connection with its evaluation of a candidate, including but not limited to personal interviews and background checks. The Nomination Committee will have regard to the following factors when considering a candidate including without limitation:

- skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;
- effect on the board's composition and diversity;
- commitment of the candidate to devote sufficient time to effectively carry out his/her duties;
- potential or actual conflicts of interest that may arise;
- independence of the candidate.

Corporate Governance Functions

The board is collectively responsible for performing the corporate governance duties as below:

(i) develop and review the Company's policies and practices on corporate governance;

(ii) review and monitor the training and continuous professional development of directors and senior management;

(iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) develop, review and monitor the code of conduct applicable to employees and directors; and

(v) review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 year ended 31 December 2021. The Model Code also applies to other specified senior management of the Group.

Directors' Interests

Details of directors' interests in the securities of the Company are set out in pages 20 to 22 of this annual report.

Risk Management And Internal Controls

The board has overall responsibility for maintaining an adequate system of risk management and internal controls of the Group and reviewing its effectiveness. The board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of shareholders and the Company's assets.

The internal control process is accomplished by the board, management and other designated personnel, and designed to provide reasonable assurance regarding the achievement of objectives.

Our approach adopted for assessing the internal controls systems is based on those set by the COSO (the Committee of Sponsoring Organisations of the Treadway Commission), a globally recognized framework which categorizes internal controls into five components as the basis of reviewing its effectiveness, namely Control Environment, Risk Assessment, Information and Communication, Control Activities and Monitoring. In assessing our internal control system based on the above principles, we have taken into consideration of the nature of business as well as the organization structure. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

Risk Management

The board is responsible for overseeing overall risk management framework of the Group. Risk is inherent in the Group's business and the markets in which it operates. The Group's overall risk management process is overseen by the board and risk management is also integrated into ongoing business activities, including business planning, capital allocation decisions, internal control and day-to-day operations. The board together with senior management, business units, auditors and internal audit consultant are committed to identifying and mitigating key risks through an effective risk management framework.

The Group's risk management framework includes different layers of roles and responsibilities. Business units regularly review their risk profiles, and carry out risk management and reporting activities from time to time. Senior management is responsible for assessing material risks at the Group level, tracking progress of mitigation plans and reporting to the board regularly. The internal audit function performed by the Consultant (as defined below) also provides assurance to the board whether the control environments are adequate. The board oversees material risks that require attention and supervises the risk management process as a whole.

Control Effectiveness

The board has conducted an annual review of the risk management and internal control system which covered the relevant financial, operational, compliance controls and risk management functions within the established framework. The board's annual review has also considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The board considered that the risk management and internal control system for the year was effective and adequate. No significant areas of concerns that may affect the financial, operational, compliance controls and risk management functions of the Group have been identified. The directors are satisfied with the effectiveness of the Group's risk management and internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

Risk Management And Internal Controls (Continued)

Control Effectiveness (Continued)

There was no internal audit function within the Group during the year. The board has appointed an external independent professional ("Consultant") to perform the internal audit function for the Group for the year. The Consultant has reviewed the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The Consultant has reported to the board with its findings and makes recommendations to improve the risk management and internal control of the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more effective to appoint external independent professionals to perform internal audit functions for the Group.

With respect to procedures and internal controls for handling and dissemination of inside information, the Company has procedures and policies in place for ensuring compliance with the inside information disclosure requirements under the regulatory regime. The Company has provided Guidelines on Securities Dealing Restrictions and Disclosure Requirements to all directors and relevant employees at the relevant time in respect of assessing, reporting and disseminating inside information, and abiding shares dealing restrictions. The Company has also included in its code of business conduct and staff handbook a strict prohibition on the unauthorized disclosure or use of confidential information.

Auditors' Remuneration

For the year ended 31 December 2021, the auditors of the Group only provided audit services to the Group and the remuneration paid by the Group to the auditors for the performance of audit services was HK$1,400,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

Directors' And Independent Auditors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2021. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditor's report on pages 60 to 65 of this annual report.

Communications With Shareholders

The Company regards the annual general meeting as an important event in which the Chairman and all directors will make an effort to attend. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at general meetings were passed by poll. The poll results will be published on the websites of the Company and the Stock Exchange on the same date of the meetings. The Company's corporate communications including interim and annual reports, announcements and circulars as required under the Listing Rules are published on the websites of the Company and the Stock Exchange.

Shareholders' Rights

Procedures for shareholders to convene a special general meeting and putting forward proposals at general meetings

Pursuant to the Bye-laws of the Company, shareholders holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition to the board or the company secretary, to require a special general meeting to be called by the board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Bermuda Companies Act 1981 ("Act").

Pursuant to the Act, either any number of the shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than one hundred of such shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution and not less than one week before the meeting in the case of any other requisition. Provided that if an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Shareholders may make enquiries to the board by writing to the company secretary at the principal office of the Company.

Changes In Constitutional Documents

During the year, there is no substantial change in the Memorandum of Association and Bye-Laws of the Company.

About the Report

Playmates Toys Limited (hereinafter referred to as the "Company" or "Playmates Toys") with its subsidiaries (collectively, the "Group" or "we") has its core activities in the creation, design, marketing and global distribution of branded toys. With a sound reputation and the experience of over 40 years, we are one of the most reputable toy marketing companies globally.

Having a deep ambition to construct long-term trusted ties with our stakeholders in the community, the Group is pleased to publish our 2021 environmental, social and governance ("ESG") report (the "Report") summarising our ESG performance and initiatives.

Scope of the Report

The Report examines the Company's ESG management approaches, and the Group's corresponding performance within our operational boundaries, which remain unchanged from the previous reporting boundary, including the sales of toys and administrative activities in Hong Kong and the U.S. Offices from 1 January, 2021 to 31 December, 2021 (the "Reporting Period", "2021").

Reporting Standard

The Report has been prepared in accordance with the "Comply or Explain" provisions of the ESG Reporting Guide under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx ESG Reporting Guide"). The Report has been reviewed and approved by the Board of Directors of the Company.

Reporting Principles

During the preparation process, the Group adheres to the fundamental reporting principles, namely materiality, quantitative, balance and consistency, as outlined in the HKEx ESG Reporting Guide.

1. ***Materiality***

   We performed a materiality assessment to determine the material ESG issues and focus of this Report. The materiality matrix and details of stakeholder engagement are illustrated in later section of this Report.

2. ***Quantitative***

   All disclosed information, environmental and social KPIs were organised and calculated according to HKEx ESG Reporting Guide and standardised methodologies. The assumption and calculation principles are illustrated in the relevant sections.

3. ***Balance***

   The Board has acknowledged its responsibility to oversee the Company's sustainable development and review the truthfulness, accuracy and completeness of this report. This report has been prepared without bias.

4. ***Consistency***

Unless otherwise specified, this Report has been prepared in the same way in terms of the reporting scope and methodologies when compared to those in previous years. We adopted consistent environmental and social data management approach to allow a fair comparison of our performance over time.

Contact and Feedback

The Group strives to build a trusted relationship with the community. We formulate our business strategies for the best interests of our stakeholders; therefore, we treasure your feedback on this ESG Report and our sustainability performance. If you have any comments or suggestions, please feel free to contact us via playmatestoys.ir@playmates.net.

Our Sustainability Management Approach

Aiming at achieving business sustainability in a long run, the Group has established its Corporate Social Responsibility ("CSR") Policy by adopting a four-pillar approach focusing on aspects of business, people, community and environment. With our dedication to fostering the well-being of our stakeholders, our objectives and commitments towards the four aspects are outlined in the policy to lead the Group towards its sustainability pathway.

Four-pillar approach of the CSR Policy

Our Sustainability Management Approach (Continued)

Sustainability Governance

As stipulated in the policy, the Board takes up the overall responsibility to formulate the CSR strategy, regularly review the CSR practices and performance of the Group as well as the CSR Policy. The sustainability targets and goals are reviewed by the Board regularly. A CSR taskforce, comprising executives and representatives from different departments, has been established and authorised to conduct day-to-day operations to implement the CSR Policy.

ESG Risks Management

ESG risks which may impact the Group's business and operations are incorporated into the risk assessment framework and updated by the management regularly. Each ESG risk is evaluated in terms of the significance of impact and likelihood of occurrence before prioritization. Risks with high priority are categorized as material ESG risks and will be reported to the Board from time to time.

Board meeting is organised quarterly to review the risk assessment framework, the ESG risks as well as the feedbacks collected through stakeholder engagement before formulating responsive business strategies. To ensure the risk management and internal control systems are implemented properly and effectively, the Audit Committee is responsible to oversee and discuss the systems with management. Board meeting is held every three months to inform, communicate and report the identified ESG risks to the Board.

During the Reporting Period, supply chain disruption due to widespread diseases, climate physical risk and effectiveness of disaster recovery plan were identified. The Group has investigated possible measures and the feasibility in enhancing supply chain resilience under the impact of widespread diseases. For the climate physical risk and effectiveness of disaster recovery plan, please refer to the Climate Change Resilience section for mitigation measures implemented.

Stakeholder Engagement

With an ongoing communication and engagement with its stakeholders, the Group can better understand the perspectives and expectations of its stakeholders on the Group's ESG issues of the greatest concerns, as well as the associated environmental and social impacts on the business. By gathering stakeholders' opinions and understanding their concerns, the Group can refine its management policies and approaches on ESG management, determine a more suitable way to address the ESG issues as well as making continuous improvement on its ESG performance.

The Group has not only identified key stakeholder groups who have a significant impact on our business or those who can be significantly affected by our operations, but has also been maintaining regular communication with them through various channels, which are illustrated in the table below:

Stakeholder groups	Communication channels
Investors and shareholders	• Company website • Phone and email • Company's publications including financial statements • Annual general meeting • Investor presentations
Customers	• Joint business planning • Bilateral senior management meetings • Ongoing direct communication
Licensors	• Joint business planning • Bilateral senior management meetings • Ongoing direct communication
Suppliers	• On-site visits • Procurement processes • Compliance reporting • Audit and assessments
Employees	• Training and orientation • Staff meetings • Performance appraisal • Staff events
Community and the public	• Company website • Company's publications • Community activities • Charity donations
Media	• Company website • Company's publications

Materiality Assessment

In order to provide a direction and framework for the Report and formulation of ESG management strategies, it is necessary to identify the material ESG issues that matter the most to the Group. An independent consultant has been commissioned to conduct a materiality assessment in terms of online questionnaire for the Group in order to formulate strategies for managing the material ESG issues that matter most to the Group. Our key stakeholder groups (e.g. employees, customers, suppliers, and shareholders) were invited to fill in a questionnaire and determine the relevance and importance of the identified 27 ESG topics to the Group's business operations and the stakeholders themselves respectively.

Based on the materiality of each of the ESG topics expressed by the stakeholders, the ESG topics are prioritised and shown in the materiality assessment matrix below. The topics which fell in the upper right corner of the matrix were defined as the topics that matter most to the Group's business operations and our stakeholders as far as they are concerned.

Identification

To create and categorise a list of potential ESG topics and identify key stakeholder groups

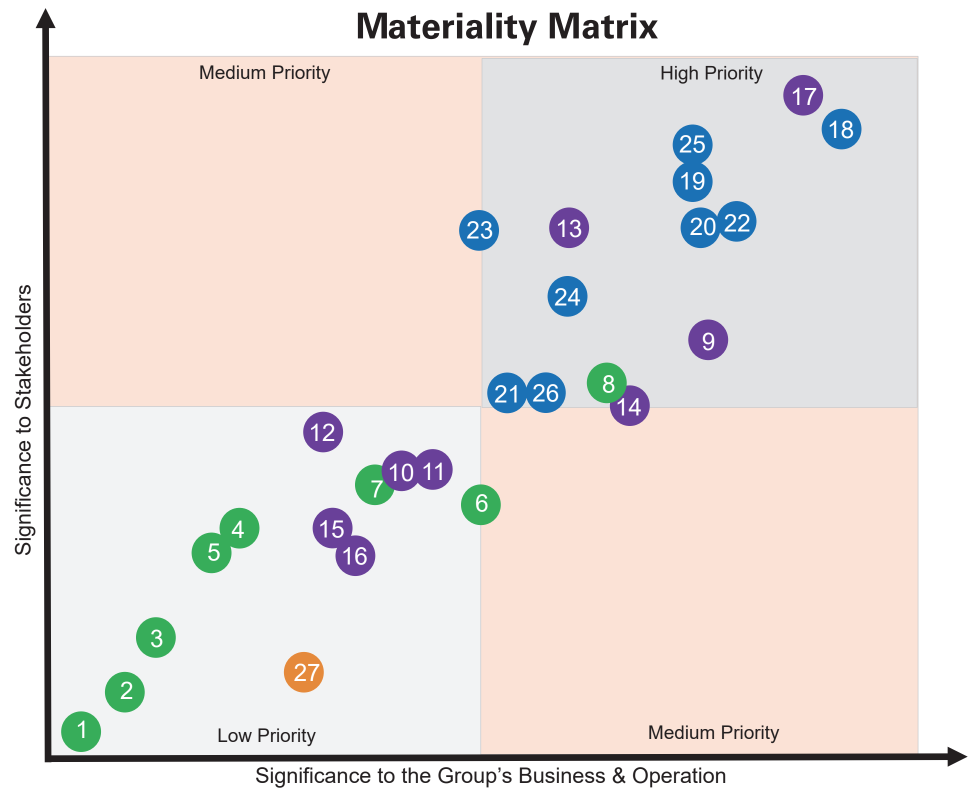
Engagement

To invite internal and external stakeholders to complete an online survey

Analysis & Evaluation

To evaluate and prioritise the most material ESG topics for ESG report disclosure and future improvement

Materiality Matrix



Environment	Social: Employment	Social: Operation
1. Air emission	9. Labour rights	18. Customer satisfaction
2. Greenhouse gas emission	10. Labour-management relations	19. Product and service quality and complaints handling
3. Climate change	11. Employee retention	20. Customer health and safety
4. Energy efficiency	12. Diversity and equal opportunity	21. Marketing and product and service labelling compliance
5. Water and effluents	13. Non-discrimination	22. Intellectual property
6. Use of materials	14. Occupational health and safety	23. Customer privacy and data protection
7. Waste management	15. Employee training	24. Responsible supply chain management
8. Environmental compliance	16. Employee development	25. Business ethics
	17. Prevention of child labour and forced labour	26. Socio-economic compliance
		Community
		27. Community investment

Materiality Assessment (Continued)

The above materiality assessment has helped us analyse our ESG risks and opportunities in an attempt to improve our business strategies. It has also helped us meet the sustainability reporting standards and lead us to a better resource allocation focusing on the important ESG issues. Most importantly, it provides a pathway to stakeholder satisfaction by meeting their expectations.

Responsible Operations

We value the enduring relationship with our customers and business partners. To provide products and services of top quality in a way that satisfies the needs and requirements of the customers, we have been communicating with our customers to gain insights into the changing market demand for the products and services so that the Group can respond swiftly. In addition, we have a set of strict guidelines to ensure our employees act with integrity.

Supply Chain Management

Having an established supply chain management is not only crucial to the Group's operational efficiency, but it also contributes to the quality of our products and services. As such, stringent procedures for supplier assessment and management are in place to align with our standards and requirements. By ensuring the selection procedures are conducted in a fair, ethical and impartial manner, we are committed to maintaining a close relationship based on mutual respect with qualified suppliers for our long-term development.

To ensure we have a reliable supply chain, the Group selects and assesses suppliers, contractors and vendors based on a range of impartial and objective criteria, including quality, suitability, timeliness and competency. All suppliers, contractors and vendors are required to comply with the legal requirements and regulations in the relevant jurisdictions. During the Reporting Period, we collaborated with a total of 12 suppliers for our toy products which were all from Hong Kong.

Quality and Safety of Products and Services

Our reputation and success lay upon providing safe and high-quality products and services that meet our customers' expectations. We therefore are committed to maximising the customer satisfaction by providing them with products and services of the finest quality. In the meantime, customers can feel relaxed enjoying our products and services, knowing that we have a set of strict safety guidelines in place. During the Reporting Period, we were not aware of any material breach of relevant laws and regulations relating to health and product safety. No products sold or shipped by us was subject to recalls for safety and health reasons in 2021.

Advertising Ethics

We are committed to establishing a long-lasting trust with our customers by providing accurate information in our marketing and advertising publication. Our marketing strategy is complied with all relevant laws and regulations and our own ethical standards.

The Group's Advertising & Promotion Philosophy

- We will accurately portray our products in clear terms appropriate for our target audience.
- We will never communicate a misleading message.
- We will not omit important facts about our products, make false claims or deceptive statements about our competitors' offerings.

Given the business nature of our toys business, most of the advertisements and promotional materials are consumed by children. We make sure the way how information is collected in the website of Playmates Toys is complied with the US Online Privacy Protection Act, which sets out rules for collecting information from children. As a member of the "kidSAFE Seal Program", all of the content in Playmates Toys' website has been independently reviewed to ensure compliance with the standards of online safety and/or privacy.

During the Reporting Period, we were not aware of any material breach of relevant laws and regulations relating to advertising and labelling in connection with our products and services provided by the Group and method of redress.

Satisfying Our Customers' Needs

Maintaining effective communication with our customers is the key to enhancing the quality of products and services, and to maximising customer satisfaction. We communicate with our customers by arranging regular joint business planning meetings, senior management meetings as well as feedback collection and other means of direct communication. During the Reporting Period, a total number of 5 products and service related complaints were received. The complaints were handled by designated employees promptly and all the complaints were settled within the Reporting Period.

Responsible Operations (Continued)

Business Integrity

The Group spares no effort in protecting our reputation and the interest of the stakeholders by exercising the highest standards of business ethics. We do not tolerate any forms of misconducts that undermine our business integrity. To achieve this, the Code of Business Conduct is in place to govern the business practices and staff behaviours.

During the Reporting Period, the Group was not aware of any material breach of Prevention of Bribery Ordinance (Cap. 201) and other laws and regulations relating to bribery, extortion, fraud, money laundering, data privacy, intellectual property, nor any legal cases regarding corruption practices against the Group or our employees.

Anti-corruption

All business activities carried out by the Group are regulated by the Code of Business Conduct, under which the employees are strictly forbidden to solicit or accept or offer any forms of advantages such as gifts, entertainment or contributions from/to customers, suppliers, public servants, employees of a government department or public body, or any person in connection with the Group's business in most circumstances. We also review our Code of Business Conduct regularly to ensure that our anti-corruption policies are consistent with applicable laws and regulations.

Our employees are required to act in the best interest of the Group. Any business decisions made or decisions taken must be independent and free from the influence of the relationship that our employees might have with our business partners, customers and regulators. Insider trading (i.e. gaining personal benefits using material non-public information) is strictly prohibited.

In the event of observing suspected breach of the Code, employees are encouraged to report the case to the respective Department Head or the management. Investigation will be conducted in a timely and fair manner. All suspected cases will be referred to the Independent Commission Against Corruption where necessary.

In this year, we invited Independent Commission Against Corruption to provide our directors and employees with training on anti-corruption rules, regulations and practices. A total of 31 hours anti-corruption training was provided to employees at our Hong Kong office.

Anti-money laundering

With a deep understanding of how money laundering behaviours can inflict damage to the economy, the society and the corporate reputation, the Group bears zero tolerance on any forms of money laundering behaviours. The Code of Business Conduct contains clear guidelines on what constitutes a suspicious transaction. Employees are required to report to the Ethics Resource Team for guidance if they spot any suspicious transactions.

Data privacy

Given the fact that our business areas are highly competitive, any unauthorised disclosures of business information and personal data of the Group, our business partners, customers, and employees, whether intentionally or not, would induce severe damage to the interest and reputation of the Group and other stakeholders. Hence, stringent protective measures have been carried out to secure the confidentiality of the data of the Group and relevant stakeholders.

Proprietary information of the Group, our customers and business partners must be properly labelled and securely stored. All employees have the obligation to adhere to the stringent standards on handling confidential information during the employment and after the termination of the employment. The Group bears zero tolerance on any behaviours of using the proprietary information for personal gain. To ensure data security and compliance with privacy regulations, we have entrusted the designated executives to monitor the implementation of security procedures.

Intellectual property

As the core competency of the Group lies in ideas and innovation, intellectual property is one of our most valuable assets. We are committed to protecting our intellectual property rights in accordance with the relevant laws and regulations, including but not limited to trademark registration, copyright notice and patent marking. We will seek formal protection on any ideas or output developed based on the Group's resources. Meanwhile, we respect the intellectual property rights of other parties. The Group will not knowingly use the patent rights of other parties unless they are properly licensed.

Whistle-blowing

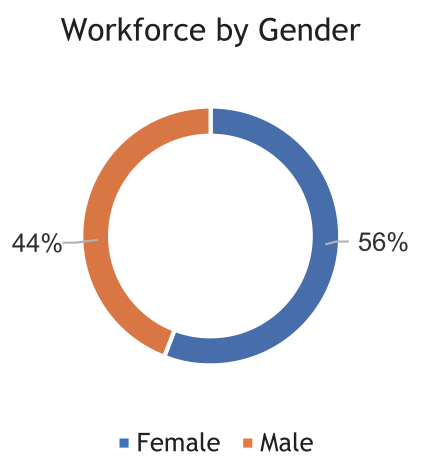
We have a clear set of whistle-blowing policy in place, under which all employees have the right and responsibility to report any misconducts they observe. Clear guidelines have been set out regarding the acceptance scope, violation behaviour, reporting channels, handling procedures and information confidentiality of whistle-blow incidents in accordance with related management regulations.

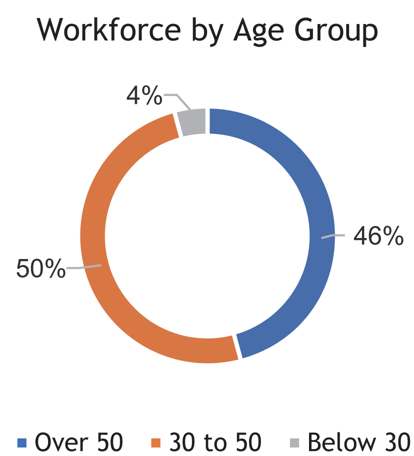
Employees can report suspected case(s) in person or in writing to the Chairman of the Group or Chairman of the Audit Committee based on the nature of the reported matter(s). Upon receiving a report, an investigation will be handled by a dedicated department in a confidential and timely manner. We ensure that the identity of whistle-blowers is secured in the highest manner possible and we do not tolerate any forms of intimidation or retaliation thereafter. Meanwhile, we make our best efforts to ensure that the information collected is accurate, and employees who deliberately provide untrue information are subject to disciplinary actions.

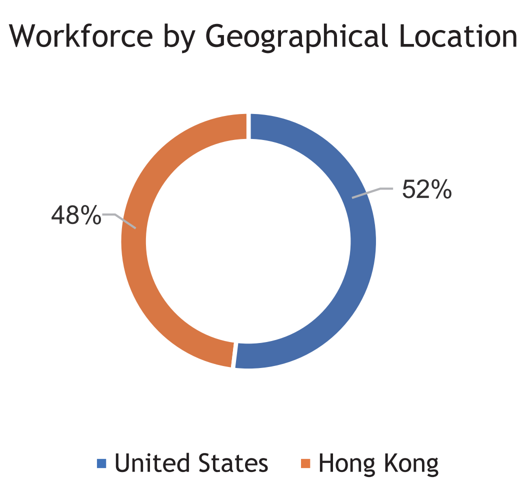
Responsible Employment

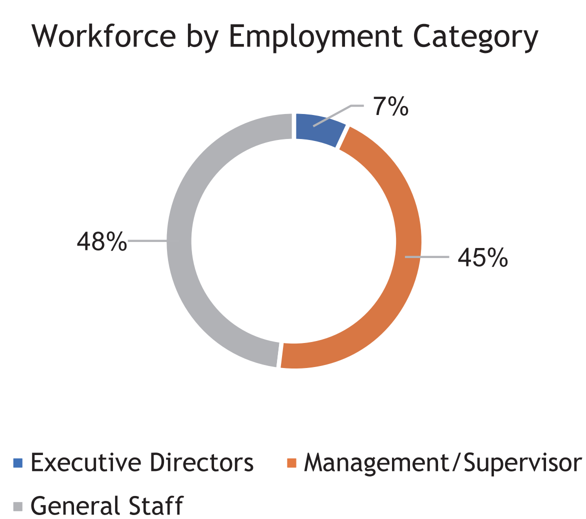
The Group's core competency lies in the possession of talented employees, whose hard work and skills have contributed to our business achievements. The Group is committed to putting in resources in enhancing employees' physical and mental health, career development, and well-being. In addition, we are committed to maintaining high employment standards and a healthy and safe workplace. We strive to provide the best possible support and opportunities to the employees so that they could thrive with us.

As at the end of the Reporting Period, the total number of employees of the Group was 54. Information of our workforce and turnover rate by different categories is illustrated below:









Employee Turnover Rate[1]	% in 2021
Total	22.22%
By gender	
Male	20.83%
Female	23.33%
By geographical region	
Hong Kong	26.92%
United States	17.86%
By age group	
Below 30	0%
30 to 50	22.22%
Over 50	24.00%

Healthy and Safe Workplace

The Group endeavours to maintain a safe and healthy workplace both physically and mentally to our employees. As our businesses are principally office-based, a comprehensive safety workplace protocol can effectively eliminate safe and health risks. To protect the health of all employees, all new joiners are required to attend a medical examination and declare any known contraction of contagious or infectious disease prior to the start of employment.

The Group spares no effort in ensuring that our employees work in a drug-free workplace. Possession, consumption, sale, distribution or being under the influence of illegal drugs are strictly prohibited in our premises. We also prohibit employees from engaging in any other activities which may create an unsafe work environment while carrying out work-related responsibilities or within the Group's premises. Staff are encouraged to report any actual and potential health, safety and fire hazards to the respective Department Head or immediate supervisor as a precautionary measure to prevent any injury or damage in workplace.

Meanwhile, we adopt a set of safety guidelines in attending work during extreme weather, which is in line with the guidance set out by the Labour Department and the Hong Kong Observatory. When Typhoon Signal No. 8 or above and/or Black Rainstorm Warning is in force, employees are required to take necessary precautions and stay indoor wherever they are, and not to leave the building until the signal is lowered and the condition is safe to do so.

1 The turnover rate of each category was calculated by dividing the number of employee who left during the Reporting Period by the number of employee of such category as at 31 December 2021.

Responsible Employment (Continued)

Healthy and Safe Workplace (Continued)

During the Reporting Period, the Group was not aware of any material breach of relevant laws and regulations in Hong Kong pertaining to provision of a safe working environment and protection of employees from occupational hazards, such as Occupational Safety and Health Ordinance (Cap. 509) and Employees' Compensation Ordinance (Cap. 282). Meanwhile, no work-related fatality nor lost day due to work-related injuries was recorded in 2021.

	2021	2020	2019
Number of lost day due to work-related injuries	0	0	0
Number of work-related fatalities	0	0	0

Staying safe under COVID-19 pandemic

As a responsible employer, we are committed to providing everything possible to ensure the well-being and safety of our employees during the COVID-19 pandemic. We have quickly come up with a number of precautionary measures, in order to minimise the risk of COVID-19 infection as far as practicable.

Hygienic workplace

- We arrange regular cleaning and sanitizing of the office to maintain a clean and hygienic workplace.
- Staff are required to wear mask in the office and measure body temperature before work.

Flexible working arrangements

- To further mitigate the risk of employees' exposure to the virus, we have provided our employees with flexible working arrangement options such as working from home, rostering and flexible working hours, where possible and subject to business needs.

While the pandemic is still on-going, we believe these preventive measures can minimise the impacts of COVID-19 on our employees and business, and ultimately on our customers. The Group will continue to monitor the situation and put in resources to develop a safe work environment for our employees.

Employment Conditions

The Group's performance and success depend primarily on our employees. We aim to promote the growth of our employees and the Group mutually by providing a motivated workplace, in which the performance and efforts of the employees are highly valued. The Group offers remuneration packages based on factors such as performance, experience, qualifications and length of service. The remuneration policy of the Group is subject to periodic review by the Board.

Apart from the statutory holidays and paid annual leave, all eligible employees are also entitled to additional paid leave entitlements such as sick leave, marital leave, maternity leave, examination leave, compassionate leave and jury service/witness leave. At the same time, we offer benefits such as medical allowance, the Mandatory Provident Fund and tuition allowance to eligible employees.

Discrimination-free and Fair Workplace

As an equal opportunity employer, we are committed to ensuring that our workplace is fair, diverse, open, and equal working environment for our employees. Hence, any forms of discrimination or harassment based on age, gender, race, disability, marital status or other legally-protected status will not be tolerated. The anti-discrimination policy is stipulated in our Code of Business Conduct. Employment decisions are made solely on the basis of work-related factors such as employees' qualifications, experience, skills and achievements, without considering any other characteristics as stated in the applicable laws. In the event of experiencing offensive harassment or other indecency or obscenity, employees are encouraged to report to the respective Department Head or immediate supervisor immediately.

During the Reporting Period, the Group was not aware of any material breaches of relevant laws and regulations in Hong Kong, including among others the Employment Ordinance (Cap. 57), that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

Child and Forced Labour-free Workplace

We are committed to protecting the labour rights of our potential and current employees. We bear zero tolerance on any forms of child or forced labour in the Group's business operations. It is mandatory for job applicants to reach the legal working age and show their valid identification and qualification documents at the recruitment stage for background check. In the meantime, qualified candidates are required to enter into a legal-binding labour contract to ensure they are hired on a voluntary and fair basis. The enforcement of our child and forced labour policy extends to our suppliers, under which we do not knowingly use suppliers who are involved in using child and forced labour.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations in Hong Kong, including among others the Employment Ordinance (Cap. 57), relating to child and forced labour.

Responsible Employment (Continued)

Development and Training

We understand the importance of acquainting updated knowledge and the latest market trend in order to unleash the potential and creativity of our employees. To maintain our progress on the knowledge track, we are committed to devoting resources to promote learning. Eligible employees are entitled to tuition allowances and paid leave for attending external vocational, academic or professional training courses to enhance their skills or qualifications relevant to their duties at work. We also organise internal training sessions for our management regarding legal and regulatory updates and other matters that is material to the business operations of the Group to keep up with the industrial and market updates. We encourage our people to think broadly about their career advancement and goals in their annual performance-based appraisals, in which the employees are encouraged to contribute their ideas and suggestions to the Company, in order to achieve mutual growth of the employees and the Group.

We believe professional skills, expertise and lifelong development of the employees are imperative to keeping them abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfilment in their positions, unleash the employees' potential and ultimately, attain a sustainable business growth.

	2021
Total number of hours of training received by employees	**95**
Average hours of training per employee and percentage (%) of employees who received training	1.76 (48.15%)
By gender	
Male	3.54 (66.67%)
Female	0.33 (33.33%)
By employment category	
Executive directors	10.50 (100.00%)
Management/supervisor	1.80 (56.00%)
General staff	0.30 (29.63%)

Environmental Protection

The younger generation is among our most important customer groups. We have an indispensable obligation to start reducing carbon footprint and conserving our natural resources to fight climate change, in order to leave our planet habitable for future generations. We stay proactive in managing emerging environmental risks and advancing our performance. In order to pursue long-term and sustainable operations, we have studied the peer performance and established the following environmental targets regarding greenhouse gas ("GHG") emissions, waste management, and energy use and water efficiency in short-term and long-term based on the average intensity of the corresponding aspect from 2017 to 2020. The Group will gradually reduce our environmental footprint and keep review the market development and opportunity to enhance our performance.

GHG emissions

- Reduce 20% carbon emissions intensity by 2027

Waste Management

- Increase waste recycling rate to 5% every year

Energy use efficiency

- Reduce 2% energy consumption intensity by 2026
- Reduce 5% energy consumption intensity by 2031

Water efficiency

- Reduce 2% of water consumption intensity by 2026
- Reduce 5% of water consumption intensity by 2031

Below are some environmental measures implemented during the Reporting Period:

Toys Business

- Avoid unnecessary components in our products
- Reduce packaging of our products, and use environmentally-friendly packaging materials as far as practicable
- Optimise the number of carton boxes and containers to reduce the demand for logistics, and use off-peak delivery where feasible
- Select paper from sustainable sources endorsed by the Forest Stewardship Council ("FSC") and use recycled paper where feasible in our Hong Kong offices

Environmental Protection (Continued)

Climate Change Resilience

Climate change has become a highly concerned topic in the global market as it associates to the long-term sustainability of an organization. During the risk assessment process in the Reporting Period, climate physical risk and effectiveness of disaster recovery plan were identified as material ESG risks. In order to prepare the Group for unforeseeable climate-related disasters, such as hurricane, and extreme weather, a business contingency plan has been established to outline the identified major climate-related risks faced by the Group, the critical business functions that will be affected in identified climate-related disaster, emergency preparedness for disaster event, recommended immediate responses and recovery plans for critical operations. It is expected that implementation of the plan can reduce the disruptions to our operations and supply chain under climate-related events.

In addition, we recognise the potential impact to the building premises and ensure our insurance covers fire incidents, third party injuries within our building premises, staff injury during the course of business, and transit loss or damage of shipment of finished goods from manufacturers. The mitigation measures will be reviewed timely to prevent major loss.

Another anticipated climate-related risk lies on the potential change in governmental policies and regulations due to the increasing global concern on the climate change issues. Our operational and legal teams will regularly review and monitor our business practices and processes to ensure the compliance of the Group. External consultancy services will also be pursued when necessary.

Environmental Performance Table (Note 1)

	Unit	2021	2020
Air Emissions *(Note 2)*			
Nitrogen oxides	Tonnes	2.41	–
Sulphur oxides	Tonnes	0.09	–
Particulate matters	Tonnes	0.18	–
Waste Management			
Total amount of non-hazardous waste generated	Tonnes	50.57	62.312
Sent to landfill	Tonnes	50.55	62.305
Recycled	Tonnes	0.02	0.007
Intensity	Tonnes per HK$ million revenue	0.05	0.22

	Unit	2021	2020
Greenhouse Gas Emission			
Total GHG emissions	Tonnes of carbon dioxide equivalent ("Tonnes CO_2e")	100.69	116.17*
Scope 1 *(Note 3)*	Tonnes CO_2e	16.94	15.66*
Scope 2 *(Note 4)*	Tonnes CO_2e	71.76	89.29*
Scope 3 *(Note 5)*	Tonnes CO_2e	12	11.22
Intensity	Tonnes CO_2e per HK$ million revenue	0.11	0.40*
Energy Consumption *(Note 6)*			
Total energy consumption	MWh	194.46	224.61*
Unleaded petrol	MWh	57.98	53.63*
Electricity	MWh	136.48	170.98*
Intensity	MWh per HK$ million revenue	0.14	0.42*
Water Consumption & Discharge *(Note 7)*			
Total water consumption	m^3	14,192	14,464*
Intensity	m^3 per HK$ million of revenue	15.24	50.05*
Total wastewater discharged	m^3	14,192	14,464*
Packaging Material Consumption			
Total packaging material used *(Note 8)*	Tonnes	3,252	1,338
Intensity	kg per number of products	0.24	0.23

Note:

1. Due to change of calculation methods and previous technical issues, some of the 2020 numbers are restated. Those numbers are marked with "*" for easy reference.
2. Due to technical issue, the 2020 air emissions data is unavailable.
3. Scope 1 refers to direct GHG emissions from the stationary and mobile sources combustion. The calculation is made reference to the published emission factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories and the guidance worksheets of World Resources Institute's GHG Protocol Tool for Mobile Combustion.

Environmental Protection (Continued)

Climate Change Resilience (Continued)

Note: (Continued)

4. Scope 2 refers to indirect GHG emissions from the purchased electricity. The calculation is based on the emission factors from the 2020 Sustainability Report published by the CLP and the Emission Factors for Greenhouse Gas Inventories published by the United States Environmental Protection Agency.

5. Scope 3 refers to indirect GHG emission from the consumption of paper and business air travel of employees. In 2021, the emissions from the water consumption and sewage treatment of our Hong Kong premises were also included.

6. The conversion factors from volumetric units of unleaded petrol to energy units are in reference to CDP Technical note: Conversion of fuel data to MWh.

7. In 2021, the Group had no issue in water sourcing.

8. The increase of packaging material usage in 2021 was attributed to the increased demand of our products.

Community Engagement

The Group cares deeply about the community where it operates. We are committed to making contribution to the society and supporting the communities through charitable donations and other forms of community engagement. In 2021, a total amount of HK$77,500 cash donation was made to facilitate the operation of the Sachs Family. Meanwhile, we encouraged our employees to participate in community contribution activities during the Reporting Period.

HKEx ESG Reporting Guide Index

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
A1 Emissions	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	ENVIRONMENTAL PROTECTION
KPI A1.1	The types of emissions and respective emissions data.	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A1.5	Description of measures to mitigate emissions and results achieved.	ENVIRONMENTAL PROTECTION
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	ENVIRONMENTAL PROTECTION
A2 Use of Resources	Policies on efficient use of resources including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	ENVIRONMENTAL PROTECTION

Community Engagement (Continued)

HKEx ESG Reporting Guide Index (Continued)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	ENVIRONMENTAL PROTECTION
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	ENVIRONMENTAL PROTECTION – Environmental Performance Data
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	ENVIRONMENTAL PROTECTION – Environmental Performance Data
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	ENVIRONMENTAL PROTECTION
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	ENVIRONMENTAL PROTECTION
A4 Climate Change	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	ENVIRONMENTAL PROTECTION – Climate Change Resilience
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	ENVIRONMENTAL PROTECTION – Climate Change Resilience
Aspect B: Social		
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	RESPONSIBLE EMPLOYMENT – Employment Conditions, Discrimination-free and Fair Workplace, Child and Forced Labour-free Workplace

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	RESPONSIBLE EMPLOYMENT
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	RESPONSIBLE EMPLOYMENT
B2 Health and Safety	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	RESPONSIBLE EMPLOYMENT – Healthy and Safe Workplace
KPI B2.1	Number and rate of work-related fatalities.	RESPONSIBLE EMPLOYMENT – Healthy and Safe Workplace
KPI B2.2	Lost days due to work injury.	RESPONSIBLE EMPLOYMENT – Healthy and Safe Workplace
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	RESPONSIBLE EMPLOYMENT – Healthy and Safe Workplace
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	RESPONSIBLE EMPLOYMENT – Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. executive director, middle management).	RESPONSIBLE EMPLOYMENT – Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	RESPONSIBLE EMPLOYMENT – Development and Training
B4 Labour Standards	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	RESPONSIBLE EMPLOYMENT – Child and Forced Labour-free Workplace
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	RESPONSIBLE EMPLOYMENT – Child and Forced Labour-free Workplace
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	RESPONSIBLE EMPLOYMENT – Child and Forced Labour-free Workplace

Community Engagement (Continued)

HKEx ESG Reporting Guide Index (Continued)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	RESPONSIBLE OPERATIONS – Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	RESPONSIBLE OPERATIONS – Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	RESPONSIBLE OPERATIONS – Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	RESPONSIBLE OPERATIONS – Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	RESPONSIBLE OPERATIONS – Supply Chain Management
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	RESPONSIBLE OPERATIONS – Quality and Safety of Products and Services, Advertising Ethics
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	RESPONSIBLE OPERATIONS – Quality and Safety of Products and Services
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	RESPONSIBLE OPERATIONS – Satisfying Our Customers' Needs
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	RESPONSIBLE OPERATIONS – Intellectual property
KPI B6.4	Description of quality assurance process and recall procedures.	RESPONSIBLE OPERATIONS – Quality and Safety of Products and Services
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	RESPONSIBLE OPERATIONS – Data privacy

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	RESPONSIBLE OPERATIONS – Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	RESPONSIBLE OPERATIONS – Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	RESPONSIBLE OPERATIONS – Whistle-blowing
KPI B7.3	Description of anti-corruption training provided to directors and staff.	RESPONSIBLE OPERATIONS – Anti-corruption
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	COMMUNITY ENGAGEMENT
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	COMMUNITY ENGAGEMENT
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	COMMUNITY ENGAGEMENT

INDEPENDENT AUDITOR'S REPORT

Grant Thornton
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To the members of
Playmates Toys Limited
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 119, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue recognition

Refer to notes 2.12 and 4 to the consolidated financial statements

Revenue principally comprises revenue from the design, development, marketing and distribution of toys and family entertainment activity products.

Sales of toys are recognised when control of the goods has been transferred to the customers, being at the point in time when the goods are delivered.

We identified the recognition of revenue as a key audit matter because of its significance to the Group and revenue is one of the key performance indicators of the Group, therefore it is a significant audit risk area.

How the matter was addressed in our report

Our audit procedures to assess the recognition of revenue included:

- obtaining an understanding of internal controls over revenue recognition;
- reviewing sales agreements and/or sales orders from customers, on a sample basis, to understand the terms of the sales transactions to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards;
- assessing, on a sample basis, whether revenue transactions recorded during the financial year had been occurred by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms of sale as set out in the sales agreements;
- assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate period by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms of sale as set out in the sales agreements;
- identifying if there are any significant adjustments to revenue during the reporting period, understanding the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

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Key Audit Matters (Continued)

Valuation of advanced royalties

Refer to notes 2.13 and 19 to the consolidated financial statements

We identified the valuation of advanced royalties as a key audit matter as significant management judgments and estimations are required in assessing the realisation of advanced royalties through future product sales, with reference to the historical sales pattern, expectation of future product sales based on current market conditions and other specific attributes that might have an impact on the sales forecast.

As at 31 December 2021, the Group has advanced royalties amounted to approximately HK$52 million (2020: HK$50 million) in the consolidated statement of financial position.

How the matter was addressed in our report

Our audit procedures to assess the valuation of advanced royalties included:

- obtaining an understanding of the management's assessment on the realisation of advanced royalties;
- obtaining the management's sales forecast and comparing to historical sales pattern to evaluate the reasonableness of the management's assessment on the sufficiency of future product sales in support of the recoupment of advanced royalties;
- obtaining an understanding of how the allowance for unfulfilled royalties is estimated by the management;
- reviewing the license agreements to understand the terms of agreement including the licensing period, guaranteed royalties and royalty rates;
- assessing, on a sample basis, whether the advanced royalties recorded during the financial year had been occurred by comparing the transactions selected with relevant underlying documentation, including bank payment advices, invoices issued by licensors and the terms of agreement as set out in the license agreements;
- testing, on a sample basis, the mathematic accuracy of the computation of royalties and whether the recoupment of advanced royalties is properly recorded;
- identifying if there are any significant adjustments to advanced royalties during the reporting period, understanding the reasons for such adjustments and comparing the details of adjustments with relevant underlying documentation.

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Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2021 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
11th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

4 March 2022

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Note	2021 US$'000 (Note 30)	2021 HK$'000	2020 HK$'000
Revenue	*4*	**80,659**	**625,108**	289,240
Cost of sales		**(41,495)**	**(321,584)**	(147,231)
Gross profit		**39,164**	**303,524**	142,009
Other revenue	*22(i)*	**–**	**–**	17,976
Marketing expenses		**(17,761)**	**(137,648)**	(82,191)
Selling and distribution expenses		**(3,960)**	**(30,690)**	(6,552)
Administration expenses		**(12,571)**	**(97,429)**	(103,782)
Operating profit/(loss)		**4,872**	**37,757**	(32,540)
Other net (loss)/income	*7*	**(352)**	**(2,728)**	12,015
Finance costs	*8*	**(385)**	**(2,987)**	(2,045)
Profit/(Loss) before income tax	*6*	**4,135**	**32,042**	(22,570)
Income tax credit/(expense)	*9*	**1,411**	**10,939**	(7,493)
Profit/(Loss) for the year attributable to owners of the Company		**5,546**	**42,981**	(30,063)
		US cents	***HK cents***	*HK cents*
Earnings/(Loss) per share	*11*			
Basic		**0.47**	**3.64**	(2.55)
Diluted		**0.47**	**3.64**	(2.55)

The notes on pages 72 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 *US$'000* *(Note 30)*	2021 *HK$'000*	2020 *HK$'000*
Profit/(Loss) for the year	**5,546**	**42,981**	(30,063)
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	–	–	(5,269)
Total comprehensive income for the year attributable to owners of the Company	**5,546**	**42,981**	(35,332)

The notes on pages 72 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 US$'000 (Note 30)	2021 HK$'000	2020 HK$'000
Non-current assets				
Property, plant and equipment	14	144	1,119	1,798
Right-of-use assets	15.1	2,687	20,823	11,353
Prepayments	19	–	–	15,500
Deferred tax assets	24	4,146	32,130	17,060
		6,977	54,072	45,711
Current assets				
Inventories	17	7,485	58,007	10,283
Trade receivables	18	16,049	124,378	41,291
Deposits paid, other receivables and prepayments	19	7,398	57,331	36,349
Financial assets at fair value through profit or loss	20	9,192	71,241	7,021
Cash and bank balances	27.2	115,354	893,997	949,943
		155,478	1,204,954	1,044,887
Current liabilities				
Trade payables	21	3,674	28,476	10,365
Deposits received, other payables and accrued charges	22	21,381	165,702	84,639
Provisions	23	4,811	37,287	23,391
Lease liabilities	15.2	1,097	8,503	5,694
Taxation payable		1,296	10,044	8,781
		32,259	250,012	132,870
Net current assets		123,219	954,942	912,017
Total assets less current liabilities		130,196	1,009,014	957,728
Non-current liabilities				
Lease liabilities	15.2	1,783	13,816	5,986
Net assets		128,413	995,198	951,742
Equity				
Share capital	26.1	1,523	11,800	11,800
Reserves		126,890	983,398	939,942
Total equity		128,413	995,198	951,742

On behalf of the board

CHAN Kong Keung, Stephen
Director

TRAN Vi-hang William
Director

The notes on pages 72 to 119 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Note	2021 US$'000 (Note 30)	2021 HK$'000	2020 HK$'000
Cash flows from operating activities				
Cash generated from/(used in) operations	*27.1*	**3,635**	**28,178**	(40,106)
Overseas tax paid		**(370)**	**(2,868)**	(5,828)
Hong Kong profits tax refunded		**–**	**–**	2,751
Net cash generated from/(used in) operating activities		**3,265**	**25,310**	(43,183)
Cash flows from investing activities				
Purchases of property, plant and equipment		**(24)**	**(188)**	(755)
Purchases of financial assets at fair value through profit or loss		**(9,421)**	**(73,016)**	(3,908)
Dividends received		**51**	**394**	–
Interest received		**108**	**835**	6,351
Net cash (used in)/generated from investing activities		**(9,286)**	**(71,975)**	1,688
Cash flows from financing activities				
Payment of lease liabilities	*27.3*	**(1,153)**	**(8,932)**	(8,360)
Net cash used in financing activities		**(1,153)**	**(8,932)**	(8,360)
Net decrease in cash and cash equivalents		**(7,174)**	**(55,597)**	(49,855)
Cash and cash equivalents at 1 January		**122,573**	**949,943**	1,005,556
Effect of foreign exchange rate changes		**(45)**	**(349)**	(5,758)
Cash and cash equivalents at 31 December	*27.2*	**115,354**	**893,997**	949,943

The notes on pages 72 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital *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*	Total *HK$'000*
At 1 January 2020	11,800	409	38,285	4,174	13,685	916,925	985,278
Loss for the year	–	–	–	–	–	(30,063)	(30,063)
Other comprehensive income:							
Exchange differences arising on translation of foreign subsidiaries	–	–	–	(5,269)	–	–	(5,269)
Total comprehensive income for the year	–	–	–	(5,269)	–	(30,063)	(35,332)
Share option scheme							
– value of services	–	–	–	–	1,796	–	1,796
– share options lapsed	–	–	–	–	(1,328)	1,328	–
Transactions with owners	–	–	–	–	468	1,328	1,796
At 31 December 2020	11,800	409	38,285	(1,095)	14,153	888,190	951,742

	Share capital 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	Total HK$'000
At 1 January 2021	11,800	409	38,285	(1,095)	14,153	888,190	951,742
Profit and total comprehensive income for the year	–	–	–	–	–	42,981	42,981
Share option scheme							
– value of services	–	–	–	–	357	–	357
– share options lapsed	–	–	–	–	(1,495)	1,495	–
Unclaimed dividends forfeited	–	–	–	–	–	118	118
Transactions with owners	–	–	–	–	(1,138)	1,613	475
At 31 December 2021	11,800	409	38,285	(1,095)	13,015	932,784	995,198

The notes on pages 72 to 119 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 23/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 16 to the financial statements.

The financial statements for the year ended 31 December 2021 were approved for issue by the board of directors on 4 March 2022.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

These 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. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3 to the financial statements.

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 measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on the Group's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.5 "Inventories", note 2.6 "Financial assets", note 2.7 "Impairment of non-financial assets", note 2.10 "Provisions", note 2.13 "Advertising and marketing expenses, advanced royalties and product development costs", note 2.16 "Deferred taxation" and note 2.17 "Current taxation" to the financial statements. Other than that, no significant accouting estimations and judgments have been made.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the “Group”) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group’s perspective.

2.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

In the Company’s statement of financial position, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee’s pre or post-acquisition profits are recognised in the Company’s profit or loss.

2.4 Property, plant and equipment

All property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

2 Summary of Significant Accounting Policies (Continued)

2.4 Property, plant and equipment (Continued)

Gains or losses arising from the retirement or disposal are determined as the difference between the sales proceeds and the carrying amount of the asset and recognised in profit or loss.

Depreciation is calculated using the straight-line method to write off cost less the residual values over the estimated useful lives, as follows:

Leasehold improvements	3-10 years
Vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

The Group reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

2.6 Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Except for those trade receivables that do not contain a significant financing component which are measured at the transaction price, all financial assets are initially measured at fair value. On initial recognition, transaction costs that are directly attributable to the purchase of financial assets are added to the carrying amount of the financial assets except for financial assets at fair value through profit or loss in which case such transaction costs are recognised in profit or loss. All purchases or sales of financial assets are recognised and derecognised on a trade date basis (i.e. the date on which the Group commits to purchase or sell the financial asset).

(i) Classification of financial assets

Investments other than equity investments

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses ("ECL"), interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- fair value through profit or loss ("FVPL"), if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

Equity investments

Investment in equity securities are classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) in equity until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss.

The Group currently classifies all its equity investments at FVPL. These equity investments are managed according to internal policies and their performance is evaluated periodically on a fair value basis. Assets in this category are classified as current assets.

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(i) Classification of financial assets (Continued)

Trade receivables

Trade receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. They are stated at amortised cost using the effective interest method less allowance for impairment losses and allowance for customer concession.

Other financial assets

Deposits paid, other receivables and cash and bank balances of the Group are stated at amortised cost.

(ii) Measurement of financial assets

Financial assets measured at amortised cost

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income from these financial assets are recognised in profit or loss as other income in accordance with the Group's policies in note 2.12 to these financial statements. Any gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired.

Financial assets at FVPL

Financial assets at FVPL are subsequently carried at fair value. Unrealised and realised gains and losses arising from changes in the fair value of such financial assets are recognised in profit or loss in the period in which they arise.

(iii) Impairment of financial assets

The Group assesses on a forward looking basis the ECL associated with its financial assets carried at amortised cost.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets measured at amortised cost, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

At the end of each reporting period, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is regarded as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the debtor;
– a breach of contract such as a default or past due event;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
– the disappearance of an active market for that financial asset because of financial difficulties.

The Group provides for impairment on the financial asset based on forward looking information and when there is information indicating that the debtor is in severe financial difficulty. Impaired financial assets may still be subject to enforcement activities under the Group's recovery procedures. Any subsequent recoveries made are recognised in profit or loss as reversal of impairment in the period which the recovery occurs.

(iv) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

2.7 Impairment of non-financial assets

Property, plant and equipment, right-of-use assets, advanced royalties and interest in subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.8 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

As a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

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.

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 restoration, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term and is stated at cost less accumulated depreciation and impairment losses (see note 2.7).

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

2 Summary of Significant Accounting Policies (Continued)

2.8 Leases (Continued)

As a lessee (Continued)

Payments for capitalised leases are allocated between lease liabilities and interest expenses. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement.

2.9 Financial liabilities

The Group's financial liabilities include trade and other payables and lease liabilities. They are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charge are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.15). A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. Accounting policies for lease liabilities are set out in note 2.8.

2.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. All provisions are current in nature and therefore the effect of the time value of money is not material.

(i) Consumer returns

The Group uses agreed customer allowances based on a percentage of sales and information on actual consumer returns of goods to estimate return percentages. The provision is calculated based on these factors and is adjusted for any fluctuations in the returns expected by management as of each period end.

A portion of the Group's retail customers receive a fixed percentage of sales as their allowance. The allowance for each retail customer is agreed and documented in the terms of trade. Certain customers receive an allowance based on their actual consumer return experience.

In evaluating the adequacy of the prior year provision, the Group prepares an analysis to determine the reasons for unclaimed deductions. If the analysis determines that some carry forward provision amounts were no longer appropriate based on actual claims experience, the proper adjustments will be made to release the over-accrued portion.

(ii) Cooperative advertising

The Group participates in customer advertising programmes which are negotiated on an individual basis. In addition, the Group contributes toward specific expenses of the customers for in-store sales promotions and advertising circulars.

In the case of fixed percentage, the amounts are negotiated and documented in the terms of trade with the respective customer. In the case of all special programs, the program application, limits and amounts are offered on a case by case basis by the Group. Some of the programs are set for defined periods of time or limited to a maximum number of units sold, and confirming data is provided by the retailer to finalise the actual program cost.

Claims for cooperative advertising may be received up to two years after the relevant reporting period end and, in certain cases, later. The Group reviews the provisions periodically and any unrequired amount will be reversed when determined.

(iii) Cancellation charges

The provision represents the estimated amounts that would be payable to suppliers to settle the cost incurred by them for production orders which have been or are likely to be cancelled. The Group generally settles these amounts in the year after the year that specific product ceases to be actively sold to customers.

In most cases, the vendor may try to mitigate the Group's exposure by utilising the unused components in its other products. Such arrangement may also reduce the Group's potential cancellation exposure.

At each relevant reporting period end, the Group will analyse the potential cancellation charge exposure for order cancellations due to commitments for finished goods, work in process items and material authorisations. The Group will also review if any items can be carried over to be produced and sold in the subsequent year. Once any adjustment is made, the remaining exposure is adjusted by a factor representing the historical negotiated discount agreed with the suppliers.

(iv) Freight allowance

The provision represents the estimated amounts that would be payable to the Group's US retail customers for the transportation of products from the Group's third-party warehouse to the customers' distribution centers. A portion of the Group's US retail customers receive a fixed percentage of sales as their allowance. For those customers, the standard allowance is agreed and documented in the terms of trade. In addition, the Group is responsible for incidental freight-related charges, such as quantity discrepancies, late shipments and other non-compliance with the customers' shipping requirements. The Group uses information on actual incidental freight-related charges to estimate the provision percentage.

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions (Continued)

(iv) Freight allowance (Continued)

The provision is calculated based on these factors and is adjusted for any fluctuations in freight charges expected by management at the end of each reporting period. The Group also reverses any over-accrued amounts if the analysis determines that those carry forward provision amounts are no longer appropriate based on actual experience.

All provisions are established for specific exposures.

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best judgement to estimate the amount of provision necessary and sufficient for each potential exposure.

Over – or under-provision for the above exposures, arising from subsequent events and the eventual settlement, are adjusted in that subsequent period where appropriate.

2.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where any company of the Group repurchases the Company's equity share capital, the consideration paid, including any attributable costs, is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued.

2.12 Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled.

(i) Sale of toys

Revenue from sales of toys is recognised when control of the goods has been transferred to the customers, being at the point in time when the goods are delivered. Delivery occurs when the title of the products has been passed to the customers or when the risks of obsolescence and loss have been transferred to the customers according to the sales contract. Revenue from sales of toys excludes sales tax and is after deduction of any trade discounts, allowances and returns.

Historical experience is used to estimate and provide for the discount, using the most likely outcome method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Allowances and returns which give rise to variable consideration are disclosed in note 2.10 (i).

Deposits from customers and distributors are recognised as a contract liability when the customer or distributor pays consideration before the Group recognises the related revenue.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iii) Interest income

Interest income is recognised on a time proportion basis as it accrues using the effective interest method. For financial assets measured at amortised cost that are credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

2.13 Advertising and marketing expenses, advanced royalties and product development costs

2.13.1 Advertising and marketing expenses are expensed as incurred.

2.13.2 Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements which are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

2 Summary of Significant Accounting Policies (Continued)

2.13 Advertising and marketing expenses, advanced royalties and product development costs (Continued)

2.13.3 Product development costs are recognised as intangible assets when the following criteria are met:

(i) demonstration of technical feasibility of completing the product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

All other product development costs are charged to profit or loss as incurred.

2.14 Employee benefits

2.14.1 Employee leave entitlements

Employees' entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave entitlements as a result of services rendered by employees up to the end of the reporting period.

2.14.2 Pension obligations

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to profit or loss as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited from employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2.14.3 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At the end of each reporting period, the Group revises the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.15 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.16 Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

2 Summary of Significant Accounting Policies (Continued)

2.16 Deferred taxation (Continued)

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.17 Current taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense/credit in profit or loss.

Current tax assets and current tax liabilities are presented in net if, and only if,

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is subject to income taxes in certain jurisdictions other than Hong Kong. The Group engages tax professionals to calculate provisions for income taxes. Judgment is required in such calculations. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period which such determination is made.

2.18 Foreign currency translation

The financial statements are presented in Hong Kong dollar (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting period end retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollar. Assets and liabilities have been translated into Hong Kong dollar at the closing rates at the end of the reporting period. Income and expenses have been converted into the Hong Kong dollar at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

When a foreign operation is sold or closed, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified from equity to profit or loss as part of the gain or loss.

2.19 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2 Summary of Significant Accounting Policies (Continued)

2.20 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.

2.21 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Adoption of New or Amended HKFRSs

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*

- Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR Reform"). The amendments do not have any impact on the consolidated financial statements as the Group does not have any contracts that are indexed to benchmark interest rates which are subject to IBOR Reform.

Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the Covid-19 pandemic ("Covid-19-related Rent Concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The amendments do not have any impact on the consolidated financial statements as the Group has not applied the practical expedient.

4 Revenue

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 2021 from sales of toys was HK$625,108,000 (2020: HK$289,240,000).

5 Segment Information

5.1 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, 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	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**695**	24	**4,641**	26,939
Americas				
– U.S.A.	**344,807**	164,058	**16,330**	418
– Others	**44,862**	22,348	**–**	–
Europe	**192,956**	87,816	**971**	1,294
Asia Pacific other than Hong Kong	**40,634**	14,006	**–**	–
Others	**1,154**	988	**–**	–
	624,413	289,216	**17,301**	1,712
	625,108	289,240	**21,942**	28,651

5.2 Major customers

The Group's customer base includes three (2020: two) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$185,193,000, HK$141,060,000 and HK$73,694,000 (2020: HK$100,923,000 and HK$46,838,000) respectively.

6 Profit/(Loss) before Income Tax

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

	2021 HK$'000	2020 HK$'000
Cost of inventories sold	**296,909**	124,479
Write down/(Reversal of write down) of inventories	**330**	(139)
Product development and tooling costs	**18,986**	20,275
Royalties expenses	**84,688**	54,498
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**28,960**	11,428
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**(4,130)**	(14,634)
Depreciation		
– property, plant and equipment *(Note 14)*	**867**	1,224
– right-of-use assets *(Note 15.1)*	**8,758**	7,718
Directors' and staff remunerations *(Note 12)*	**64,509**	67,926
Allowance for customer concession	**4,572**	2,408
Reversal of allowance for customer concession	**(6,640)**	(116)
Net foreign exchange (gain)/loss	**(559)**	1,510
Loss on disposal of property, plant and equipment	**–**	5
Auditors' remuneration	**1,400**	1,200

7 Other Net (Loss)/Income

	2021 HK$'000	2020 HK$'000
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	**(8,796)**	3,113
Government subsidies	**5,310**	2,006
Interest income	**835**	6,351
Dividend income	**394**	–
Others	**(471)**	545
	(2,728)	12,015

8 Finance Costs

	2021 *HK$'000*	2020 *HK$'000*
Bank charges	**1,639**	1,240
Interest on lease liabilities	**1,348**	805
	2,987	2,045

9 Income Tax (Credit)/Expense

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

	2021 *HK$'000*	2020 *HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
Overseas taxation	**4,101**	2,440
Over provision in prior years – Hong Kong	**–**	(30)
Under/(Over) provision in prior years – overseas	**30**	(345)
	4,131	2,065
Deferred taxation		
Origination and reversal of temporary differences	**(15,070)**	5,428
Income tax (credit)/expense	**(10,939)**	7,493

9.2 Reconciliation between tax (credit)/expense and accounting profit/(loss) at applicable tax rates:

	2021	2020
	HK$'000	*HK$'000*
Profit/(Loss) before income tax	**32,042**	(22,570)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits/(loss) in the tax jurisdiction concerned	**3,021**	(104)
Tax effect of:		
Non-taxable income	**(1,755)**	(1,059)
Non-deductible expenses	**662**	340
Unrecognised tax losses	**–**	8,691
Utilisation of previously unrecognised tax losses	**(12,897)**	–
Under/(Over) provision in prior years	**30**	(375)
Income tax (credit)/expense	**(10,939)**	7,493

10 Dividends

Dividends attributable to the year

	2021	2020
	HK$'000	*HK$'000*
Interim dividend of HK cents 2 per share (2020: HK$nil)	**23,600**	–

At a meeting held on 4 March 2022, the board of directors declared an interim dividend of HK cents 2 per share to be paid on 8 April 2022 to shareholders whose names appear on the Company's register of members on 22 March 2022. This 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 2021.

11 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$42,981,000 (2020: loss of HK$30,063,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2020: 1,180,000,000 shares) in issue during the year.

Diluted earnings per share for the year ended 31 December 2021 is calculated based on the profit attributable to owners of the Company of HK$42,981,000 and the weighted average number of ordinary shares of 1,180,375,000 shares in issue during the year, adjusted for the effects of 375,000 dilutive potential shares on exercise of share options.

Diluted loss per share for the year ended 31 December 2020 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.

12 Directors' and Staff Remunerations

	2021	2020
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**62,179**	64,673
Share-based compensation	**287**	1,010
Employer's contributions to provident fund *(Note)*	**2,043**	2,243
	64,509	67,926

Note: For the years ended 31 December 2021 and 2020, there had been no forfeited contribution under the defined contribution schemes of the Group and therefore no amount was available to reduce the Group's ongoing contribution otherwise payable at the respective balance sheet dates.

13 Directors' Remuneration and Senior Management's Emoluments

13.1 Directors' emoluments

The emoluments of each director disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name of director	Fee 2021 *HK$'000*	Salary 2021 *HK$'000*	Bonus 2021 *HK$'000*	Share-based compensation 2021 *HK$'000*	Other benefits 2021 *HK$'000* *(Note)*	Employer's contribution to provident fund 2021 *HK$'000*	Total 2021 *HK$'000*
CHAN Kong Keung, Stephen	10	672	–	13	10	18	723
CHAN Kwong Fai, Michael (appointed on 3 December 2021)	–	173	–	–	10	10	193
CHENG Bing Kin, Alain (resigned on 31 August 2021)	7	639	–	15	4	12	677
CHOW Yu Chun, Alexander	330	–	–	6	–	–	336
IP Shu Wing, Charles (appointed on 21 May 2021)	203	–	–	–	–	–	203
LAM Wai Hon, Ambrose	330	–	–	–	–	–	330
LEE Ching Kwok, Rin (retired on 21 May 2021)	127	–	–	6	–	–	133
TO Shu Sing, Sidney (resigned and retired on 31 December 2021)	10	2,529	–	25	18	18	2,600
TRAN Vi-hang William	10	1,650	–	13	18	18	1,709
YU Hon To, David (appointed on 21 May 2021)	203	–	–	–	–	–	203
	1,230	5,663	–	78	60	76	7,107

13 Directors' Remuneration and Senior Management's Emoluments (Continued)

13.1 Directors' emoluments (Continued)

Name of director	Fee 2020 *HK$'000*	Salary 2020 *HK$'000*	Bonus 2020 *HK$'000*	Share-based compensation 2020 *HK$'000*	Other benefits 2020 *HK$'000* *(Note)*	Employer's contribution to provident fund 2020 *HK$'000*	Total 2020 *HK$'000*
CHAN Kong Keung, Stephen	10	864	–	44	14	18	950
CHENG Bing Kin, Alain	10	1,058	–	53	7	18	1,146
CHOW Yu Chun, Alexander	330	–	–	22	–	–	352
LAM Wai Hon, Ambrose	330	–	–	–	–	–	330
LEE Ching Kwok, Rin	330	–	–	22	–	–	352
TO Shu Sing, Sidney	10	1,944	–	89	14	18	2,075
TRAN Vi-hang William	10	1,650	–	44	18	18	1,740
	1,030	5,516	–	274	53	72	6,945

Note: Other benefits include medical allowance.

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2021 and 2020. There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the directors in respect of the years ended 31 December 2021 and 2020.

13.2 Five highest paid individuals

One (2020: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2020: four) highest paid individuals are as follows:

	2021 *HK$'000*	2020 *HK$'000*
Salaries, other allowances and benefits in kind	7,511	7,692
Bonuses	–	–
Share-based compensation	49	165
Employer's contributions to provident fund	389	417
	7,949	8,274

The emoluments of these four (2020: four) individuals are within the following bands:

	Number of individuals	
	2021	2020
HK$		
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	2	3
	4	4

14 Property, Plant and Equipment

	Leasehold improvements HK$'000	Vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Total HK$'000
Cost				
At 1 January 2021	**9,931**	**4,145**	**8,264**	**22,340**
Additions	**10**	**109**	**69**	**188**
At 31 December 2021	**9,941**	**4,254**	**8,333**	**22,528**
Accumulated depreciation				
At 1 January 2021	**9,931**	**3,119**	**7,492**	**20,542**
Charge for the year	**1**	**528**	**338**	**867**
At 31 December 2021	**9,932**	**3,647**	**7,830**	**21,409**
Net book value				
At 31 December 2021	**9**	**607**	**503**	**1,119**
Cost				
At 1 January 2020	9,939	4,077	8,175	22,191
Exchange fluctuation	(8)	(9)	(39)	(56)
Additions	–	112	643	755
Disposals	–	(35)	(515)	(550)
At 31 December 2020	9,931	4,145	8,264	22,340
Accumulated depreciation				
At 1 January 2020	9,843	2,624	7,448	19,915
Exchange fluctuation	(8)	(8)	(36)	(52)
Charge for the year	96	538	590	1,224
Disposals	–	(35)	(510)	(545)
At 31 December 2020	9,931	3,119	7,492	20,542
Net book value				
At 31 December 2020	–	1,026	772	1,798

15 Right-of-Use Assets and Lease Liabilities

15.1 Right-of-use assets

Movement during the year:

	2021	2020
	HK$'000	*HK$'000*
At 1 January	**11,353**	3,050
Exchange fluctuation	**–**	(17)
Additions	**20,192**	17,029
Depreciation	**(8,758)**	(7,718)
Adjustment due to lease modification	**(1,964)**	(991)
At 31 December	**20,823**	11,353

The right-of-use assets represent the Group's rights to use leased premises as offices, and event and storage space over the lease terms.

15.2 Lease liabilities

(i) Maturity analysis:

	2021	2020
	HK$'000	*HK$'000*
Within one year	**8,503**	5,694
In the second year	**3,644**	5,986
In the third to fifth year	**10,172**	–
	22,319	11,680
Current portion included in current liabilities	**(8,503)**	(5,694)
Non-current portion included in non-current liabilities	**13,816**	5,986

15 Right-of-Use Assets and Lease Liabilities (Continued)

15.2 Lease liabilities (Continued)

(ii) Movement during the year:

	2021 *HK$'000*	2020 *HK$'000*
At 1 January	**11,680**	3,169
Exchange fluctuation	**(5)**	28
Additions	**20,192**	17,029
Interest expenses	**1,348**	805
Lease payments	**(8,932)**	(8,360)
Adjustment due to lease modification	**(1,964)**	(991)
At 31 December	**22,319**	11,680

(iii) Total cash outflows for leases during the year ended 31 December 2021 were HK$8,932,000 (2020: HK$8,360,000), included within financing cash flows in the consolidated cash flow statement.

16 Interest in Subsidiaries

Details of the principal subsidiaries of the Company as at 31 December 2021 and 2020 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Shares held indirectly:				
Playmates International Company Limited	Hong Kong	1 ordinary share	100%	Toy development, marketing and distribution, and related investment activities, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stocks of US$30 each	100%	Toy marketing and distribution, U.S.A.
Team Green Innovation Inc.	U.S.A.	10 common stocks of US$0.01 each	100%	Product design and development services, U.S.A.

The above table includes subsidiaries of the Company which principally affected the results for the year or formed a substantial portion of the net assets of the Group.

17 Inventories

As at 31 December 2021, inventories represent finished toys products with carrying amount of HK$58,007,000 (2020: HK$10,283,000).

18 Trade Receivables

	2021 HK$'000	2020 HK$'000
Trade receivables	**141,091**	60,072
Less: Allowance for customer concession	**(16,713)**	(18,781)
	124,378	41,291

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.

18.1 Aging analysis

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:

	2021 HK$'000	2020 HK$'000
0 – 60 days	**83,410**	28,306
61 – 90 days	**34,754**	8,267
91 – 180 days	**3,625**	917
Over 180 days	**2,589**	3,801
	124,378	41,291

18 Trade Receivables (Continued)

18.2 Trade receivables that are not impaired

The aging analysis of trade receivables that are not impaired is as follows:

	2021	2020
	HK$'000	*HK$'000*
Neither past due nor impaired	**95,645**	29,202
1 – 90 days past due	**25,060**	7,457
91 – 180 days past due	**1,092**	830
Over 180 days past due	**2,581**	3,802
	28,733	12,089
	124,378	41,291

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to customers that have a good track record of credit with the Group. Based on past experience and forward looking elements of the Group, impairment allowance in respect of these balances is considered to be insignificant, as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances. Details of the Group's credit risk management practices are disclosed in note 31.2.3.

19 Deposits Paid, Other Receivables and Prepayments

	2021 *HK$'000*	2020 *HK$'000*
Non-current portion		
Advanced royalties *(Note (i))*	–	15,500
Current portion		
Advanced royalties *(Note (i))*	51,775	34,002
Miscellaneous prepaid expenses, deposits paid and receivables	5,556	2,347
	57,331	36,349

Note:

(i) These advanced royalties are recoupable by the Group against future royalties payable to toy licensors for future sales of licensed toy products.

20 Financial Assets at Fair Value through Profit or Loss

	2021 *HK$'000*	2020 *HK$'000*
Equity investments listed in Hong Kong	19,027	–
Equity investments listed outside Hong Kong	52,214	7,021
	71,241	7,021

21 Trade Payables

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

	2021 *HK$'000*	2020 HK$'000
0 – 30 days	27,046	7,528
31 – 60 days	5	1,725
Over 60 days	1,425	1,112
	28,476	10,365

22 Deposits Received, Other Payables and Accrued Charges

	2021 *HK$'000*	2020 HK$'000
Contract liabilities		
– Purchase commitment guarantee deposits from toy distributors *(Note (i))*	29,739	30,748
– Sales deposits received in advance *(Note (ii))*	24,356	14,572
Accrued product development, sales, marketing, licensing and distribution expenses	19,774	3,344
Accrued royalties	74,632	24,084
Accrued directors' and staff remunerations	6,666	4,996
Withholding tax payable	6,945	4,245
Accrued administrative expenses and professional fees	3,590	2,650
	165,702	84,639

Notes:

(i) Certain toy distributors paid a non-refundable purchase commitment guarantee deposit in consideration of the Group granting distribution rights for sales and marketing of licensed toy products in certain territories and within a certain time period according to the distribution agreement. The distributor is entitled to recoup this paid deposit against purchases of licensed toy products from the Group by deducting a certain percentage from each sales transaction amount payable to the Group until such deposit is fully recouped. The Group recognises the recouped deposit balance as revenue at the same point of time when the products are delivered to the distributor. During the year, the Group has recognised revenue of HK$2,714,000 (2020: HK$2,970,000) from the balance as at the beginning of the reporting period.

Any unrecouped purchase commitment guarantee deposit at the expiry of a distribution agreement shall be forfeited and credited to profit or loss of the Group. During the year, HK$nil (2020: HK$17,976,000) of such deposits has been forfeited and recorded as other revenue.

(ii) This balance represents sales deposits received in advance from toy distributors before delivery of products. The Group recognised this sales deposit balance as revenue when the products are delivered to distributors. Higher balance as at 31 December 2021 reflected higher customer orders to be delivered after year end. During the year, the Group has recognised revenue of HK$14,572,000 (2020: HK$1,587,000) from the balance as at the beginning of the reporting period.

23 Provisions

	Consumer returns HK$'000	Cooperative advertising HK$'000	Cancellation charges HK$'000	Freight allowance HK$'000	Total HK$'000
At 1 January 2021	5,469	10,710	977	6,235	23,391
Additional provisions made	5,039	15,592	827	7,502	28,960
Reversal of unutilised provisions	(1,349)	(1,425)	(41)	(1,315)	(4,130)
Provisions utilised	(2,474)	(5,237)	–	(3,223)	(10,934)
At 31 December 2021	6,685	19,640	1,763	9,199	37,287

24 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2020: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2020: 21%) and 8.84% (2020: 8.84%) respectively in the U.S..

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerated Depreciation HK$'000	Unrealised profits on inventories HK$'000	Other temporary differences HK$'000 (Note(a))	Employee benefits HK$'000 (Note(b))	Total HK$'000
At 1 January 2020	1,056	5,731	14,621	1,200	22,608
Exchange fluctuation	(1)	(37)	(80)	(2)	(120)
Credited/(Charged) to profit or loss	(223)	(3,289)	(1,925)	9	(5,428)
At 31 December 2020 and 1 January 2021	832	2,405	12,616	1,207	17,060
(Charged)/Credited to profit or loss	(70)	6,326	8,897	(83)	15,070
At 31 December 2021	762	8,731	21,513	1,124	32,130

Notes:

(a) Other temporary differences mainly represent provisions.

(b) Employee benefits represents share-based compensation.

24 Deferred Taxation (Continued)

Deferred tax assets not recognised

The Group has not recognised any deferred tax asset in relation to tax losses during the years ended 31 December 2021 and 2020 due to the uncertainties in global business environment in light of the ongoing pandemic.

The Group's cumulative unrecognised tax losses as of 31 December 2021 amounted to HK$93,217,000 (2020: HK$176,181,000). These tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2021, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$657,201,000 (2020: HK$647,058,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

25 Equity Settled Share-based Transactions

The share option scheme of the Company adopted on 25 January 2008 ("2008 PTL Scheme") was expired on 31 January 2018. All outstanding share options granted under the 2008 PTL Scheme will continue to be valid and exercisable in accordance with the provisions of the 2008 PTL Scheme.

A new share option scheme of the Company was adopted on 21 May 2018 ("2018 PTL Scheme"). Under the 2018 PTL Scheme, a nominal consideration at HK$10 was paid by each option holder for each lot of share options granted. Share options are exercisable in stages in accordance with the terms of the 2018 PTL Scheme within ten years after the date of grant. All share-based compensation will be settled in equity.

The number and weighted average exercise price of share options granted under the 2008 PTL Scheme and 2018 PTL Scheme are as follows:

	2021		2020	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.796**	**56,579**	0.795	58,596
Granted		**–**		–
Exercised		**–**		–
Lapsed	**0.698**	**(4,694)**	0.750	(2,017)
At 31 December	**0.805**	**51,885**	0.796	56,579
Exercisable at 31 December	**0.805**	**51,885**	0.792	49,496

Notes:

Subject to the waiver or variation by the board from time to time at its sole discretion, in general 25% of the shares options granted shall be vested each year commencing on the date of grant and exercisable until the expiration of the relevant option period. No share options were cancelled during the year.

The share options outstanding at 31 December 2021 had a weighted average remaining contractual life of 3.61 years (2020: 4.41 years).

In 2021, HK$357,000 (2020: HK$1,796,000) share-based compensation expense had been included in the consolidated income statement and the corresponding amount of which had been credited to share-based compensation reserve. No liabilities were recognised for share-based payment transactions.

26 Equity – Group and Company

26.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2021 and 2020	**3,000,000,000**	**30,000**

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2020, 31 December 2020 and 31 December 2021	**1,180,000,000**	**11,800**

26 Equity – Group and Company (Continued)

26.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2020	–	13,685	409	317,586	331,680
Loss for the year	–	–	–	(83,463)	(83,463)
Share option scheme					
– value of services	–	1,796	–	–	1,796
– share options lapsed	–	(1,328)	–	1,328	–
At 31 December 2020	–	14,153	409	235,451	250,013
At 1 January 2021	**–**	**14,153**	**409**	**235,451**	**250,013**
Profit for the year	**–**	**–**	**–**	**67,576**	**67,576**
Share option scheme					
– value of services	**–**	**357**	**–**	**–**	**357**
– share options lapsed	**–**	**(1,495)**	**–**	**1,495**	**–**
Unclaimed dividends forfeited	**–**	**–**	**–**	**118**	**118**
At 31 December 2021	**–**	**13,015**	**409**	**304,640**	**318,064**

The application of the share premium account and the capital redemption reserve account is governed by the Companies Act 1981 of Bermuda.

26.3 Capital management

The Group's capital management is primarily to provide a reasonable return for owners of the Company and benefits for other stakeholders and to safeguard the Group's ability to continue as a going concern.

Capital represents total equity and debts. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. The Group may maintain or adjust the capital structure by taking necessary measures including issuing new shares and raising new debt financing.

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2021 and 2020.

27 Notes to the Consolidated Cash Flow Statement

27.1 Reconciliation of profit/(loss) before income tax to cash generated from/(used in) operations

	2021 *HK$'000*	2020 *HK$'000*
Profit/(Loss) before income tax	**32,042**	(22,570)
Interest income	**(835)**	(6,352)
Dividend income	**(394)**	–
Depreciation of property, plant and equipment	**867**	1,224
Depreciation of right-of-use assets	**8,758**	7,718
Interest on lease liabilities	**1,348**	805
Share-based compensation	**357**	1,796
Net loss/(gain) on financial assets at fair value through profit or loss	**8,796**	(3,113)
Loss on disposal of property, plant and equipment	**–**	5
Unrealised exchange loss	**344**	578
Operating profit/(loss) before working capital changes	**51,283**	(19,909)
(Increase)/Decrease in inventories	**(47,724)**	9,235
(Increase)/Decrease in trade receivables, deposits paid, other receivables and prepayments	**(88,569)**	22,821
Increase/(Decrease) in trade payables, deposits received, other payables and accrued charges and provisions	**113,188**	(52,253)
Cash generated from/(used in) operations	**28,178**	(40,106)

27.2 Analysis of cash and cash equivalents

	2021 *HK$'000*	2020 *HK$'000*
Cash and bank balances	**893,997**	949,943

27.3 Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities. Changes in the Group's liabilities from financing activities arose only from lease liabilities (Note 15.2).

28 Commitments

28.1 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 the end of the year were payable as follows:

	2021 *HK$'000*	2020 *HK$'000*
Within one year	**15,771**	68,778
In the second to fifth years	**217,426**	161,626
After five years	**–**	43,594
	233,197	273,998

28.2 Lease commitments

As at 31 December 2021, all of the Group's committed leases had already commenced and recognised as lease liabilities under HKFRS 16, *Leases* (31 December 2020: total future cash outflows for leases of office committed but not yet commenced amounted to HK$23,200,000).

29 Related Party Transactions

29.1 The Group had the following transactions with related parties:

	2021 HK$'000	2020 HK$'000
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Belmont Limited *(Note (a), (c))*	**5,375**	6,417
Rent and building management fee paid to fellow subsidiary, Great Westwood Limited *(Note (b), (c))*	**723**	698
Rent and building management fee paid to fellow subsidiary, Bagnols Limited *(Note (d))*	**326**	326

The amounts shown on the above table represent the cash amount paid to each fellow subsidiary respectively during the year.

Notes:

(a) On 31 December 2019, the Group entered into a lease with Prestige Property Management Limited as agent of Belmont Limited in respect of certain HK properties with a lease term from 1 January 2020 to 31 December 2022. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of HK$15,088,000. As at 31 December 2021, the lease liability balance under this lease amounted to HK$4,139,000 (2020: HK$10,307,000).

(b) On 31 December 2019, the Group entered into a lease with Great Westwood Limited in respect of a UK property with a lease term from 1 January 2020 to 31 December 2022. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of HK$1,941,000. As at 31 December 2021, the lease liability balance under this lease amounted to HK$701,000 (2020: HK$1,373,000).

(c) The leases mentioned in notes (a) and (b) above entered into during the year 2020 in aggregate constitute connected transactions in respect of asset acquisition and details of which are disclosed in the announcement of the Company dated 31 December 2019. These connected transactions were exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(d) The Group entered into a lease with Bagnols Limited during 2021 in respect of certain HK properties with a lease term from 1 January 2021 to 31 December 2022. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of HK$619,000. As at 31 December 2021, the lease liability balance under this lease amounted to HK$317,000 (2020: HK$ nil). The lease entered into during the year 2021 constitutes a connected transaction and was exempt from reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

29.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 13.1.

30 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2021.

31 Financial Risk Management and Fair Value Measurement

31.1 Categories of financial instruments

	2021	2020
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost		
Trade receivables	**124,378**	41,291
Deposits paid and other receivables	**1,952**	2,257
Cash and bank balances	**893,997**	949,943
Financial assets at fair value through profit or loss	**71,241**	7,021
	1,091,568	1,000,512
Financial liabilities at amortised cost		
Trade payables	**28,476**	10,365
Other payables and accrued charges	**64,359**	39,320
Lease liabilities	**22,319**	11,680
	115,154	61,365

31.2 Financial risk factors

Exposure to currency risk, price risk, credit risk and liquidity risk arises in the normal course of business. The risks are minimised by the financial management policies and practices described below:

31.2.1 Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency different from domestic currencies used to fund the operations of the relevant group companies. The currency giving rise to this risk is mainly 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 may have an impact on consolidated earnings/(losses).

31.2.2 Price risk

The Group is exposed to equity securities price risk arising from listed equity investments held by the Group which are classified in the consolidated statement of financial position as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

At 31 December 2021, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and increase/decrease the Group's equity by approximately HK$3,562,000 (2020: decrease/increase the Group's loss for the year and increase/decrease the Group's equity by HK$351,000).

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors (Continued)

31.2.3 Credit risk

Financial instruments held by the Group that may be subject to credit risk include cash equivalents and trade and other receivables. Cash equivalents consist principally of deposits and short-term money market funds placed with major financial institutions. These instruments are short-term in nature and bear minimal risk. To date, the Group has not experienced any losses on cash equivalents.

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and receivable agencies to manage the credit risk. The factoring and receivable processing agents would analyse the Group's customers, credit approval and collection processing of the receivables. These agreements transfer the credit risk due to a customer's inability to pay to the factoring and receivable agents so as to mitigate credit exposure of the Group. Direct shipments to customers who are located outside the United States are normally secured by letters of credit or advance payment as credit is only extended to a limited number of customers.

At 31 December 2021, the Group's gross trade receivables amounted to approximately HK$115,706,000 (2020: HK$49,140,000) were assigned to factoring and receivable processing agents with the collection period consistent with the normal trade terms with toy business customers in the United States.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material. Taking into account (i) the historical credit loss experience over the past years, (ii) the majority of the Group's trade receivables arising from sales to customers in the United States has been assigned to a factoring and receivable processing agent which is a reputable financial institution and (iii) all trade receivables arising from sales to customers outside the United States are secured by letters of credit or advanced payment, the expected credit loss rate for the Group's trade receivables as at 31 December 2021 was assessed to be 0% (2020: 0%). Accordingly, no provision matrix is disclosed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position as summarised in note 31.1 above.

Concentrations of credit risk

The Group markets a substantial portion of its products to customers in the retail industry. The Group continually evaluates the credit risk of these customers. The percentages of sales for the year attributable to the Group's major customers were:

	2021	2020
Sales		
– the largest customer	**30%**	35%
– five largest customers in aggregate	**75%**	74%

31.2.4 Liquidity risk

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available.

The analysis of the Group's contractual maturities of its financial liabilities as at the end of the reporting period below is based on the undiscounted cash flows of financial liabilities.

	2021				
	Within 1 year or on demand *HK$'000*	**Over 1 year but within 2 years** *HK$'000*	**Over 2 years but within 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Trade payables	**28,476**	**–**	**–**	**28,476**	**28,476**
Other payables and accrued charges	**64,359**	**–**	**–**	**64,359**	**64,359**
Lease liabilities	**9,426**	**4,252**	**10,827**	**24,505**	**22,319**
	102,261	**4,252**	**10,827**	**117,340**	**115,154**

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors (Continued)

31.2.4 Liquidity risk (Continued)

	2020				
	Within 1 year or on demand HK$'000	Over 1 year but within 2 years HK$'000	Over 2 years but within 5 years HK$'000	Total undiscounted amount HK$'000	Carrying amount HK$'000
Trade payables	10,365	–	–	10,365	10,365
Other payables and accrued charges	39,320	–	–	39,320	39,320
Lease liabilities	6,149	6,149	–	12,298	11,680
	55,834	6,149	–	61,983	61,365

31.3 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

	At 31 December 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Equity investments listed in Hong Kong	**19,027**	**–**	**–**	**19,027**
Equity investments listed outside Hong Kong	**52,214**	**–**	**–**	**52,214**
	71,241	**–**	**–**	**71,241**

	At 31 December 2020			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Equity investments listed outside Hong Kong	7,021	–	–	7,021

During the years ended 31 December 2021 and 2020, 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.

31.4 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, cash and bank balances, trade payables, other payables and accrued charges and lease liabilities carried at amortised cost) approximate their fair values as at 31 December 2021 and 2020.

32 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance Contracts and related amendments*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRS Standards 2018-2020	1 January 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-Current and related amendments to Hong Kong Interpretation 5 (2020)*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to HKAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 12, *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

33 Company Level Statement of Financial Position

	Note	2021 US$'000 (Note 30)	2021 HK$'000	2020 HK$'000
Non-current assets				
Interest in subsidiaries		**19,016**	**147,380**	147,380
Current assets				
Other receivables and prepayments		**45**	**351**	371
Amounts due from subsidiaries		**37**	**291**	427
Financial assets at fair value through profit or loss		**3,230**	**25,029**	7,021
Cash and bank balances		**21,461**	**166,320**	116,168
		24,773	**191,991**	123,987
Current liabilities				
Other payables and accrued charges		**64**	**499**	546
Amounts due to subsidiaries		**1,162**	**9,008**	9,008
		1,226	**9,507**	9,554
Net current assets		**23,547**	**182,484**	114,433
Net assets		**42,563**	**329,864**	261,813
Equity				
Share capital	*26.1*	**1,523**	**11,800**	11,800
Reserves	*26.2*	**41,040**	**318,064**	250,013
Total equity		**42,563**	**329,864**	261,813

On behalf of the board

CHAN Kong Keung, Stephen
Director

TRAN Vi-hang William
Director

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December:

	2021 ***HK$'000***	2020 *HK$'000*	2019 *HK$'000*	2018 *HK$'000*	2017 *HK$'000*
Revenue	**625,108**	289,240	358,739	474,182	758,329
Profit/(Loss) before income tax	**32,042**	(22,570)	(16,477)	4,374	88,526
Income tax credit/(expense)	**10,939**	(7,493)	(20,801)	(3,812)	(32,762)
Profit/(Loss) for the year attributable to owners of the Company	**42,981**	(30,063)	(37,278)	562	55,764
Total assets	**1,259,026**	1,090,598	1,171,690	1,235,210	1,304,669
Total liabilities	**(263,828)**	(138,856)	(186,412)	(217,471)	(239,923)
Net assets	**995,198**	951,742	985,278	1,017,739	1,064,746

Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
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