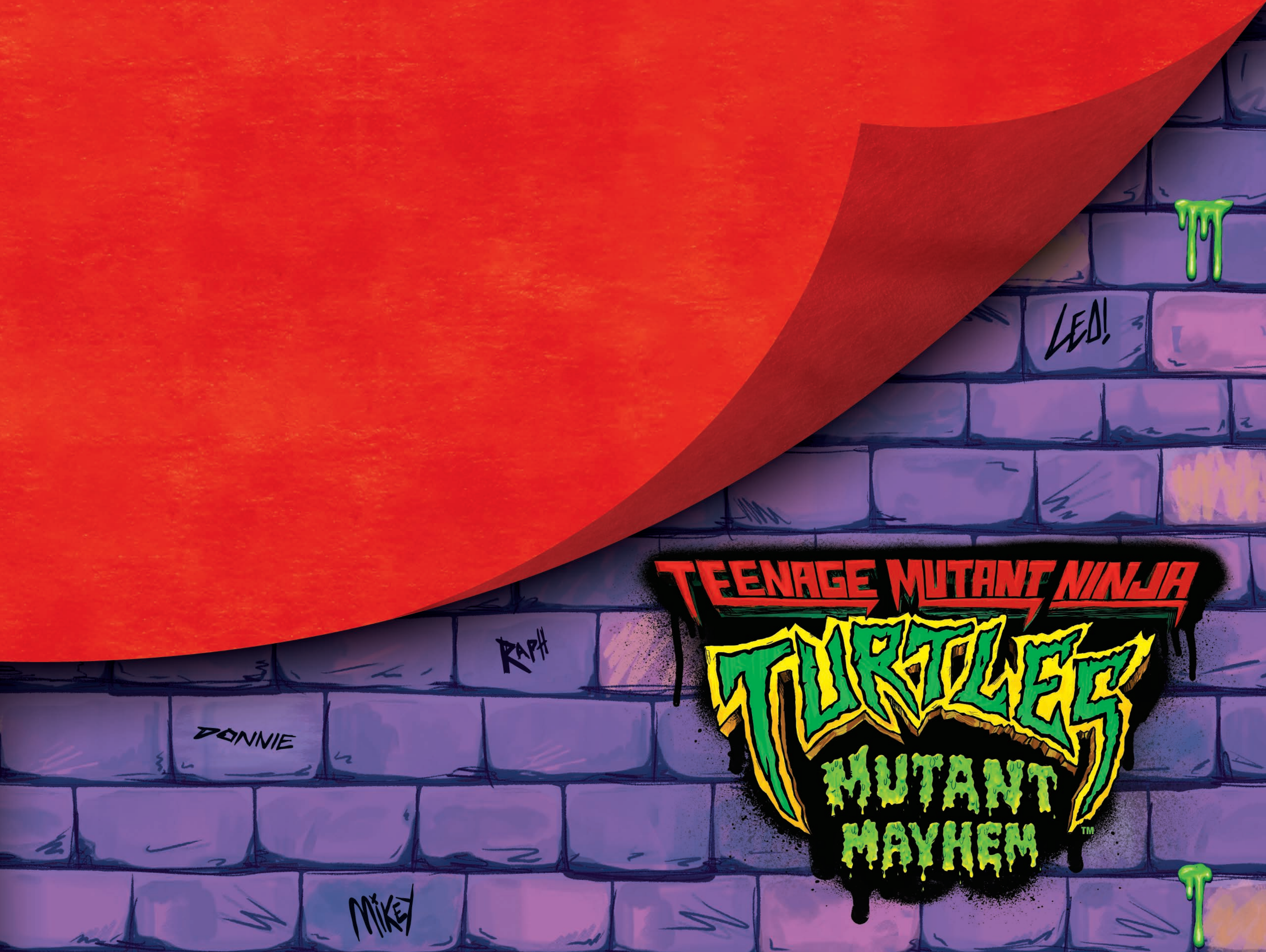
2022 ANNUAL REPORT

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
Registered Public Interest Entity Auditor

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
Merrill Lynch, Pierce, Fenner & Smith Inc.

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

Branch Share Registrars
Tricor Abacus Limited
17/F, Far East Finance Centre
16 Harcourt Road
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,

In 2022 we faced numerous challenges in our operating environment. The year began with backlogs at various parts of the supply chain and difficulties in meeting consumer demand. Starting in Spring, as food and energy prices increased dramatically as a result of conflict in Europe, non-essential goods (including toys) began to experience a slowdown. The pull-forward in inventory purchases as a response to supply chain disruptions now became a challenge to digest. Many retailers pulled back on orders, which further compounded inventory issues. Against this backdrop, overall toy sales in the US, our largest market, declined by 4% in unit terms and was flat in dollar terms compared to 2021.

In an uncertain economic climate with increasingly cautious consumer behaviour and currency headwinds, our 2022 performance was below our original expectations. A material part of our year-over-year revenue decline is due to lower ***Godzilla vs. Kong*** product sales, lapping the movie release in 2021, which we anticipated. Our ***Miraculous: Tales of Ladybug & Cat Noir*** toy line performed very strongly through early 2022, but moderated as macroeconomic headwinds increased in the later part of the year. In light of the challenging market conditions, we took decisive steps to reduce inventory, which resulted in additional costs and margin pressure. Overall, our team was able to navigate through these challenges and delivered a profit for the year.

Looking forward to 2023, challenges and uncertainties remain in our operating environment, but we are optimistic that major entertainment events will provide a boost to our product lines. The ***Miraculous Ladybug & Cat Noir*** movie will debut later this year, and aims to create further excitement among current Miraculous fans, as well as introduce a brand new audience to the ***Miraculous*** universe. In August 2023, Paramount will release around the world the highly anticipated animated movie: ***Teenage Mutant Ninja Turtles: Mutant Mayhem***, produced by Seth Rogan. The movie will offer a fresh new take on the iconic franchise by embracing the "teenage" element of ***Teenage Mutant Ninja Turtles***. Our all-new line of toys was unveiled to major retailers and distributors recently, and was met with enthusiastic and unanimous trade support.

Our team remains motivated to tackle the challenges and capitalize on the opportunities ahead. I am grateful to my fellow shareholders and board members, my Playmates teammates, and all our business partners for their continued trust and support.

Yours truly,

CHAN Kwong Fai, Michael
Chairman of the board

Hong Kong, 10 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2022 was HK$504 million (2021: HK$625 million), representing a decrease of 19% compared to the prior year, due primarily to a contraction in ***Godzilla vs. Kong*** product sales compared to 2021, when the ***Godzilla vs. Kong*** movie was released. This is partially offset by the expansion of our ***Miraculous: Tales of Ladybug & Cat Noir*** toy line. The US continued to be our biggest market in 2022, contributing 60% of revenue. Europe as a whole contributed 25%, the rest of the Americas 9% and 5% came from Asia Pacific.

Gross profit ratio on toy sales was 47% (2021: 49%). Lower gross profit margin in 2022 reflected elevated discounts and writedowns to reduce our inventory level in response to a volatile and challenging consumer environment. Operating expenses decreased by 13% compared to the prior year but increased slightly as a percentage of revenue, reflecting higher selling and distribution expenses, offset by lower marketing expenses and stable administrative expenses.

The group reported an operating profit for the period of HK$34.5 million (2021: HK$37.8 million). Other net loss during the current year period included a HK$29.8 million mark-to-market unrealized loss on our equities investment position, which represented 6% of our overall Cash, Bank Balances and Financial Assets at year-end. These equity investments are in companies that are leaders within their industries, with strong balance sheets. We believe these companies are well-positioned to navigate through economic cycles, and ultimately deliver strong shareholder returns over the long run. Net profit attributable to shareholders was HK$9.7 million (2021: HK$43.0 million).

Our near-term operating environment remains challenging, as many families around the world are faced with persistent high inflation causing them to cut back on non-essential goods (including toys), and the inventory overhang across the industry that resulted from the supply chain challenges in 2021 will likely persist through the first half of the year. However, we are very optimistic about the year ahead, in particular the relaunch of our ***Teenage Mutant Ninja Turtles*** toy line to coincide with the global release of the ***Teenage Mutant Ninja Turtles: Mutant Mayhem*** animated film in the summer of 2023. We expect our 2023 performance to be boosted by innovative new product launches and strong entertainment support from our licensor partners.

BRAND OVERVIEW

Teenage Mutant Ninja Turtles

Teenage Mutant Ninja Turtles ("***TMNT***") fans young and old from around the world are eagerly awaiting our all-new line of toys based on the upcoming Paramount Pictures animated movie, ***Teenage Mutant Ninja Turtles – Mutant Mayhem***. The movie, developed by Paramount Animation and produced by Seth Rogen's Point Grey Productions is set to hit theaters worldwide on August 4, 2023.

This Fall, the Playmates ***TMNT*** toy line will launch in the U.S. and over 65 countries worldwide in conjunction with Paramount's multi-platform theatrical marketing and promotional campaign.

Miraculous: Tales of Ladybug & Cat Noir

The highly popular ***Miraculous: Tales of Ladybug & Cat Noir*** TV series continues to air in over 120 countries worldwide and stream across multiple digital platforms, including Disney Channel, Disney+ and Netflix, with Season 5 launching on Disney platforms in Fall 2022 and rolling out throughout 2023. An upcoming animated musical feature, ***Miraculous Ladybug & Cat Noir: The Movie***, is scheduled for global release in 2023.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

CHAN Kwong Fai, Michael

Chairman and Executive Director

Mr. Chan, aged 38, 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 35, 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 75, 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 CSC Holdings Limited (formerly known as China Strategic Holdings Limited).

IP Shu Wing, Charles

Independent Non-executive Director

Mr. Ip, aged 72, 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 69, 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 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 Far East Consortium International Limited and Pacific On Line Limited, both of which are 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 53, 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 74, 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 various 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. All these companies are listed on the main board of the Hong Kong Stock Exchange. He is also a non-executive director of Haier Smart Home Co., Limited, the shares of which are listed on Shanghai Stock Exchange and the Main Board of the Hong Kong Stock Exchange. In the last three years, he was an independent non-executive director of Haier Electronics Group Co., Limited, Media Chinese International Limited, Playmates Holdings Limited, China Renewable Energy Investment Limited and New Century Asset Management Limited, the Manager of New Century Real Estate Investment Trust, all currently or previously listed on the Hong Kong Stock Exchange.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2022.

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	31%
– five largest suppliers in aggregate	92%
Sales	
– the largest customer	19%
– five largest customers in aggregate	69%

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 68.

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 10 March 2023.

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 72 to 73. 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 2022, calculated under the Companies Act 1981 of Bermuda, amounted to HK$310,735,000 (2021: HK$305,049,000).

Financial Analysis

Analysis of bank loans and other borrowings

As at 31 December 2022, the Group has no banking facilities (2021: 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 2022, trade receivables were HK$60,962,000 (2021: HK$124,378,000) and inventories were HK$23,700,000 or 4.7% of revenue (2021: HK$58,007,000 or 9.3% of revenue). Lower inventories at 31 December 2022 reflected the Group's strategy to reduce inventory level in response to a volatile and challenging consumer environment.

The current ratio, calculated as the ratio of current assets to current liabilities, was 6.6 at 31 December 2022 and 4.8 at 31 December 2021.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2022, the Group's cash and bank balances were HK$927,922,000 (2021: HK$893,997,000), of which HK$913,737,000 (2021: HK$877,895,000) 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 2022, the Group's treasury investment in listed equities amounted to HK$58,584,000 (2021: HK$71,241,000) representing 5.0% of the total assets of the Group (2021: 5.7%). This comprised HK$15,250,000 of equities listed in Hong Kong (2021: HK$19,027,000) and HK$43,334,000 of equities listed overseas (2021: HK$52,214,000). None of the individual securities positions held by the Group had a market value that exceeded 1.0% of the total assets of the Group. The top 10 listed securities in aggregate represented 4.5% of the total assets of the Group and included The Walt Disney Company (DIS.US), Amazon.com, Inc. (AMZN.US), Alphabet Inc. (GOOG.US), Microsoft Corporation (MSFT.US), Vitasoy International Holdings Limited (345.HK), NVIDIA Corporation (NVDA.US), Walmart Inc. (WMT.US), New World Development Co Limited (17.HK), Apple Inc. (AAPL.US) and Netflix, Inc. (NFLX.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 2022, the Group had a total of 60 employees in Hong Kong and the United States of America (2021: 54 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$2,950,000 (2021: HK$81,000).

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

Pursuant to Bye-law 87(1) of the Company, Mr. Chow Yu Chun, Alexander, Mr. Ip Shu Wing, Charles and Mr. Yu Hon To, David shall retire by rotation at the forthcoming annual general meeting. Mr. Ip Shu Wing, Charles and Mr. Yu Hon To, David will offer themselves for re-election at the same meeting. Mr. Chow Yu Chun, Alexander confirmed that he will not offer himself for re-election and will retire at the annual general 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.

In accordance with Bye-law 88 of the Company and subject to the approval by the shareholders of the Company at the forthcoming annual general meeting, the Board proposed that Ms. Chan, Helen be appointed as an executive director of the Company at the forthcoming annual general meeting.

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 10 March 2023	:	**2008 PTL Scheme** 4,390,500 ordinary shares, representing 0.37% of the issued capital. **2018 PTL Scheme** 42,216,000 ordinary shares, representing 3.58% of the issued capital.
Total number of options available for grant under the scheme mandate of the 2008 PTL Scheme and 2018 PTL Scheme as at 1 January 2022	:	**2008 PTL Scheme** NIL. **2018 PTL Scheme** 54,732,000 options.

Total number of options available for grant under the scheme mandate of the 2008 PTL Scheme and 2018 PTL Scheme as at 31 December 2022	**2008 PTL Scheme** NIL. **2018 PTL Scheme** 57,784,000 options.
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 option may be exercised by the grantee under the scheme	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 of options granted	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:

			Number of share options					
Participant	**Date of grant**	**Exercise Price** *HK$*	**Balance at 1 January 2022**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Balance at 31 December 2022**	**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)
CHOW Yu Chun, Alexander	29 June 2018	0.826	500,000	–	–	–	500,000	(1)
TRAN Vi-hang William	29 June 2018	0.826	1,000,000	–	–	–	1,000,000	(1)
TO Shu Sing, Sidney *Retired Chairman and Director*	29 June 2018	0.826	2,000,000	–	–	2,000,000	–	(1) & (5)
Continuous Contract Employee Participants, excluding Directors	29 June 2018	0.826	13,188,000	–	–	252,000	12,936,000	(1)
Other Participants including consultants and a licensor of the Company	29 June 2018	0.826	5,580,000	–	–	800,000	4,780,000	(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 2022	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2022	Vesting/ Exercise Period and Remarks (Note)
2008 PTL Scheme								
Directors of the Company								
CHOW Yu Chun,	13 April 2012	0.415	250,000	–	–	250,000	–	(3)
Alexander	15 May 2013	0.930	525,000	–	–	–	525,000	(4)
Continuous Contract	13 April 2012	0.415	1,121,500	–	–	1,121,500	–	(3)
Employee Participants,	15 May 2013	0.930	3,153,500	–	–	102,500	3,051,000	(4)
excluding Directors								
Other Participants	13 April 2012	0.415	752,000	–	–	752,000	–	(3)
including consultants of	15 May 2013	0.930	814,500	–	–	–	814,500	(4)
the Company								

The particulars of share options granted to the five highest paid individuals of the Company are as follows:

Participant	Date of grant	Exercise Price HK$	Number of share options Balance at 1 January 2022	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2022	Vesting/ Exercise Period and Remarks (Note)
Five highest paid individuals of	29 June 2018	0.826	3,800,000	–	–	–	3,800,000	(1)
the Company	13 April 2012	0.415	50,000	–	–	50,000	–	(3)
	15 May 2013	0.930	401,000	–	–	–	401,000	(4)

Share Options (Continued)

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) 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.

No options were granted or 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 2022, 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%
TRAN Vi-hang William	Personal	1,000,000 ordinary shares	0.08%
YU Hon To, David	Personal	1,241,600 ordinary shares	0.11%

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	1,025,000 share options	1,025,000 shares	0.09%
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	5.02%
CHAN Kong Keung, Stephen	Personal	2,600,000 ordinary shares	0.13%
IP Shu Wing, Charles	Personal	3,320,800 ordinary shares	0.16%
TRAN Vi-hang William	Personal	160,000 ordinary shares	0.01%
YU Hon To, David	Personal	5,700,000 ordinary shares	0.27%

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 2022.

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 2022, 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 2022, 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 51.77% 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 2022, 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.

Connected Transactions

During the year, the Group conducted the following connected transactions of the Company under Chapter 14A of the Listing Rules:

(i) On 16 December 2022, Playmates International Company Limited ("PICL"), an indirect wholly-owned subsidiary of the Company, as tenant and Prestige Property Management Limited ("PPML"), an indirect wholly-owned subsidiary of PHL, as agent for the landlord, Belmont Limited entered into a tenancy agreement ("First HK Lease") in respect of the premises of the entire 9th Floor and 11th Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong ("First HK Premises") for a term of 36 months from 1 January 2023 to 31 December 2025 at the rental of HK$354,320 per month (exclusive of rates, Government rent, utilities and other outgoings).

Connected Transactions (Continued)

(ii) On 16 December 2022, PICL as tenant and PPML as agent for the landlord, Bagnols Limited entered into a tenancy agreement ("Second HK Lease") in respect of the premises of a portion of Ground Floor, Phase I and the entire 10th Floor, Phase I of Playmates Factory Building, No. 1 Tin Hau Road, Tuen Mun, Hong Kong ("Second HK Premises") for a term of 36 months from 1 January 2023 to 31 December 2025 at the rental of HK$27,380 per month (exclusive of rates, Government rent, utilities and other outgoings).

(iii) On 16 December 2022, PICL as tenant and Great Westwood Limited ("GWL"), an indirect wholly-owned subsidiary of PHL, as landlord entered into a tenancy agreement ("UK Lease") in respect of the premises of an event and storage space at Great Westwood, Bucks Hill, Kings Langley, Hertfordshire WD4 9AD, United Kingdom ("UK Premises") for a term of 36 months from 1 January 2023 to 31 December 2025 at the rental of £5,700 per month (inclusive of utilities but exclusive of government taxes).

PHL indirectly owns and controls approximately 50.85% shareholding of the Company and is a substantial shareholder of the Company. Consequently, PPML, GWL, Belmont Limited and Bagnols Limited, each an associate of PHL, are connected persons of the Company under the Listing Rules.

In accordance with HKFRS 16 "Leases", the Group has recognised the present value of aggregate rental payment under the above leases as right-of-use assets on its consolidated statement of financial position with an estimated value of approximately HK$14.5 million. Accordingly, the transactions under the above leases were regarded as acquisitions of assets and constituted connected transactions for the Company under the Listing Rules.

The Company considers that the use of the First HK Premises, the Second HK Premises and the UK Premises is beneficial to the Group as a whole as it satisfies the business needs of the Group and for administrative convenience and saving of relocation costs. The terms of the above leases (including the rental thereunder) were negotiated on an arm's length basis between the parties with reference to prevailing market rent of similar properties at the nearby locations of the First HK Premises, the Second HK Premises and the UK Premises respectively. Having considered the above factors, the directors of the Company (including the independent non-executive directors) are of the view that the above leases have been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the above leases are fair and reasonable and in the interests of the Company and its shareholders as a whole.

These connected transactions, which details were contained in the announcement dated 16 December 2022, were exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

Save and except the transactions disclosed above and in note 29.1 to the financial statements, there is no contract of significance between the Group and our controlling shareholder or any of its subsidiaries.

On behalf of the board
Chan Kwong Fai, Michael
Chairman

Hong Kong, 10 March 2023

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 Part 2 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 2022, except the followings:

Code Provision C.2.1 provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The Company does not have a designated chief executive. The board oversees the management, businesses, strategy and financial performance of the Group. The day-to-day business of the Group is handled by the executive directors collectively. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is adequate to ensure an effective management and control of the Group's businesses and operations. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

The 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.

Corporate Culture and Value

Our purpose, values and strategies represent the essence of our corporate culture and business framework. Our mission is to deliver high quality, safe and innovative toys to the consumers. We are diligent in our research and preparation so that we can "*do it right the first time*". We work hard to nurture and maintain a strong relationship with every partner by delivering on our promises. We are guided by our core values that our multi-disciplinary business in toys and other investments are built upon a common foundation of integrity, honesty, fairness and respect. All directors act with integrity, lead by example, and promote our corporate culture across the Company. They also play an important role in fostering and overseeing the Company's culture to ensure that values of acting lawfully, ethically and responsibly are reflected in our strategy, business model, operating practices as well as our approach to risk. We have adopted and implemented a number of corporate policies, including but not limited to, Code of Business Conduct, Staff Handbook, Anti-corruption Policy and Whistleblowing Policy to ensure that our values are conveyed to all employees of the Company. All employees are required to comply with such policies. We review these policies from time to time to ensure that they are in line with our business, development strategies and stakeholders' expectation.

Our goal is to continue our legacy established over 55 years ago through the creation of imaginative products and the long-term management of profitable brand franchises. We review our business plan and sustainability strategies from time to time for long-term development. We strive to generate and preserve our long-term value and deliver our objectives through the following strategies and commitments:

(i) preserve and enhance the values of the Group's investments;

(ii) preserve and enhance the Group's reputation;

(iii) deliver high quality products in a timely manner to the market;

(v) control and optimize all cost elements; and

(vi) meet the Company's financial targets.

Please refer to the Statement from the Chairman and the Management Discussion and Analysis of this annual report for more details in relation to the Group's performance.

Board of Directors

Composition and Responsibilities

The board of directors of the Company comprises:

Executive Directors
CHAN Kwong Fai, Michael *(Chairman)*
CHAN Kong Keung, Stephen
TRAN Vi-hang William

Independent Non-executive Directors
CHOW Yu Chun, Alexander
IP Shu Wing, Charles
LAM Wai Hon, Ambrose
YU Hon To, David

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. Save for the sibling relationship between Mr. Chan Kwong Fai, Michael and Mr. Chan Kong Keung, Stephen, the board members have no financial, business, family or other material or relevant relationships with each other.

Board of Directors (Continued)

Composition and Responsibilities (Continued)

The board is responsible for the oversight of overall strategic development, performance, risk management and governance of the Group and making decisions in relation thereto. 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 executive directors supported by the senior executives are delegated with the responsibilities of running the day-to day business operations and making operational and business decisions of the Group.

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.

Board Independence

The Company recognizes that board independence is vital to good corporate governance and board effectiveness. There are mechanisms in place to ensure independent views and input are available to the board for enhancing objective and effective decision making:

(a) Four out of the seven directors are independent non-executive directors which exceeds the Listing Rules requirement for independent non-executive directors to make up at least one third of the board. Apart from complying with the requirements prescribed by the Listing Rules as to the composition of certain board committees, independent non-executive directors are appointed to the board committees as far as practicable to ensure independent views are available.

(b) The Nomination Committee strictly adheres to the Nomination Policy and the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive directors.

(c) The Nomination Committee assesses the continued independence of the independent non-executive directors on an annual basis. All the independent non-executive directors are required to confirm in writing annually their compliance of independence requirements as set out under Rule 3.13 of the Listing Rules.

(d) No equity-based remuneration (e.g. share options or grants) with performance related elements is granted to independent non-executive directors.

(e) Separate discussions amongst the independent non-executive directors and the chairman of the board without the presence of executive directors and the senior management.

(f) Independent non-executive directors (as other directors) are entitled to seek further information and documentation from the management on the matters to be discussed at board meetings. They can also seek assistance and independent advice from external professional advisers at the Company's expense where necessary.

(g) Directors shall not vote or be counted in the quorum on any board resolution approving any contract or arrangement in which such director or any of his/her close associates has a material interest.

During the year, the Board has reviewed and considered that the abovesaid mechanisms are effective in ensuring that independent views are available to the board.

Appointment and Re-election

Each of the directors (including non-executive 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 2022, 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.

Board of Directors (Continued)

Support and Professional Development of Directors (Continued)

The participation of each director of the Company in continuous professional development in 2022 was as recorded in the table below:

Directors	Reading	Attending in-house briefings/ seminars/ conferences
CHAN Kwong Fai, Michael	✓	✓
CHAN Kong Keung, Stephen	✓	✓
IP Shu Wing, Charles	✓	✓
CHOW Yu Chun, Alexander	✓	✓
LAM Wai Hon, Ambrose	✓	✓
TRAN Vi-hang William	✓	✓
YU Hon To, David	✓	✓

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.

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 2022. 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	4/4	N/A	1/1	1/1	1/1
CHAN Kong Keung, Stephen	4/4	N/A	N/A	N/A	1/1
CHOW Yu Chun, Alexander	4/4	2/2	N/A	1/1	1/1
IP Shu Wing, Charles	4/4	2/2	1/1	N/A	1/1
LAM Wai Hon, Ambrose	4/4	2/2	1/1	N/A	1/1
TRAN Vi-hang William	4/4	N/A	N/A	N/A	1/1
YU Hon To, David	4/4	2/2	N/A	1/1	1/1

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.

Board Committees (Continued)

Audit Committee (Continued)

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 2022. 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 10 March 2023, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2022 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)*

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 one meeting 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.

Director Remuneration Policy

The board believes that fair remuneration is critical to attract and retain the services of high calibre and experienced directors. Pursuant to the Director Remuneration Policy of the Company, the Compensation Committee is delegated with the authority and duties to establish, review, advise and make recommendations to the board regarding the Group's remuneration policy and practices according to its written terms of reference. The Compensation Committee shall ensure that all the directors are appropriately remunerated in accordance with the Group's business strategy and financial performance. In considering directors' remuneration, certain factors are taken into consideration, where applicable, including but not limited to:

i. remuneration paid by comparable companies

ii. time commitment and responsibilities

iii. business objectives and strategies

iv. general business and economic conditions

v. the Group's financial position and performance

vi. individual performance and/or contribution to the Group

vii. retention consideration and individual potential

Pursuant to the written terms of reference of the Compensation Committee, it makes recommendations to the board from time to time on the remuneration of the non-executive directors (including independent non-executive directors). 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. Subject to relevant laws and regulatory requirements, equity-based remuneration (e.g. share options or grants) with performance-related elements will not be granted to independent non-executive directors. The Compensation Committee is also responsible for determining the remuneration for executive directors and the Chairman of the board. 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 and details of their entitlements to the share options of the Company are set out in the section of "Share Options" of the Report of the Directors.

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 one meeting 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. All nomination were considered in accordance with the Nomination Policy and the objective criteria therein (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 Committees (Continued)

Nomination Committee (Continued)

Board Diversity

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. During the year, the board has reviewed the implementation of the Board Diversity Policy to ensure continued effectiveness and compliance with regulatory requirements and good corporate governance practices.

The board recognizes the importance and benefits of gender diversity at the board level. As our board currently has no female director, we plan to improve the gender diversity by appointing a female director, namely, Ms. Chan, Helen, at the forthcoming annual general meeting subject to the approval of the shareholders of the Company. After the said appointment has been approved and become effective, our board will have one female director out of seven directors which represents 14.3% of the board. The board targets to maintain at least such level of female representation on our board in the next 5 years.

In the long run, we shall continue to take steps to further enhance gender diversity as and when suitable candidates are identified. We will also ensure that there continues to be gender diversity when recruiting staff at mid to senior level and provide training and long-term development opportunities to staff of all genders, so that we will have a pipeline of senior management and potential successors to our board of all genders in due course.

We also strive to maintain gender diversity when recruiting and selecting key management and other personnel across the Group's operations. As at 31 December 2022, we maintained a 52:48 ratio of female to male in our workforce. It is our objective to continue to maintain an appropriate balance of gender diversity with reference to market practices and our business needs.

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.

During the year, the board has reviewed the corporate governance structure, policies and practices of the Company. Certain governance policies including but not limited to the Whistleblowing Policy, Anti-corruption Policy, Director Remuneration Policy, Shareholders Communication Policy have been revised or adopted by the board to further enhance the corporate governance of the Company.

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 2022. 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 18 to 19 of this annual report.

Company Secretary

The company secretary is an employee of the Company and has been appointed by the board. The appointment and removal of the Company Secretary is subject to board approval. The company secretary reports to the board Chairman. All members of the board have access to the advice and service of the Company Secretary. During the year, the company secretary complied with the annual professional training requirement under Rule 3.29 of the Listing Rules to keep abreast of latest regulatory changes and corporate governance practices and to refresh her skills and knowledge.

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 as well as those relating to ESG performance and reporting, 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.

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.

Whistleblowing Policy and Anti-Corruption Policy

The board approved a Whistleblowing Policy in 2012 which has been revised this year to incorporate a few enhancement initiatives introduced by the amended Corporate Governance Code. The main objective of the policy is to provide employees and external parties a reporting channel and procedures to report any serious misconduct or malpractice involving the Company and its employees even on an anonymous basis. The Audit Committee has been delegated with the overall responsibility for monitoring and reviewing the implementation of the Whistleblowing Policy.

During the year, the board has approved an Anti-corruption Policy which outlines the Company's policy and requirements relating to the prevention and reporting of any suspected corruption and related malpractice. We have also provided anti-corruption information to directors and employees to enhance their awareness.

Auditors' Remuneration

For the year ended 31 December 2022, 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 2022. 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 62 to 67 of this annual report.

Communications with Shareholders

The board understands the importance of maintaining effective communication with the Company's shareholders and investors. The Company has established a Shareholders Communication Policy which will be reviewed by the board on an annual basis to ensure its effectiveness. The Company communicates with its shareholders and/or investors mainly by the following channels:

(i) The Company regards the annual general meeting or special general meetings (if any) as an important event in which all directors will make an effort to attend. The general meetings provide opportunities for the shareholders to communicate directly with the board. 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.

(ii) The Company publishes corporate communications including announcements, annual reports, interim reports and/or circulars as required by the Listing Rules to ensure that the shareholders receive accurate, clear and timely information about the Company. All corporate communications are available on the websites of the Company and the Stock Exchange.

(iii) All press releases and presentation materials provided in conjunction with the Company's annual general meeting and results announcement, if any, are made available on the website of the Company as soon as practicable after their release.

(iv) Designated senior management of the Company maintains regular dialogue with institutional investors and analysts from time to time.

The Board reviewed the Shareholders' Communication Policy for the year ended 31 December 2022 and was satisfied with its implementation and effectiveness.

Shareholders should direct their questions about their shareholdings and share registrations to the Company's Registrar. The contact details of the Company's Share Registrar are available on the "Stock Information" section of the website of the Company.

Shareholders may make enquiries to the Company by contacting the Company's Investor Relations. The contact details of the Company's Investor Relations are available on the "Contact Us" section of the website of the Company.

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

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

A special resolution was passed by the shareholders of the Company at the annual general meeting on 27 April 2022 for amending the Memorandum of Association and Bye-laws of the Company ("Bye-laws") in order to bring the Bye-laws in line with certain changes to the Listing Rules. Details of the amendments were set out in the circular of the Company dated 23 March 2022. The latest version of the Bye-laws is available on the websites of the Stock Exchange and 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 2022 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, 2022 to 31 December, 2022 (the "Reporting Period", "2022").

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

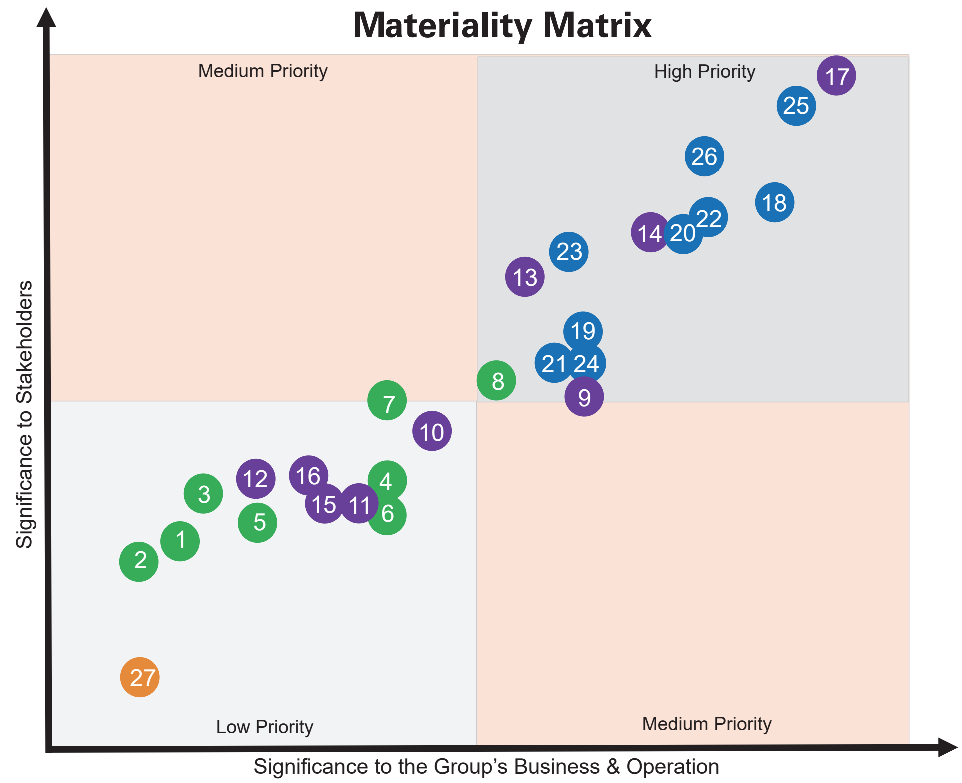
Engagement

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	Employment	Operation
1. Air emission	9. Labour rights	18. Customer satisfaction
2. Greenhouse gas emission	10. Labour management relations	19. Customer 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 and forced labour	26. Socio-economic compliance
		Community
		27. Community support

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 10 suppliers for our toy products which were all from Hong Kong and mainland China.

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 2022. We have not received any letter of advice from the U.S. Consumer Product Safety Commission nor any non-conformance report of our suppliers' social responsibility audit during the year.

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 8 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. During the year, we have adopted an Anti-corruption Policy to further enhance the governance of the Company. We review such policy and 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 anti-corruption requirements, 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, Independent Commission Against Corruption has provided our directors and employees with training information on anti-corruption rules, regulations and practices. A total of 28 hours anti-corruption training was provided to our directors and 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

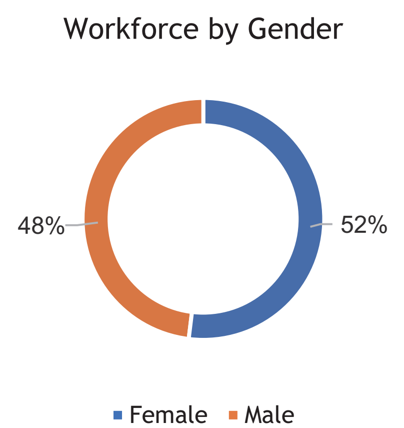
We established a Whistleblowing Policy in 2012 which has been revised this year to incorporate a few enhancement initiatives introduced by the amended Corporate Governance Code. The main objective of the policy is to provide employees and external parties a reporting channel and procedures to report any serious misconduct or malpractice involving the Company and its employees even on an anonymous basis. 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.

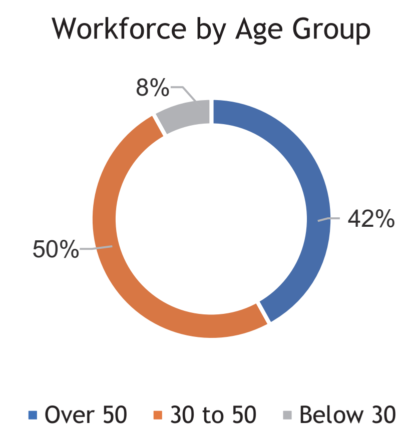
Any person who has reasonable evidence of actual or suspected improper conduct involving the Company can make a report confidentially, in writing, to the chairman of the Audit Committee. Upon receiving a report, an investigation will be handled by the Audit Committee in a confidential and timely manner. 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.

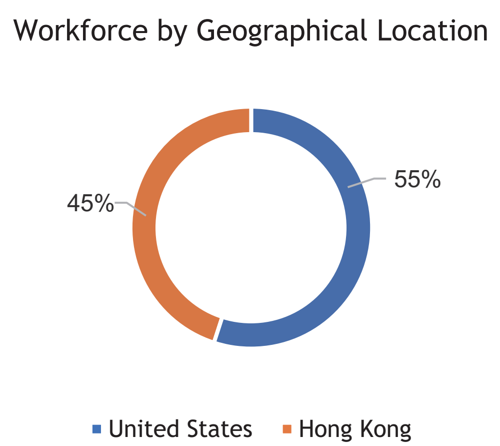
Responsible Employment

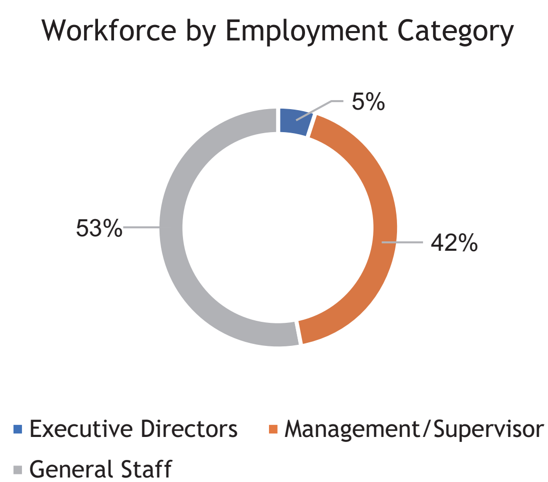
The Group's core competency lies in the possession of talented employees, whose hard work and skills have contributed to our business achievements. The Group is committed to putting in resources in enhancing employees' physical and mental health, career development, and well-being. In addition, we are 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 60. Information of our workforce and turnover rate by different categories is illustrated below:









Employee Turnover Rate[1]	% in 2022
Total	13.33%
By gender	
Male	3.45%
Female	22.58%
By geographical region	
Hong Kong	3.70%
United States	21.21%
By age group	
Below 30	0.00%
30 to 50	23.33%
Over 50	4.00%

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 2022.

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 2022.

	2022	2021	2020
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.

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.

	2022
Total number of hours of training received by employees	**1,691.50**
Average hours of training per employee and percentage (%) of employees who received training	28.19 (91.67%)
By gender	
Male	29.88 (96.55%)
Female	26.61 (87.10%)
By employment category	
Executive directors	14.83 (100.00%)
Management/supervisor	13.68 (96.00%)
General staff	40.78 (87.50%)

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 continue to review market development and opportunities 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 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

	Unit	2022	2021
Air Emissions			
Nitrogen oxides	Tonnes	1.44	2.41
Sulphur oxides	Tonnes	0.06	0.09
Particulate matters	Tonnes	0.11	0.18
Waste Management			
Total amount of non-hazardous waste generated	Tonnes	64.23	50.57
Sent to landfill	Tonnes	62.69	50.55
Recycled	Tonnes	1.54	0.02
Intensity	Tonnes per HK$ million revenue	0.13	0.05

	Unit	2022	2021
Greenhouse Gas Emission			
Total GHG emissions	Tonnes of carbon dioxide equivalent ("Tonnes CO_2e")	167.26	100.69
Scope 1 *(Note 1)*	Tonnes CO_2e	11.66	16.94
Scope 2 *(Note 2)*	Tonnes CO_2e	60.64	71.76
Scope 3 *(Note 3)*	Tonnes CO_2e	94.95	12
Intensity	Tonnes CO_2e per HK$ million revenue	0.33	0.11
Energy Consumption *(Note 4)*			
Total energy consumption	MWh	171.01	194.46
Unleaded petrol	MWh	39.93	57.98
Electricity	MWh	131.08	136.48
Intensity	MWh per HK$ million revenue	0.34	0.14
Water Consumption & Discharge *(Note 5)*			
Total water consumption	m^3	16,829	14,192
Intensity	m^3 per HK$ million of revenue	33.37	15.24
Total wastewater discharged	m^3	16,829	14,192
Packaging Material Consumption			
Total packaging material used	Tonnes	1,640.96	3,252
Intensity	kg per number of products	0.21	0.24

Note:

1. 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.

2. Scope 2 refers to indirect GHG emissions from the purchased electricity. The calculation is based on the emission factors from the 2022 Climate-related Disclosures Report published by the CLP and the Emission Factors for Greenhouse Gas Inventories published by the United States Environmental Protection Agency.

3. Scope 3 refers to indirect GHG emission from the consumption of paper in Hong Kong and business air travel of employees. In 2022, the emissions from the water consumption and sewage treatment of our Hong Kong premises were also included.

Environmental Protection (Continued)

Climate Change Resilience (Continued)

Note: (Continued)

4. 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.

5. In 2022, the Group had no issue in water sourcing.

6. The non-hazardous waste from the office operation of the Group is mainly general refuse, while the hazardous waste is mainly used toner cartridges. The used toner cartridges were gathered by the toner supplier for their recycling.

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 2022, a total amount of HK$2,950,100 cash donation was made to facilitate the operation of the Hong Kong Arts Festival Foundation, Charitable Fund Pomogaem – Help For Kids In Dnipro-Ukraine, Toy Foundation Relief Fund for Ukrainian Children, Sachs Family Foundation and Pace Women's Justice Center. 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 68 to 119, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 2022, the Group has advanced royalties amounted to approximately HK$34 million (2021: HK$52 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 2022 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 Bermuda Companies Act 1981 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

10 March 2023

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Note	2022 US$'000 (Note 30)	2022 HK$'000	2021 HK$'000
Revenue	4	**64,647**	**504,248**	625,108
Cost of sales		**(34,428)**	**(268,541)**	(321,584)
Gross profit		**30,219**	**235,707**	303,524
Other revenue	22(i)	**3,747**	**29,227**	–
Marketing and licensing expenses		**(12,489)**	**(97,412)**	(137,648)
Selling and distribution expenses		**(4,947)**	**(38,585)**	(30,690)
Administration expenses		**(12,104)**	**(94,405)**	(97,429)
Operating profit		**4,426**	**34,532**	37,757
Other net loss	7	**(2,212)**	**(17,257)**	(2,728)
Finance costs	8	**(304)**	**(2,370)**	(2,987)
Profit before income tax	6	**1,910**	**14,905**	32,042
Income tax (expense)/credit	9	**(664)**	**(5,183)**	10,939
Profit for the year attributable to owners of the Company		**1,246**	**9,722**	42,981
		US cents	*HK cents*	*HK cents*
Earnings per share	11			
Basic		**0.11**	**0.82**	3.64
Diluted		**0.11**	**0.82**	3.64

The notes on pages 74 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	**2022**	2021
	US$'000	***HK$'000***	*HK$'000*
	(Note 30)		
Profit for the year	**1,246**	**9,722**	42,981
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	**698**	**5,441**	–
Total comprehensive income for the year attributable to owners of the Company	**1,944**	**15,163**	42,981

The notes on pages 74 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 US$'000 (Note 30)	2022 HK$'000	2021 HK$'000
Non-current assets				
Property, plant and equipment	14	87	678	1,119
Right-of-use assets	15.1	3,456	26,958	20,823
Deferred tax assets	24	4,241	33,082	32,130
		7,784	60,718	54,072
Current assets				
Inventories	17	3,038	23,700	58,007
Trade receivables	18	7,816	60,962	124,378
Deposits paid, other receivables and prepayments	19	5,828	45,455	57,331
Financial assets at fair value through profit or loss	20	7,511	58,584	71,241
Cash and bank balances	27.2	118,964	927,922	893,997
		143,157	1,116,623	1,204,954
Current liabilities				
Trade payables	21	1,508	11,764	28,476
Deposits received, other payables and accrued charges	22	13,020	101,556	165,702
Provisions	23	4,862	37,924	37,287
Lease liabilities	15.2	1,061	8,272	8,503
Taxation payable		1,392	10,856	10,044
		21,843	170,372	250,012
Net current assets		121,314	946,251	954,942
Total assets less current liabilities		129,098	1,006,969	1,009,014
Non-current liabilities				
Lease liabilities	15.2	2,585	20,165	13,816
Net assets		126,513	986,804	995,198
Equity				
Share capital	26.1	1,513	11,800	11,800
Reserves		125,000	975,004	983,398
Total equity		126,513	986,804	995,198

On behalf of the board

CHAN Kong Keung, Stephen
Director

TRAN Vi-hang William
Director

The notes on pages 74 to 119 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

	Note	2022 US$'000 (Note 30)	2022 HK$'000	2021 HK$'000
Cash flows from operating activities				
Cash generated from operations	27.1	9,268	72,297	28,178
Overseas tax paid		(677)	(5,281)	(2,868)
Net cash generated from operating activities		8,591	67,016	25,310
Cash flows from investing activities				
Purchases of property, plant and equipment		(37)	(290)	(188)
Purchases of financial assets at fair value through profit or loss		(2,161)	(16,858)	(73,016)
Dividends received		75	588	394
Interest received		1,439	11,223	835
Net cash used in investing activities		(684)	(5,337)	(71,975)
Cash flows from financing activities				
Dividends paid to owners of the Company		(3,026)	(23,600)	–
Payment of lease liabilities	27.3	(1,202)	(9,379)	(8,932)
Net cash used in financing activities		(4,228)	(32,979)	(8,932)
Net increase/(decrease) in cash and cash equivalents		3,679	28,700	(55,597)
Cash and cash equivalents at 1 January		114,615	893,997	949,943
Effect of foreign exchange rate changes		670	5,225	(349)
Cash and cash equivalents at 31 December	27.2	118,964	927,922	893,997

The notes on pages 74 to 119 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	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

	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 2022	11,800	409	38,285	(1,095)	13,015	932,784	995,198
Profit for the year	–	–	–	–	–	9,722	9,722
Other comprehensive income:							
Exchange differences arising on translation of foreign subsidiaries	–	–	–	5,441	–	–	5,441
Total comprehensive income for the year	–	–	–	5,441	–	9,722	15,163
Share option scheme							
– share options lapsed	–	–	–	–	(1,661)	1,661	–
2021 interim dividend paid	–	–	–	–	–	(23,600)	(23,600)
Unclaimed dividends forfeited	–	–	–	–	–	43	43
Transactions with owners	–	–	–	–	(1,661)	(21,896)	(23,557)
At 31 December 2022	11,800	409	38,285	4,346	11,354	920,610	986,804

The notes on pages 74 to 119 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 were approved for issue by the board of directors on 10 March 2023.

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 accounting 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.

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.

2 Summary of Significant Accounting Policies (Continued)

2.4 Property, plant and equipment (Continued)

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are 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. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income.

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 HKAS 16, *Property, plant and equipment: Proceeds before Intended Use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to HKFRSs: Annual Improvements to HKFRS Standards 2018-2020
- Amendments to HKFRS 3, *Business combinations: Reference to the Conceptual Framework*
- Revised Accounting Guideline 5, *Merger Accounting for Common Control Combinations*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

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 2022 from sales of toys was HK$504,248,000 (2021: HK$625,108,000).

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 and right-of-use assets ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the property, plant and equipment and right-of-use assets.

	Revenue		**Specified non-current assets**	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**99**	695	**13,104**	4,641
Americas				
– U.S.A.	**303,101**	344,807	**12,735**	16,330
– Others	**46,765**	44,862	**–**	–
Europe	**128,040**	192,956	**1,797**	971
Asia Pacific other than Hong Kong	**23,573**	40,634	**–**	–
Others	**2,670**	1,154	**–**	–
	504,149	624,413	**14,532**	17,301
	504,248	625,108	**27,636**	21,942

5.2 Major customers

The Group's customer base includes three (2021: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$96,769,000, HK$90,358,000 and HK$87,766,000 (2021: HK$185,193,000, HK$141,060,000 and HK$73,694,000) respectively.

6 Profit before Income Tax

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

	2022 *HK$'000*	2021 *HK$'000*
Cost of inventories sold	**243,563**	296,909
Write down of inventories	**2,942**	330
Product development and tooling costs	**18,348**	18,986
Royalties expenses	**68,276**	84,688
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**30,655**	28,960
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**(3,880)**	(4,130)
Depreciation		
– property, plant and equipment *(Note 14)*	**733**	867
– right-of-use assets *(Note 15.1)*	**8,500**	8,758
Directors' and staff remunerations *(Note 12)*	**59,821**	64,509
Allowance for customer concession	**14,251**	4,572
Reversal of allowance for customer concession	**(9,647)**	(6,640)
Net foreign exchange gain	**(3,372)**	(559)
Auditors' remuneration	**1,400**	1,400

7 Other Net Loss

	2022 *HK$'000*	2021 *HK$'000*
Net unrealised loss on financial assets at fair value through profit or loss	**(29,812)**	(8,796)
Government subsidies	**744**	5,310
Interest income	**11,223**	835
Dividend income	**588**	394
Others	**–**	(471)
	(17,257)	(2,728)

8 Finance Costs

	2022	2021
	HK$'000	*HK$'000*
Bank charges	**1,444**	1,639
Interest on lease liabilities	**926**	1,348
	2,370	2,987

9 Income Tax Expense/(Credit)

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.

	2022	2021
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
Overseas taxation	**5,983**	4,101
Over provision in prior years – Hong Kong	**–**	–
Under provision in prior years – overseas	**8**	30
	5,991	4,131
Deferred taxation		
Origination and reversal of temporary differences	**(808)**	(15,070)
Income tax expense/(credit)	**5,183**	(10,939)

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

	2022 HK$'000	2021 HK$'000
Profit before income tax	**14,905**	32,042
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**5,186**	3,021
Tax effect of:		
Non-taxable income	**(824)**	(1,755)
Non-deductible expenses	**763**	662
Unrecognised tax losses	**2**	–
Utilisation of previously unrecognised tax losses	**(168)**	(12,897)
Reversal of previously recognised temporary differences	**216**	–
Under provision in prior years	**8**	30
Income tax expense/(credit)	**5,183**	(10,939)

10 Dividends

10.1 Dividends attributable to the year

	2022 HK$'000	2021 HK$'000
Interim dividend of HK cents 2 per share (2021: HK cents 2)	**23,600**	23,600

At a meeting held on 10 March 2023, the board of directors declared an interim dividend of HK cents 2 per share to be paid on 17 April 2023 to shareholders whose names appear on the Company's register of members on 28 March 2023. 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 2022.

10 Dividends (Continued)

10.2 Dividends attributable to the previous financial year and paid during the year

	2022 *HK$'000*	2021 *HK$'000*
Dividends in respect of the previous financial year and paid during the year:		
Interim dividend of HK cents 2 per share (2021: HK$ nil)	**23,600**	–

11 Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$9,722,000 (2021: profit of HK$42,981,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2021: 1,180,000,000 shares) in issue during the year.

Diluted earnings per share for the year ended 31 December 2022 equals to the basic earnings per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted earnings per share.

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.

12 Directors' and Staff Remunerations

	2022 *HK$'000*	2021 *HK$'000*
Wages, salaries and other benefits	**57,882**	62,179
Share-based compensation	–	287
Employer's contributions to provident fund *(Note)*	**1,939**	2,043
	59,821	64,509

Note: Under the Group's defined contribution schemes, there was a forfeiture of HK$57,000 unvested contribution during the year ended 31 December 2022 (2021: HK$nil). Such forfeited amount was used for reducing the Group's contribution during the current year. There was no amount 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 2022 *HK$'000*	Salary 2022 *HK$'000*	Bonus 2022 *HK$'000*	Share-based compensation 2022 *HK$'000*	Other benefits 2022 *HK$'000* *(Note)*	Employer's contribution to provident fund 2022 *HK$'000*	Total 2022 *HK$'000*
CHAN Kong Keung, Stephen	10	576	–	–	9	18	613
CHAN Kwong Fai, Michael	–	2,214	–	–	160	133	2,507
CHOW Yu Chun, Alexander	330	–	–	–	–	–	330
IP Shu Wing, Charles	330	–	–	–	–	–	330
LAM Wai Hon, Ambrose	330	–	–	–	–	–	330
TRAN Vi-hang William	10	1,650	150	–	18	18	1,846
YU Hon To, David	330	–	–	–	–	–	330
	1,340	4,440	150	–	187	169	6,286

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

13.1 Directors' emoluments (Continued)

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

Note: Other benefits include medical allowance.

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2022 and 2021. 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 2022 and 2021.

13.2 Five highest paid individuals

One (2021: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2021: four) highest paid individuals are as follows:

	2022	2021
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**7,716**	7,511
Bonuses	**319**	–
Share-based compensation	**–**	49
Employer's contributions to provident fund	**384**	389
	8,419	7,949

The emoluments of these four (2021: four) individuals are within the following bands:

	Number of individuals	
	2022	2021
HK$		
1,500,001 – 2,000,000	**1**	2
2,000,001 – 2,500,000	**3**	2
	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 2022	**9,941**	**4,254**	**8,333**	**22,528**
Exchange fluctuation	**9**	**9**	**41**	**59**
Additions	**–**	**214**	**76**	**290**
Disposals	**(8,621)**	**(347)**	**(1,326)**	**(10,294)**
At 31 December 2022	**1,329**	**4,130**	**7,124**	**12,583**
Accumulated depreciation				
At 1 January 2022	**9,932**	**3,647**	**7,830**	**21,409**
Exchange fluctuation	**9**	**9**	**39**	**57**
Charge for the year	**9**	**462**	**262**	**733**
Disposals	**(8,621)**	**(347)**	**(1,326)**	**(10,294)**
At 31 December 2022	**1,329**	**3,771**	**6,805**	**11,905**
Net book value				
At 31 December 2022	**–**	**359**	**319**	**678**
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

15 Right-of-Use Assets and Lease Liabilities

15.1 Right-of-use assets

Movement during the year:

	2022 *HK$'000*	2021 *HK$'000*
At 1 January	**20,823**	11,353
Exchange fluctuation	**103**	–
Additions	**–**	20,192
Depreciation	**(8,500)**	(8,758)
Adjustment due to lease modification	**14,532**	(1,964)
At 31 December	**26,958**	20,823

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. Adjustment due to lease modification for 2022 represents extension of lease term upon renewal of existing leases.

15.2 Lease liabilities

(i) Maturity analysis:

	2022 *HK$'000*	2021 *HK$'000*
Within one year	**8,272**	8,503
In the second year	**8,827**	3,644
In the third to fifth year	**11,338**	10,172
	28,437	22,319
Current portion included in current liabilities	**(8,272)**	(8,503)
Non-current portion included in non-current liabilities	**20,165**	13,816

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

15.2 Lease liabilities (Continued)

(ii) Movement during the year:

	2022 ***HK$'000***	2021 *HK$'000*
At 1 January	**22,319**	11,680
Exchange fluctuation	**39**	(5)
Additions	**–**	20,192
Interest expenses	**926**	1,348
Lease payments	**(9,379)**	(8,932)
Adjustment due to lease modification	**14,532**	(1,964)
At 31 December	**28,437**	22,319

(iii) Total cash outflows for leases during the year ended 31 December 2022 were HK$9,379,000 (2021: HK$8,932,000), 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 2022 and 2021 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 2022, inventories represent finished toys products with carrying amount of HK$23,700,000 (2021: HK$58,007,000).

18 Trade Receivables

	2022 *HK$'000*	2021 *HK$'000*
Trade receivables	**82,387**	141,091
Less: Allowance for customer concession	**(21,425)**	(16,713)
	60,962	124,378

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

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 (2021: 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:

	2022 *HK$'000*	2021 *HK$'000*
0 – 60 days	**38,537**	83,410
61 – 90 days	**19,606**	34,754
91 – 180 days	**2,742**	3,625
Over 180 days	**77**	2,589
	60,962	124,378

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:

	2022 *HK$'000*	2021 *HK$'000*
Neither past due nor impaired	**42,506**	95,645
1 – 90 days past due	**18,376**	25,060
91 – 180 days past due	**3**	1,092
Over 180 days past due	**77**	2,581
	18,456	28,733
	60,962	124,378

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

	2022 HK$'000	2021 HK$'000
Advanced royalties *(Note (i))*	**33,705**	51,775
Miscellaneous prepaid expenses, deposits paid and receivables	**11,750**	5,556
	45,455	57,331

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

	2022 HK$'000	2021 HK$'000
Equity investments listed in Hong Kong	**15,250**	19,027
Equity investments listed outside Hong Kong	**43,334**	52,214
	58,584	71,241

21 Trade Payables

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

	2022 HK$'000	2021 HK$'000
0 – 30 days	**10,964**	27,046
31 – 60 days	**33**	5
Over 60 days	**767**	1,425
	11,764	28,476

22 Deposits Received, Other Payables and Accrued Charges

	2022	2021
	HK$'000	HK$'000
Contract liabilities		
– Purchase commitment guarantee deposits from toy distributors *(Note (i))*	**10,725**	29,739
– Sales deposits received in advance *(Note (ii))*	**13,917**	24,356
Accrued product development, sales, marketing, licensing and distribution expenses	**19,139**	19,774
Accrued royalties	**47,090**	74,632
Accrued directors' and staff remunerations	**4,291**	6,666
Withholding tax payable	**4,206**	6,945
Accrued administrative expenses and professional fees	**2,188**	3,590
	101,556	165,702

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 ended 31 December 2022, the Group has recognised revenue of HK$560,000 (2021: HK$2,714,000) 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 ended 31 December 2022, HK$29,227,000 (2021: HK$ nil) 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. During the year ended 31 December 2022, the Group has recognised revenue of HK$24,356,000 (2021: HK$14,572,000) from the balance as at the beginning of the reporting period.

23 Provisions

	Consumer returns	**Cooperative advertising**	**Cancellation charges**	**Freight allowance**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2022	**6,685**	**19,640**	**1,763**	**9,199**	**37,287**
Exchange fluctuation	**42**	**127**	**17**	**59**	**245**
Additional provisions made	**4,620**	**18,217**	**877**	**6,941**	**30,655**
Reversal of unutilised provisions	**(445)**	**(2,786)**	**–**	**(649)**	**(3,880)**
Provisions utilised	**(4,427)**	**(14,321)**	**–**	**(7,635)**	**(26,383)**
At 31 December 2022	**6,475**	**20,877**	**2,657**	**7,915**	**37,924**

24 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2021: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2021: 21%) and 8.84% (2021: 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 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 and 1 January 2022	**762**	**8,731**	**21,513**	**1,124**	**32,130**
Exchange fluctuation	**–**	**56**	**87**	**1**	**144**
Credited/(Charged) to profit or loss	**113**	**(4,244)**	**3,225**	**1,714**	**808**
At 31 December 2022	**875**	**4,543**	**24,825**	**2,839**	**33,082**

Notes:

(a) Other temporary differences mainly represent provisions.

(b) Employee benefits represents share-based compensation.

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 2022 and 2021 due to the uncertainties in global business environment.

The Group's cumulative unrecognised tax losses as of 31 December 2022 amounted to HK$92,210,000 (2021: HK$93,217,000). These tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2022, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$658,057,000 (2021: HK$657,201,000). 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:

	2022		2021	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.805**	**51,885**	0.796	56,579
Granted		**–**		–
Exercised		**–**		–
Lapsed	**0.663**	**(5,278)**	0.698	(4,694)
At 31 December	**0.821**	**46,607**	0.805	51,885
Exercisable at 31 December	**0.821**	**46,607**	0.805	51,885

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 2022 had a weighted average remaining contractual life of 3.08 years (2021: 3.61 years).

In 2022, HK$nil (2021: HK$357,000) 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 2022 and 2021	**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 2021, 31 December 2021 and 31 December 2022	**1,180,000,000**	**11,800**

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 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
At 1 January 2022	**–**	**13,015**	**409**	**304,640**	**318,064**
Profit for the year	**–**	**–**	**–**	**27,582**	**27,582**
Share option scheme					
– share options lapsed	**–**	**(1,661)**	**–**	**1,661**	**–**
2021 interim dividend paid	**–**	**–**	**–**	**(23,600)**	**(23,600)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**43**	**43**
At 31 December 2022	**–**	**11,354**	**409**	**310,326**	**322,089**

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

26 Equity – Group and Company (Continued)

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 2022 and 2021.

27 Notes to the Consolidated Cash Flow Statement

27.1 Reconciliation of profit before income tax to cash generated from operations

	2022 *HK$'000*	2021 *HK$'000*
Profit before income tax	**14,905**	32,042
Interest income	**(11,223)**	(835)
Dividend income	**(588)**	(394)
Depreciation of property, plant and equipment	**733**	867
Depreciation of right-of-use assets	**8,500**	8,758
Interest on lease liabilities	**926**	1,348
Share-based compensation	**–**	357
Net loss on financial assets at fair value through profit or loss	**29,812**	8,796
Unrealised exchange (gain)/loss	**(189)**	344
Operating profit before working capital changes	**42,876**	51,283
Decrease/(Increase) in inventories	**34,307**	(47,724)
Decrease/(Increase) in trade receivables, deposits paid, other receivables and prepayments	**75,292**	(88,569)
(Decrease)/Increase in trade payables, deposits received, other payables and accrued charges and provisions	**(80,178)**	113,188
Cash generated from operations	**72,297**	28,178

27.2 Analysis of cash and cash equivalents

	2022 *HK$'000*	2021 *HK$'000*
Cash and bank balances	**927,922**	893,997

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:

	2022 *HK$'000*	2021 *HK$'000*
Within one year	**55,945**	15,771
In the second to fifth years	**134,550**	217,426
	190,495	233,197

28.2 Lease commitments

As at 31 December 2022 and 2021, all of the Group's committed leases had already commenced and recognised as lease liabilities under HKFRS 16, *Leases*.

29 Related Party Transactions

29.1 The Group had the following transactions with related parties:

	2022	2021
	HK$'000	*HK$'000*
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Belmont Limited *(Note (a), (d))*	**5,028**	5,375
Rent and building management fee paid to fellow subsidiary, Great Westwood Limited (Note (b), (d))	**720**	723
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Bagnols Limited *(Note (c), (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. On 16 December 2022, the Group entered into a renewal lease for the same HK properties with a lease term from 1 January 2023 to 31 December 2025 and recognised a right-of-use asset and a lease liability of approximately HK$11.8 million respectively. At 31 December 2022, the lease liability balance under this lease amounted to HK$11,822,000 (2021: HK$4,139,000).

(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. On 16 December 2022, the Group entered into a renewal lease for the same UK property with a lease term from 1 January 2023 to 31 December 2025 and recognised a right-of-use asset and a lease liability of approximately HK$1.8 million respectively. At 31 December 2022, the lease liability balance under this lease amounted to HK$1,797,000 (2021: HK$701,000).

(c) The Group entered into a lease with Prestige Property Management Limited as agent of Bagnols Limited during 2021 in respect of certain HK properties with a lease term from 1 January 2021 to 31 December 2022. On 16 December 2022, the Group entered into a renewal lease for the same HK properties with a lease term from 1 January 2023 to 31 December 2025 and recognised a right-of-use asset and a lease liability of approximately HK$0.9 million respectively. At 31 December 2022, the lease liability balance under this lease amounted to HK$913,000 (2021: HK$317,000).

(d) The leases mentioned in notes (a), (b) and (c) above entered into during the year 2022 in aggregate constitute connected transactions in respect of assets acquisition and details of which are disclosed in the Report of the Directors under the section headed "Connected Transactions" and the announcement of the Company dated 16 December 2022. These connected transactions were exempt from independent shareholders' approval requirement 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$7.8 to US$1 ruling at 31 December 2022.

31 Financial Risk Management and Fair Value Measurement

31.1 Categories of financial instruments

	2022 *HK$'000*	2021 *HK$'000*
Financial assets		
Financial assets at amortised cost		
Trade receivables	**60,962**	124,378
Deposits paid and other receivables	**1,985**	1,952
Cash and bank balances	**927,922**	893,997
Financial assets at fair value through profit or loss	**58,584**	71,241
	1,049,453	1,091,568
Financial liabilities at amortised cost		
Trade payables	**11,764**	28,476
Other payables and accrued charges	**40,956**	64,359
Lease liabilities	**28,437**	22,319
	81,157	115,154

31 Financial Risk Management and Fair Value Measurement (Continued)

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 2022, 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$2,929,000 (2021: increase/decrease the Group's profit for the year and increase/decrease the Group's equity by HK$3,562,000).

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 2022, the Group's gross trade receivables amounted to approximately HK$55,336,000 (2021: HK$115,706,000) 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 2022 was assessed to be 0% (2021: 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:

	2022	2021
Sales		
– the largest customer	19%	30%
– five largest customers in aggregate	69%	75%

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors (Continued)

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.

	2022				
	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	**11,764**	**–**	**–**	**11,764**	**11,764**
Other payables and accrued charges	**40,956**	**–**	**–**	**40,956**	**40,956**
Lease liabilities	**9,506**	**9,635**	**11,716**	**30,857**	**28,437**
	62,226	**9,635**	**11,716**	**83,577**	**81,157**

	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

31.3 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 2022			
	Level 1 ***HK$'000***	**Level 2** ***HK$'000***	**Level 3** ***HK$'000***	**Total** ***HK$'000***
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Equity investments listed in Hong Kong	**15,250**	**–**	**–**	**15,250**
Equity investments listed outside Hong Kong	**43,334**	**–**	**–**	**43,334**
	58,584	**–**	**–**	**58,584**

	At 31 December 2021			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'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

During the years ended 31 December 2022 and 2021, 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 2022 and 2021.

32 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 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
HKFRS 17, *Insurance Contracts and related amendments*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of Accounting Policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current Liabilities with Convenants*	1 January 2024

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	2022 US$'000 (Note 30)	2022 HK$'000	2021 HK$'000
Non-current assets				
Interest in subsidiaries		**18,895**	**147,380**	147,380
Current assets				
Other receivables and prepayments		**57**	**445**	351
Amounts due from subsidiaries		**45**	**354**	291
Financial assets at fair value through profit or loss		**2,390**	**18,639**	25,029
Cash and bank balances		**22,636**	**176,563**	166,320
		25,128	**196,001**	191,991
Current liabilities				
Other payables and accrued charges		**62**	**484**	499
Amounts due to subsidiaries		**1,155**	**9,008**	9,008
		1,217	**9,492**	9,507
Net current assets		**23,911**	**186,509**	182,484
Net assets		**42,806**	**333,889**	329,864
Equity				
Share capital	*26.1*	**1,513**	**11,800**	11,800
Reserves	*26.2*	**41,293**	**322,089**	318,064
Total equity		**42,806**	**333,889**	329,864

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:

	2022 *HK$'000*	2021 *HK$'000*	2020 *HK$'000*	2019 *HK$'000*	2018 *HK$'000*
Revenue	**504,248**	625,108	289,240	358,739	474,182
Profit/(Loss) before income tax	**14,905**	32,042	(22,570)	(16,477)	4,374
Income tax (expense)/credit	**(5,183)**	10,939	(7,493)	(20,801)	(3,812)
Profit/(Loss) for the year attributable to owners of the Company	**9,722**	42,981	(30,063)	(37,278)	562
Total assets	**1,177,341**	1,259,026	1,090,598	1,171,690	1,235,210
Total liabilities	**(190,537)**	(263,828)	(138,856)	(186,412)	(217,471)
Net assets	**986,804**	995,198	951,742	985,278	1,017,739

Playmates Toys Limited
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(Stock code 869)
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