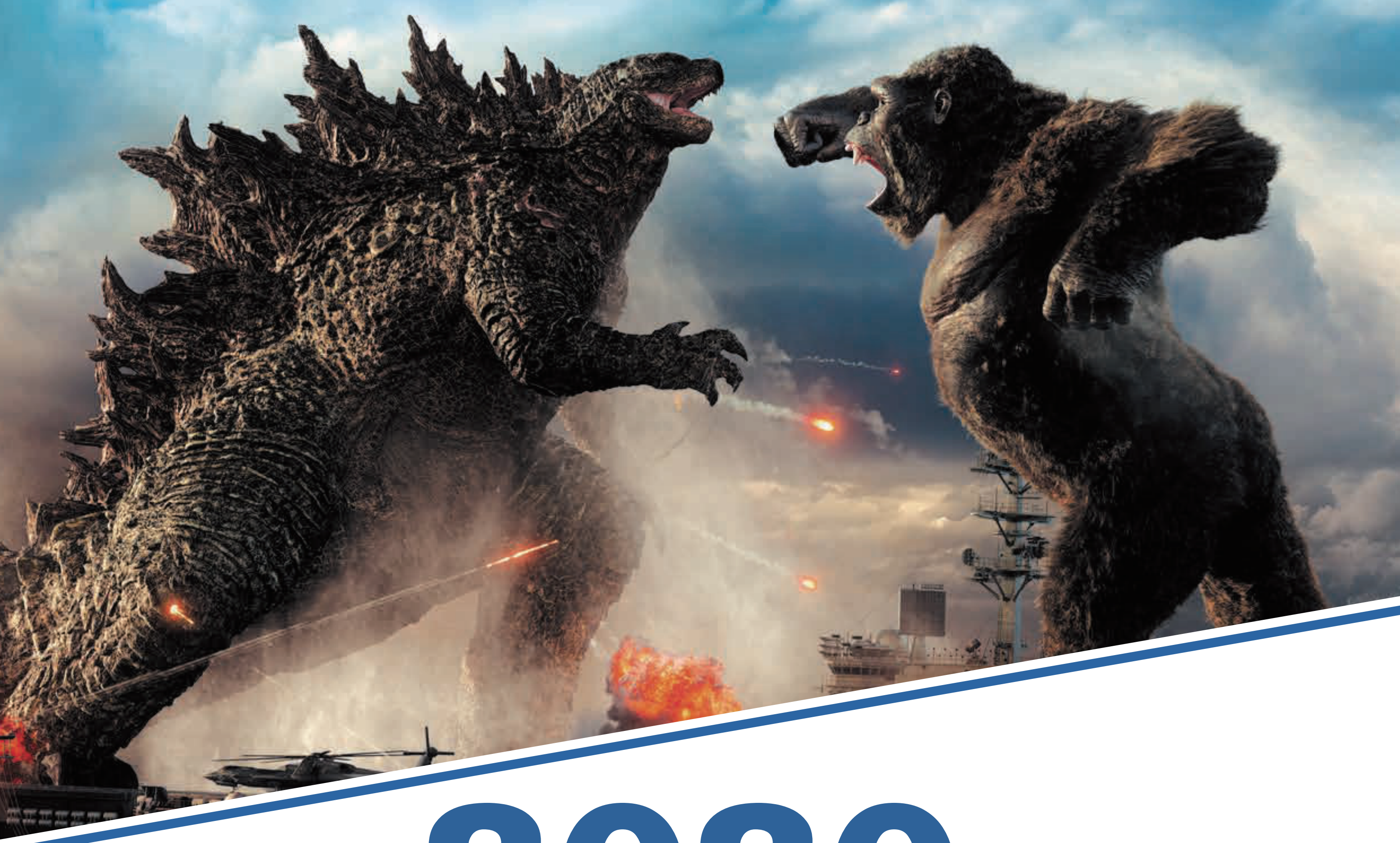
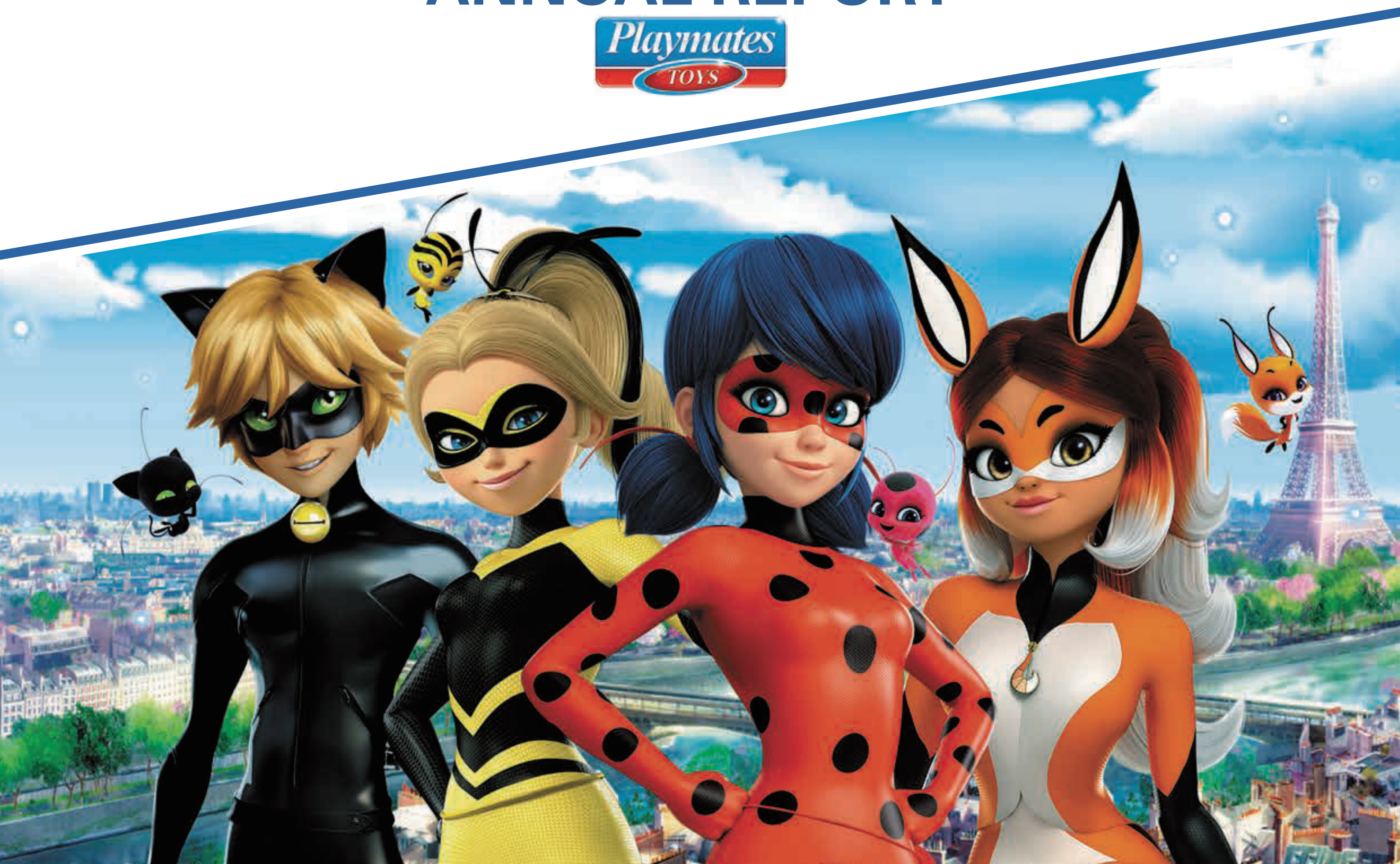


2020
ANNUAL REPORT

Playmates
TOYS



CORPORATE INFORMATION

Directors
TO Shu Sing, Sidney
(Chairman and Executive Director)
CHAN Kong Keung, Stephen
(Executive Director)
CHENG Bing Kin, Alain
(Executive Director)
CHOW Yu Chun, Alexander
(Independent Non-executive Director)
LAM Wai Hon, Ambrose
(Independent Non-executive Director)
LEE Ching Kwok, Rin
(Independent Non-executive Director)
TRAN Vi-hang William
(Executive Director)

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditors
Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

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

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

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

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

Website
www.playmatestoys.com

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STATEMENT FROM THE CHAIRMAN

Dear Shareholders,

I echo many in observing that 2020 had challenged us in ways we never could have expected. The COVID-19 pandemic, described by the OECD as "the first fully global crisis since World War II", hit every one of our major markets around the world in successive waves during the year, resulting in sporadic shutdown of social and economic activities wherever it touched. Around the world, retail store traffic plummeted and cinemas were shut down, leading to a reshuffling of the movie release calendar that impacted one of our licensed brands. In addition, the global toy supply chain was severely disrupted during Spring 2020, especially since toys were classified as non-essential goods. Although we saw gradual improvement throughout the year, as production and transportation services resumed in late second quarter, supply chain logistics remained challenged, with longer than normal lead times.

Given the extraordinary circumstances, our Spring 2020 product launches on the whole did not perform to our original expectations. However, our Fall 2020 introductions, Godzilla vs. Kong and Miraculous Ladybug, did achieve strong starts in the US and International markets respectively. Importantly, the Company remains financially sound and our development programs for new products and new brands for 2021 and beyond, including the return of a new generation of Teenage Mutant Ninja Turtles, are progressing according to plan.

I am thankful to my colleagues for quickly stepping up as a team and adopting new ways of getting things done in such difficult times. Their continuing efforts ensured our development pipeline remained largely unaffected while our offices were kept safe and our staff stayed healthy. Meanwhile, the executive management team demonstrated their dedication to the Company by voluntarily cutting salaries during the year.

The challenges, however, were far from over as 2021 began. Lockdown and social-distancing measures were re-enforced or intensified in many countries, including the US and in Europe, our most important markets. Nevertheless, the rolling out of mass vaccination offers some hope that the pandemic may soon be under control, leading to a return of retail spending to pre-pandemic levels.

In terms of trade relations that impact our major markets, it is our wish that the change in leadership of the US government may bring some relief to the ongoing US-China trade dispute. Likewise, in Europe the new free trade agreement between the UK and the EU should hopefully prevent the confusions and uncertainties of a no-deal "hard Brexit".

In 2020, we paid fond farewells to long-time mentors who had played crucial roles in the early development of the Playmates Group, including the founding former chairman, Mr. Chan Tai Ho, who passed away in March, and former director, Mr. Allen Lee Peng Fei, who left us in May. Their wisdom and guidance will be dearly missed.

As always I am grateful to the shareholders for your trust and support, and my fellow board members and business partners for their commitment and vital contributions, especially during the ongoing difficult times.

Yours Faithfully

TO Shu Sing, Sidney
Chairman of the board

Hong Kong, 5 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Playmates Toys group worldwide turnover for the year ended December 31, 2020 was HK$289 million (2019: HK$359 million), a decrease of 19% compared to the prior year. The decrease in turnover was the result of a contraction in our ***Teenage Mutant Ninja Turtles ("TMNT")*** *and* ***Ben 10*** product lines, partially offset by new product launches in 2020, primarily ***Godzilla vs. Kong*** and ***Miraculous: Tales of Ladybug & Cat Noir.***

Gross profit ratio on toy sales was 49% (2019: 51%). The decrease in gross profit ratio was attributable mainly to higher tooling and development expenses as a percentage of sales related to new products, and a sales mix shift to slightly lower margin products. Recurring operating expenses decreased by 12% from 2019, reflecting continued cost control measures.

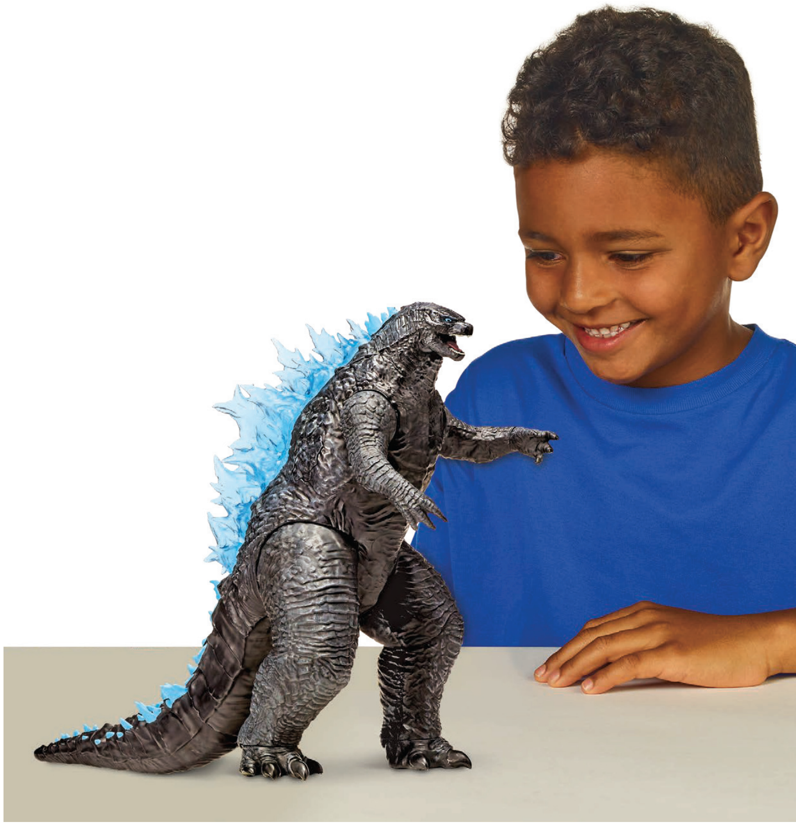
Net loss attributable to shareholders was HK$30 million (2019: Net loss of HK$37 million).

The US continued to be our biggest market in 2020, contributing 57% of revenue. Europe as a whole contributed 30%, the rest of the Americas 8% and 5% came from Asia Pacific. In a tumultuous year for the consumer products industry, overall toy sales in the US market were up by 16%[1] in 2020, driven by a surge in demand for games and puzzles, outdoor and sports toys, and building sets, as consumers looked to activity-based products during the pandemic to entertain the entire family at home. On the other hand, the Action Figure category was down 3.2% in 2020. In other regions, toy market performance varied depending on the spread of the COVID-19 pandemic and the maturity of the online shopping channels. The eight major European toy markets were up 2.4% in sales in 2020, while Latin America as a whole was down 10%[2].

1 *Source: The NPD Group / Retail Tracking Service/U.S. Toys/Adjusted Dollars.*

2 *Source: The NPD Group / Retail Tracking Service USD Projected G13 & China ecomm/FY2020.*

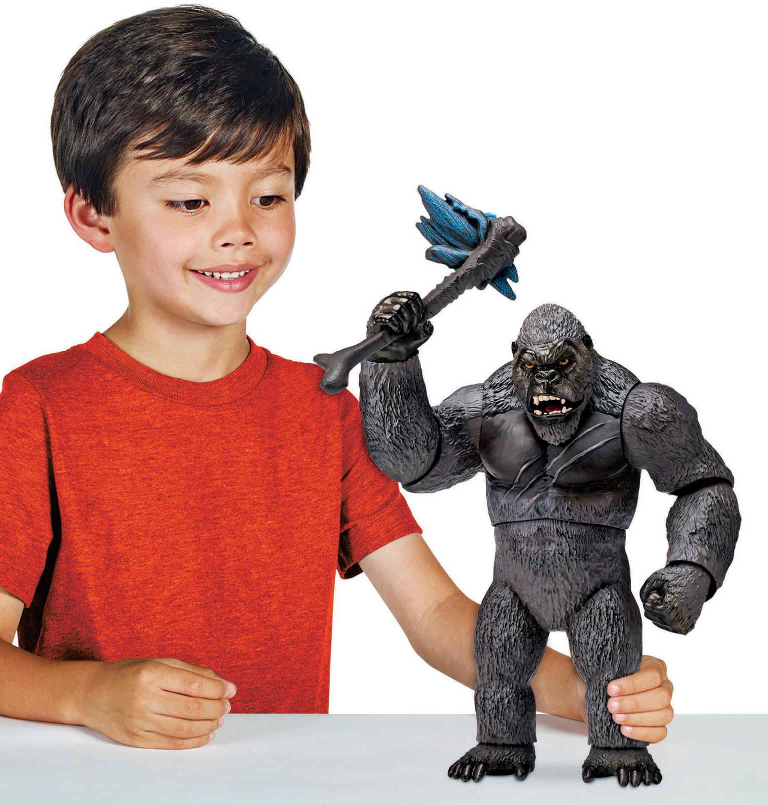
BRAND OVERVIEW

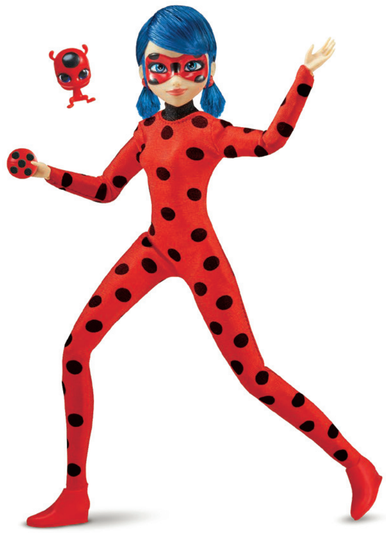


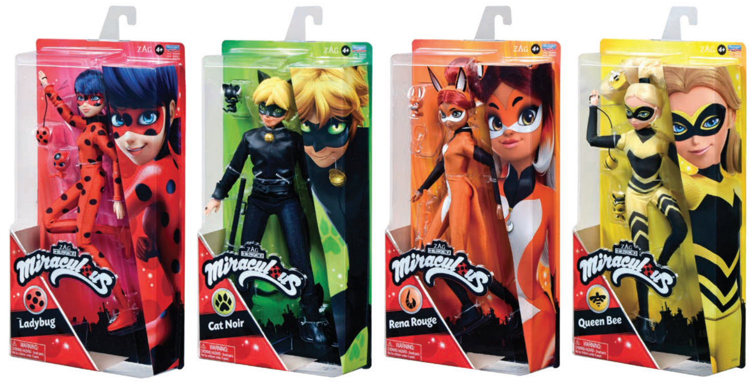
Godzilla vs. Kong

Godzilla vs. Kong, the highly anticipated movie from Legendary Entertainment and Warner Bros. Pictures, will premiere in late March 2021 in most global markets. The movie will also be released simultaneously in theaters and through streaming services, including HBOMax, which will give fans and kids multiple viewing options.

We launched our ***Godzilla vs. Kong*** movie product line in Fall 2020 in the U.S., where consumer demand has been strong, even absent major movie promotions, which will occur closer to the March 2021 release date. We will also continue to offer products inspired by Toho's Classic Monsters.

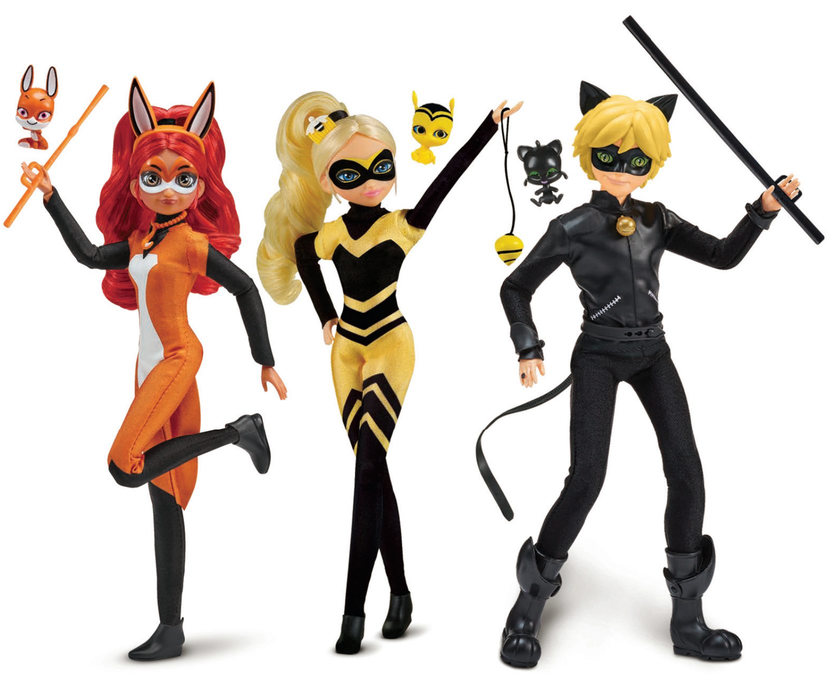


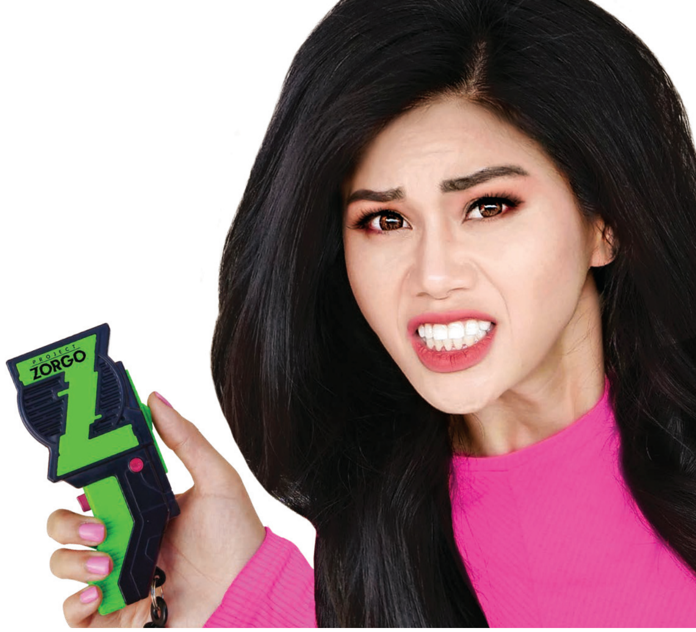




Miraculous: Tales of Ladybug & Cat Noir

We launched our extensive new line based on ZAG's hit animated series ***Miraculous: Tales of Ladybug & Cat Noir*** in a number of major international markets in Fall 2020, where we quickly saw strong consumer demand. The product line will debut in North America in 2021. The TV show is currently in its third season, airing in over 120 countries worldwide and streaming across multiple digital platforms, including Disney Channel, Disney+ and Netflix. ZAG's ***Miraculous: Tales of Ladybug & Cat Noir*** currently ranks as a top girls' series on Disney in Europe and North America. On YouTube, themed-music videos and other exclusive content have garnered over 200 million views.

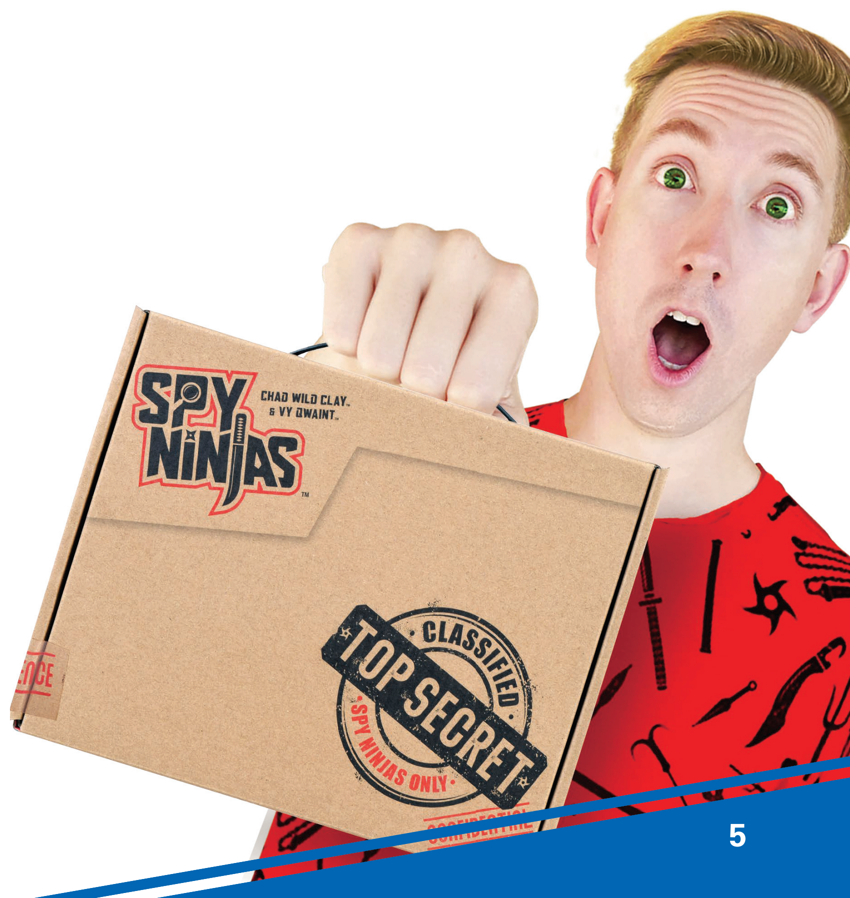




Spy Ninjas

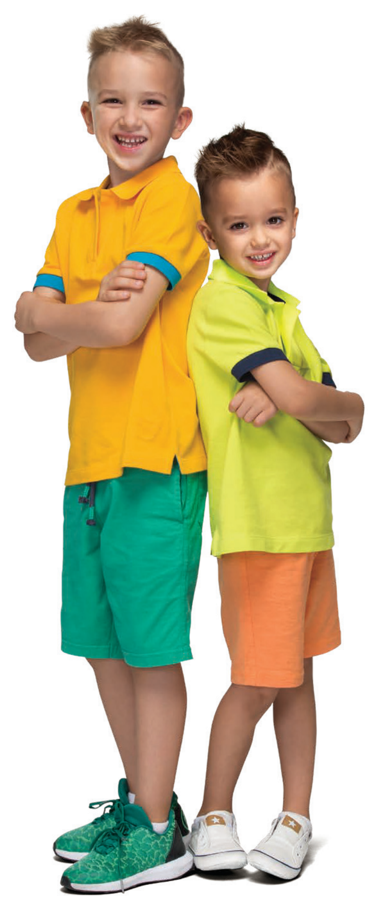
Spy Ninjas is a popular, action-packed YouTube adventure series featuring a team of best friends who use martial arts and detective skills to solve puzzles to defeat the evil hacker organization Project Zorgo. With multiple weekly episodes, the web series generates more than 400 million monthly views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

The first wave of ***Spy Ninjas*** products launched online in late 2020 with promising initial results. Spring 2021 will see an expansion of the product line and the first placement on retail shelves. The product line includes secret spy ninja gear, decoders, ninja weapons, a new Project Zorgo mask and other spy gadgets from the series.



Vlad & Niki

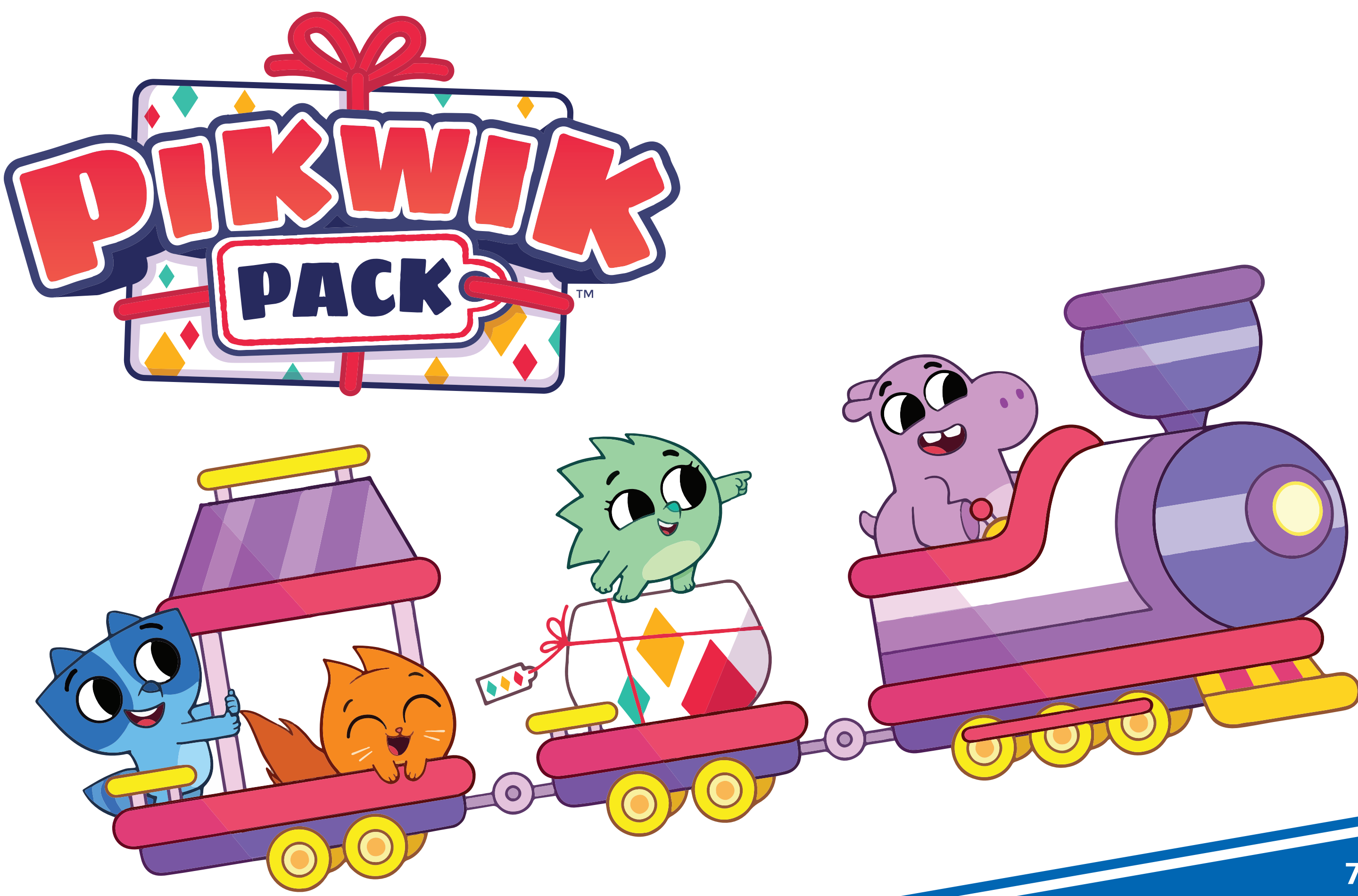
Vlad & Niki have become a global YouTube phenomenon, by creating one of the highest rated boys channels on the platform. ***Vlad & Niki*** capture more than five billion monthly views on 16 YouTube channels in 13 languages, with more than 120 million subscribers worldwide. ***Vlad & Niki*** engage kids with bright, fun short stories full of comedy, animation, music and more! Our line of *Vlad & Niki* toys will be found in the pre-school aisle starting this Fall.



Pikwik Pack

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

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



DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

TO Shu Sing, Sidney

Chairman and Executive Director

Mr. To, aged 63, joined the Group in 1986. Prior to joining the Group, he had 9 years working experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. He is also the chairman of the board of Playmates Holdings Limited.

CHAN Kong Keung, Stephen

Executive Director

Mr. Chan, aged 33, 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.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 58, was appointed a director of the Company in March 2010. He is the Group Legal Counsel and also an executive director of Playmates Holdings Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and qualified in England and Wales in 1997. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

CHOW Yu Chun, Alexander

Independent Non-executive Director

Mr. Chow, aged 73, joined the Group in 2007. He has over 37 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is currently an independent non-executive director of Symphony Holdings Limited and China Strategic Holdings Limited. On September 7, 2015, he was appointed an independent non-executive director of Aquis Entertainment Limited, a public company listed on the Australian Stock Exchange. He retired as an independent non-executive director of Top Form International Limited on October 31, 2019.

LAM Wai Hon, Ambrose

Independent Non-executive Director

Mr. Lam, aged 67, was appointed an independent non-executive director of the Company in August 2019. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree from University of Newcastle Upon Tyne in England.

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

Mr. Lam is currently an independent non-executive director of Genting Hong Kong 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.

LEE Ching Kwok, Rin

Independent Non-executive Director

Mr. Lee, aged 72, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practice in Hong Kong, England and Wales. He now serves as an adviser to a number of private companies and organizations.

TRAN Vi-hang William

Executive Director

Mr. Tran, aged 51, joined the Group in 2010. He is responsible for overseeing the international market management function 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.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2020.

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, 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.

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. During the year, training on various information security awareness has been provided to directors and staff. 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.

Relationships with stakeholders (Continued)

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	83%
Sales	
– the largest customer	35%
– five largest customers in aggregate	74%

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 54.

The directors do not recommend the payment of dividend.

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;

Dividend Policy (Continued)

(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 58 to 59. 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 2020, calculated under the Companies Act 1981 of Bermuda, amounted to HK$235,860,000 (2019: HK$317,995,000).

Financial Analysis

Analysis of bank loans and other borrowings

As at 31 December 2020, the Group has no banking facilities (2019: 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 2020, trade receivables were HK$41,291,000 (2019: HK$66,116,000) and inventories were HK$10,283,000 or 3.6% of revenue (2019: HK$19,518,000 or 5.4% of revenue).

The current ratio, calculated as the ratio of current assets to current liabilities, was 7.9 at 31 December 2020 and 6.1 at 31 December 2019.

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 2020, the Group's cash and bank balances were HK$949,943,000 (2019: HK$1,005,556,000), of which HK$922,758,000 (2019: HK$970,877,000) was denominated in United States dollar and the remaining balance was mainly denominated in Hong Kong dollar.

As at 31 December 2020, the Group also has treasury investment in equities listed overseas, namely The Walt Disney Company (DIS.US) amounted to HK$7,021,000 (31 December 2019: HK$nil) representing 0.6% of the total assets of the Group.

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 2020, the Group had a total of 65 employees in Hong Kong and the United States of America (2019: 66 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$271,000 (2019: HK$518,000).

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 108.

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. TO Shu Sing, Sidney *(Chairman)*
Mr. CHAN Kong Keung, Stephen *(Executive Director)*
Mr. CHENG Bing Kin, Alain *(Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)*
Mr. TRAN Vi-hang, William *(Executive Director)*

Pursuant to Bye-law 87(1) of the Company, Mr. To Shu Sing, Sidney, Mr. Cheng Bing Kin, Alain and Mr. Lee Ching Kwok, Rin shall retire by rotation at the forthcoming annual general meeting. Mr. To Shu Sing, Sidney and Mr. Cheng Bing Kin, Alain will offer themselves for re-election at the same meeting. Mr. Lee Ching Kwok, Rin 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 Mr. Ip Shu Wing, Charles and Mr. Yu Hon To, David be appointed as independent non-executive directors of the Company at the 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 5 March 2021	:	**2008 PTL Scheme** 8,246,500 ordinary shares, representing 0.70% of the issued capital. **2018 PTL Scheme** 48,332,000 ordinary shares, representing 4.10% of the issued capital

Share Options (Continued)

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

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the 2008 PTL Scheme and the 2018 PTL Scheme, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules during the year:

Participant	Date of grant	Exercise Price	Number of share options					Vesting/ Exercise period
			Balance at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2020	
		HK$						*(Note)*
2018 PTL Scheme								
Directors of the Company								
TO Shu Sing, Sidney *Chairman*	29 June 2018	0.826	2,000,000	–	–	–	2,000,000	(1)
CHAN Kong Keung, Stephen	29 June 2018	0.826	1,000,000	–	–	–	1,000,000	(1)
CHENG Bing Kin, Alain	29 June 2018	0.826	1,200,000	–	–	–	1,200,000	(1)
CHOW Yu Chun, Alexander	29 June 2018	0.826	500,000	–	–	–	500,000	(1)
LEE Ching Kwok, Rin	29 June 2018	0.826	500,000	–	–	–	500,000	(1)
TRAN Vi-hang William	29 June 2018	0.826	1,000,000	–	–	–	1,000,000	(1)
Continuous Contract Employees, excluding Directors	29 June 2018	0.826	16,552,000	–	–	–	16,552,000	(1)
Other Participants	29 June 2018	0.826	5,580,000	–	–	–	5,580,000	(1)
	12 April 2019	0.792	20,000,000	–	–	–	20,000,000	(2)

Share Options (Continued)

Participant	Date of grant	Exercise Price HK$	Number of share options: Balance at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2020	Vesting/ Exercise period (Note)
2008 PTL Scheme								
Directors of the Company								
CHOW Yu Chun, Alexander	13 April 2012	0.415	250,000	–	–	–	250,000	(3)
	15 May 2013	0.930	525,000	–	–	–	525,000	(4)
Continuous Contract Employees, excluding Directors	20 January 2010	0.828	759,000	–	–	759,000	–	(5)
	18 April 2011	0.315	528,000	–	–	–	528,000	(6)
	13 April 2012	0.415	1,297,500	–	–	–	1,297,500	(3)
	15 May 2013	0.930	3,505,500	–	–	–	3,505,500	(4)
Other Participants	30 March 2010	0.673	1,110,000	–	–	1,110,000	–	(7)
	18 April 2011	0.315	574,000	–	–	–	574,000	(6)
	13 April 2012	0.415	752,000	–	–	–	752,000	(3)
	15 May 2013	0.930	962,500	–	–	148,000	814,500	(4)

Notes:

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

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

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

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

(5) Divided into 4 tranches (with each tranche covering one-fourth of the relevant share options) exercisable from 20 January 2010, 20 January 2011, 20 January 2012 and 20 January 2013 respectively to 19 January 2020.

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

(7) Divided into 3 tranches (with each tranche covering one-third of the relevant share options) exercisable from 31 December 2012, 31 December 2013 and 31 December 2014 to 29 March 2020.

No options were cancelled during the year.

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

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

As at 31 December 2020, 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
TO Shu Sing, Sidney	Personal	10,000,000 ordinary shares	0.85%
CHENG Bing Kin, Alain	Personal	2,000,000 ordinary shares	0.17%
CHOW Yu Chun, Alexander	Personal	2,038,000 ordinary shares	0.17%
LEE Ching Kwok, Rin	Personal	1,865,000 ordinary shares	0.16%
TRAN Vi-hang, William	Personal	1,000,000 ordinary shares	0.08%

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

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
TO Shu Sing, Sidney	Personal	2,000,000 share options	2,000,000 shares	0.17%
CHAN Kong Keung, Stephen	Personal	1,000,000 share options	1,000,000 shares	0.08%
CHENG Bing Kin, Alain	Personal	1,200,000 share options	1,200,000 shares	0.10%
CHOW Yu Chun, Alexander	Personal	1,275,000 share options	1,275,000 shares	0.11%
LEE Ching Kwok, Rin	Personal	500,000 share options	500,000 shares	0.04%
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 Percentage interest held
TO Shu Sing, Sidney	Personal	20,000,000 ordinary shares	0.96%
CHAN Kong Keung, Stephen	Personal	2,600,000 ordinary shares	0.12%
CHENG Bing Kin, Alain	Personal	2,300,000 ordinary shares	0.11%
TRAN Vi-hang, William	Personal	160,000 ordinary shares	0.01%

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 2020.

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 2020, 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 2020, 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))*	614,000,000 ordinary shares	52.03%
TGC Assets Limited	Corporate and Beneficial Owner *(Note (ii))*	614,000,000 ordinary shares	52.03%
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 614,000,000 shares of the Company in aggregate which TGC is interested in.

(ii) TGC is directly interested in 14,000,000 shares of the Company. Furthermore, since TGC directly owns approximately 51.13% 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 2020, 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 and 2015.

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 three independent non-executive directors, namely, Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Lam Wai Hon, Ambrose. 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 31 December 2019, Playmates International Company Limited ("**PICL**"), an indirect wholly-owned subsidiary of the Company, as tenant and Prestige Property Management Limited, an indirect wholly-owned subsidiary of PHL, as agent for the landlord, Belmont Limited entered into a tenancy agreement ("**HK Lease**") in respect of the premises of a portion of 5th Floor, 9th Floor and 11th Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong ("**HK Premises**") for a term of 36 months from 1 January 2020 to 31 December 2022 at the rental of HK$452,200 per month (exclusive of rates, Government rent, utilities and other outgoings).

(ii) On 31 December 2019, PICL as tenant and Great Westwood Limited, 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 2020 to 31 December 2022 at the rental of ￡5,700 per month (inclusive of utilities but exclusive of government taxes).

PHL indirectly owns and controls approximately 50.85% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the HK Lease and UK Lease constitutes connected transactions.

In accordance with HKFRS 16 "Leases", the Group has recognised right-of-use asset on its consolidated statement of financial position in connection with the above leases. Accordingly, the transactions under the above leases would be regarded as an acquisition of asset and constitute connected transactions for the Company under Chapter 14A of the Listing Rules. On the basis of the acquisition of right-of-use asset under the above leases, the aggregate amount recognized by the Group pursuant to HKFRS 16 was approximately HK$17 million.

The Company considers that use of the 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. The terms of the above leases 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 HK Premises and the UK Premises. Having considered all relevant factors, the directors of the Company (including the independent non-executive directors) are of the view that the terms of the above leases are on normal commercial terms which 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 31 December 2019, 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
TO Shu Sing, Sidney
Chairman

Hong Kong, 5 March 2021

Corporate Governance Practices

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the Corporate Governance Code ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2020, except in respect of one code provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals. The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Board of Directors

Composition and Responsibilities

The board of directors of the Company comprises:

TO Shu Sing, Sidney *(Chairman)*
CHAN Kong Keung, Stephen *(Executive Director)*
CHENG Bing Kin, Alain *(Executive Director)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
LAM Wai Hon, Ambrose *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(Independent Non-executive Director)*
TRAN Vi-hang William *(Executive Director)*

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

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

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

In respect of one code provision providing for the segregation of the roles of the chairman and the chief executive officer, the Company does not have a designated chief executive officer in 2020. 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.

Appointment and Re-election

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

Support and Professional Development of Directors

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

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

Pursuant to the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the year ended 31 December 2020, 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 2020 was as recorded in the table below:

Directors	Reading	Attending in-house briefings/ seminars/ conferences
TO Shu Sing, Sidney	✓	✓
CHAN Kong Keung, Stephen	✓	✓
CHENG Bing Kin, Alain	✓	✓
CHOW Yu Chun, Alexander	✓	✓
LAM Wai Hon, Ambrose	✓	✓
LEE Ching Kwok, Rin	✓	✓
TRAN Vi-hang William	✓	✓

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 2020. 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
TO Shu Sing, Sidney	4/4	N/A	1/1	1/1	1/1
CHAN Kong Keung, Stephen	4/4	N/A	N/A	N/A	1/1
CHENG Bing Kin, Alain	4/4	N/A	N/A	N/A	1/1
CHOW Yu Chun, Alexander	4/4	2/2	1/1	1/1	1/1
LAM Wai Hon, Ambrose	4/4	2/2	N/A	N/A	1/1
LEE Ching Kwok, Rin	3/4	2/2	1/1	1/1	1/1
TRAN Vi-hang William	4/4	N/A	N/A	N/A	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 – Committee Chairman *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(Independent Non-executive Director)*
LAM Wai Hon, Ambrose *(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 2020. 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 5 March 2021, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2020 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:

LEE Ching Kwok, Rin *(Independent Non-executive Director)- Committee Chairman*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
TO Shu Sing, Sidney *(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. It also considered and made recommendations to the board on the remuneration terms of directors for renewal of service contracts during the year.

Remuneration Policy for Non-executive Director and Executive Directors

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

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

Nomination Committee

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

TO Shu Sing, Sidney – Committee Chairman *(Chairman)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(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 re-appointment of directors.

Board Committees (Continued)

Nomination Committee (Continued)

Board Diversity Policy

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

Nomination Policy

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

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

Corporate Governance Functions

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

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

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

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

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

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2020. 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 21 to 23 of this annual report.

Risk Management and Internal Controls

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

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

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

Risk Management and Internal Controls (Continued)

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

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

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

Auditors' Remuneration

For the year ended 31 December 2020, 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$1,200,000. 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 2020. 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 48 to 53 of this annual report.

Communications With Shareholders

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

Shareholders' Rights

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

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

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

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

Changes In Constitutional Documents

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

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business, and to achieve its business objectives within a framework of high standards taking into consideration of the customers, employees and communities. We have policies and internal control system in place to manage the material aspects of sustainability. We will continuously review and improve our health, safety and environmentally-friendly practices and standards in the course of our business and operation.

The board of directors oversees the environmental, social and governance performance and formulates strategies for the sustainable development of the Group. The management team is delegated with the responsibility for reviewing and evaluating the relevant practices and internal control systems regularly and ensuring compliance in daily operations.

Corporate Social Responsibility Policy

The Company has adopted a Corporate Social Responsibility Policy ("CSR Policy"). The approaches and principles under the CSR Policy mainly focus on the following key areas:

(i) The Business

- To achieve the objective of enhancing long-term return for its shareholders, the Group focuses on sustainable development of its businesses and the communities it operates.
- The Group regularly reviews its business operations and engages in communication with stakeholders to identify and respond to emerging issues.
- The Group is committed to complying with all relevant and applicable laws within its operational frameworks. Every member of the Group including directors, executives and employees also has a duty to comply with all applicable laws and adhere to the high standard of business ethics.

(ii) The People

- The Group is committed to providing a safe and healthy workplace to its employees.
- The Group ensures all employment practices are strictly abided by the applicable employment laws and regulations. The Group also adheres to non-discriminatory employment practices and treats all employees fairly and equally.

(iii) The Community

- The Group strives to make a positive impact on the society and support the communities through charitable donations and/or other forms of community programs.
- The Group also encourages employees to participate in social service and charitable activities in the community.

(iv) The Environment

- The Group is committed to minimizing the negative impact of its business activities on the environment and natural resources. The Group shall continue to comply with the applicable environmental laws and standards of the places where it operates.
- The Group strives to take effort to embed environmentally-friendly measures in business practices and supply chain management to minimize carbon footprint, reduce waste production and maximize energy and natural resources efficiency.

Communication with Stakeholders

The Group is dedicated to fostering the well-being of its stakeholders and to embracing appropriate practices to achieve optimal balance in economic, environmental, social and corporate governance throughout the Group in day-to-day operations. Understanding our stakeholders is important to our sustainability. The Group has engaged in regular communication with our stakeholders so that we can understand their views and respond to their needs and expectations. There are multiple channels of communication with our stakeholders, including the following:

Shareholders	• Annual general meeting • Regular corporate publications including financial statements • Company website • Investor presentations
Customers	• Continuous direct communication mechanism • Joint business planning • Regular top-to-top senior management meeting
Licensors	• Continuous direct communication mechanism • Joint business planning • Regular top-to-top senior management meeting
Suppliers	• Procurement processes • Regular visits • Regular compliance reporting • Audits and assessments
Employees	• Regular meetings • Performance review • Training programmes

The on-going dialogues with our stakeholders assist us to identify if there are any material sustainability issues of the Group. The Group will continue to identify area of improvement for the relevant aspects and keep close communication with the stakeholders to further enhance the environmental, social and governance management.

1. Protecting the Environment

Our vision is to deliver high quality, safe and innovative toys to consumers around the world, in a way that respects the environment. We strive to reduce our environmental footprint, through continuous improvement of operational efficiency and adoption of environmentally-friendly practices.

We are committed to complying with all applicable environmental laws in all countries in which we conduct operations. We have robust procedures in place to ensure that all of our toy products are in compliance with the latest applicable safety and environmental regulations. We work closely with our customers, suppliers, independent certified laboratories and industry associations to follow the latest developments in industry standards.

We also endeavor to make our properties more environmentally friendly through various energy saving and green management initiatives. We will continue to incorporate green features into the operation and management of property investments and associated businesses in order to reduce environmental impact.

During the year, we have complied with relevant laws and regulations relating to environment and natural resources such as air, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, where applicable to the Group. There are no relevant laws and regulations that have a significant impact on us.

The Group adopts the principles of reducing, recycling and reusing for the waste management. Any waste materials remaining from our operations must be disposed of legally and in a manner that meets applicable environmental standards. In Hong Kong, all the non-hazardous waste is handled by the recycler or sent to the landfill. The Group does not produce any hazardous waste in its operations during the year.

We are also committed to minimizing the environmental impact of our operations and by operating our businesses in ways that support sustainable use of our available natural resources. We strive to conserve energy and other valuable resources, to reduce waste and to participate in recycling and other environmental protection efforts. In 2020, there was no confirmed non-compliance incident or grievance in relation to our business which had significant impact on the environment or natural resources.

We have taken steps to review our sustainability measures and adopted different initiatives that support our mission to reduce environmental impact, including:

- Reduce number of components in our products
- Improve product-to-packaging ratios
- Adopt environmentally-friendly packaging materials
- Reduce logistics usage by optimizing the number of cartons and containers
- Use off-peak delivery
- Use Forest Stewardship Council (FSC) certified or recycled paper throughout our offices in Hong Kong

1. Protecting the Environment (Continued)

Overview of Environmental Data *(note 1)*

1. Greenhouse Gas (GHG) Emissions

Indicators	2020	2019
Direct emissions (Scope 1) (**kgCO_2e**) *(note 2)*	**16,031**	20,731
Indirect emissions (Scope 2) (**kgCO_2e**) *(note 3)*	**37,434**	38,784
Indirect emissions (Scope 3) (**kgCO_2e**) *(note 4)*	**11,224**	15,722
Total GHG emissions (Scope 1, 2 and 3) (kgCO_2e)	**64,689**	75,237
Total GHG emissions intensity (kg/HK$ million revenue)	**224**	210

2. Non-hazardous waste

Indicators	2020	2019
Total non-hazardous waste produced (tonnes)	**62**	77
Total non-hazardous waste produced intensity (tonnes/HK$ million revenue)	**0.22**	0.21

3. Effluent and waste management

Indicators	2020	2019
Total waste water discharged (m^3)	**3,616**	3,508
Waste disposed to landfill (kg)		
• General office waste (kg)	**62,305**	76,741
Total waste disposed to landfill (kg)	**62,305**	76,741
Waste collected for recycling (kg)		
• Metals (kg)	**4**	5
• Plastics (kg)	**3**	2
Total waste collected for recycling (kg)	**7**	7

4. Energy consumption

Indicators	2020	2019
Direct energy consumption (MWh)		
• Unleaded Petrol	**5,889**	7,602
Indirect energy consumption (MWh)		
• Electricity	**59,420**	61,562
Total energy consumption (MWh)	**65,309**	69,164
Total energy consumption intensity (MWh/HK$ million of revenue)	**226**	193

5. Water consumption

Indicators	2020	2019
Total water consumption (m^3) *(note 5)*	**3,616**	3,508
Total water consumption intensity (m3/HK$ million of revenue)	**13**	10

6. Packaging materials

Indicators	2020	2019
Total packaging material used (including plastic and papers) (tonnes)	**1,338**	1,517
Intensity of packaging material used (kg) (Material for packaging/number of products)	**0.23**	0.2

Notes:

1. Unless otherwise specified, the environmental data covers the Group's owned and operated facilities (offices) in Hong Kong and the U.S.

2. Scope 1 refers to direct GHG emission such as fuel combustion.

3. Scope 2 refers to indirect GHG emission such as consumption of electricity.

4. Scope 3 refers to indirect GHG emission such as consumption of paper and business air travel.

5. In 2020, there is no issue in sourcing water that is fit for purpose.

1. Protecting the Environment (Continued)

Look Forward

We plan to further enhance our environmental performance through the following actions:

1. Identify and manage environmental risks;
2. Monitor and comply with new requirements of all applicable laws and regulations;
3. Use energy, water and materials more efficiently;
4. Minimize water discharges, greenhouse gas and waste disposal;
5. Increase recycle and reuse waste to minimize landfill disposal;
6. Introduce environmentally responsible purchasing practices; and
7. Promote employee awareness and education.

2. Social

a. Employment Practices

It is our policy that we treat each employee with respect and fairness at all times and we are committed to providing a work environment free from unlawful discrimination to ensure all employees and job applicants enjoy equal opportunities and fair treatment. We are also committed to complying with all applicable laws, prohibiting discrimination and making all employment or promotion decisions on the basis of factors such as merits, qualifications, experience, skills and achievements, regardless of any characteristics protected by law such as race, colour, gender or religious belief. During the year we have complied with local employment regulations in all jurisdictions in which we carry on business.

The Group does not employ child or forced labour which is strictly prohibited in all of our business sectors. Furthermore, we do not allow any of our vendors or suppliers to engage in any forced or child labour. We comply with all relevant laws and regulations preventing child and forced labour. There are no relevant laws and regulations that have a significant impact on us.

b. Promotion of Ethical and Responsible Conduct

Our Code of Business Conduct, available in the Staff Handbook, communicates to our employees our emphasis on ethical business conduct. The Code of Business Conduct applies to all employees and covers areas including, among other things, health, safety and financial integrity etc.

We have an Ethics Resource Team that assists our employees in understanding and complying with the Code of Business Conduct, monitoring compliance, resolving conflicts and queries and coordinating investigations into reported violations. Furthermore, we have in place a "whistle-blowing" policy and system for our employees to raise concerns on any inappropriate conduct or malpractice that compromises the interest of the Company.

c. Health and Safety

We are committed to providing a safe and healthy work environment in accordance with applicable safety and health laws and regulations and to taking appropriate precautionary and remedial measures for the safety of our employees. In view of the COVID-19 outbreak, the Group has implemented appropriate work arrangement for the employees such as working from home, rostering and flexible working hours. We have also engaged professional cleaning company to clean and sanitize the office areas regularly to ensure the workplace safety.

There was no case of fatality due to workplace incident in the reporting year. There are no relevant laws and regulations that have a significant impact on us.

d. Development and Training

To assist employees in their career development, we encourage them to attend vocational, academic or professional training courses to enhance their skills or qualifications relevant to their duties at work by reimbursing or subsidizing the training fees or tuition fees and granting the employees paid leave for attending such courses. We also conduct continuous training sessions for our directors and senior executives on legal and regulatory updates and matters relevant to the businesses of the Group.

3. Operating Practices

a. Supply Chain Management

Supply chain is a critical part of our operations. All productions of our toy products are outsourced to independent OEM vendors with manufacturing facilities primarily in China. We have a select group of approximate 10 vendors that produce our toy products during the year.

Our vendor selection criteria focus on safety, quality, security, cost and delivery. The safety and quality of toy products manufactured for us have always been of the utmost importance to us. As part of our long standing quality assurance program, all of our vendors are required to adhere to the policies and procedures imposed by us, and all toys manufactured for us are tested and certified by independent certified laboratories which must be in full compliance with applicable regulations and standards.

The ongoing factory monitoring is supported by random audits of products. All of our vendors must comply with the security criteria as set forth by the U.S. Customs and Border Protection's multi-layered cargo enforcement strategy under Department of Homeland Security. All vendors are also certified to comply with the International Council of Toy Industries (ICTI) CARE Process and/or Electronics Industry Citizenship Coalition/Responsible Business Alliance (EICC/RBA) to ensure that factories meet the relevant standards, which contains principles regarding work environment, fair labour treatment, as well as employee health and safety in the toy industry. Regular reviews are performed to ensure that all vendors remain in compliance with the appropriate standard at all times. As far as we are aware, there has been no material non-compliance with applicable standards by our vendors during the year.

Furthermore, all of our toy suppliers must enforce and adhere to all applicable international supply-chain security standards to identify, mitigate and eliminate all potential security risks. Generally they participate in the Global Security Verification (GSV) Program or USC-TPAT Security Inspection Program, in which they are required to verify their manufacturing facilities on an annual basis in respect of the effectiveness of their GSV or C-TPAT security practices.

b. Product Quality and Safety

The quality assurance of our products has been of the utmost importance ever since our inception, over 50 years ago. Our primary concern continues to be the health and safety of the end users of our products, most of whom are children. Our commitment to and continued vigilance over quality and safety are essential in maintaining the trust of our customers.

We have established a strict quality control system and a set of quality standards for all our products. Our policies and practices on quality control of the production of our products are:

- We maintain a quality manual which documents the process and requirements for all products of the Group.

- The areas that are monitored include product safety, quality, laboratory testing, customers' requirement, specification, inspection, samples and vendor responsibility.

- Process and requirement are revised from time to time to meet new regulations of countries to which products are shipped.

- Our vendors are required to fully understand our quality manual and the requirements of the Group and our customers.

- All products must be tested and certified to comply with applicable international standards and regulations with reports issued from accredited laboratories before shipment.

The United States is the most important market for our toys. Toys sold in the United States are regulated by Consumer Product Safety Commission ("CPSC") and must comply with US federal regulations such as Consumer Product Safety Act, Federal Hazardous Substances Act, Consumer Product Safety Improvement Act and Child Safety Protection Act. The United States government also relies on the toy industry to voluntarily regulate itself. There is a comprehensive voluntary safety standard for toys in the United States, referred to as ASTM F963, which contains additional requirements for safety. Playmates is a member of Toy Industry Association which, together with CPSC, is actively involved in reviewing and updating the safety standard.

3. Operating Practices (Continued)

b. Product Quality and Safety (Continued)

Toys sold in Europe are primarily regulated by Toy Safety Directive (2009/48/EC) of the European Commission and the European standard for toys, EN-71. Additional requirements apply to electronic toys are contained in Safety of Electric Toys: EN62115. Toys containing Phthalates and certain kinds of toys are further regulated by other legislations such as the Restriction of Hazardous Substances in Electronic Equipment Directive and the Waste Electrical and Electronic Equipment Directive. Our products sold in Europe conform to the relevant regulations and are marked to show European Conformity with the "CE" mark.

We have not made any product recalls or received any material product liability claims or product related complaint from end consumers during the year.

c. Marketing to Children

We market our products in a responsible way by offering age-appropriate contents in marketing materials. For our Playmates Toys' website, we comply with the US Online Privacy Protection Act which set out rules for collecting information from children. Playmates Toys is also a member of the "kidSAFE Seal Program" under which the contents of its website have been independently reviewed and certified to meet the standards of online safety and/or privacy.

d. Protection of Trademarks

All of our products are produced and sold under trademarks owned by or licensed to us. We typically register our intellectual properties and seek protection under the trademark, copyright and patent laws of the U.S. and other countries where our products are produced or sold. We have registered a number of trademarks with the U.S. Patent and Trademark Office and with similar authorities in various countries.

e. Protection of Consumer Data

It is our policy that we must protect consumer information that is sensitive, private or confidential. No consumer information may be shared, sold or traded without proper and prior consent, in accordance with our procedures for maintaining the security of such information, and applicable privacy and data protections laws and regulations.

f. Anti-corruption

We are committed to ethical business practices and full compliance with the law wherever we do business. We prohibit our employees from offering, authorizing or giving or receiving money or anything else of value, either directly or through other parties, to governmental officials or private sector representatives, in order to influence their decision-making process, either to gain or to retain business. This prohibition includes business courtesies, such as gifts, entertainment or contributions, under circumstances that would create an appearance of impropriety.

We have established in our Code of Business Conduct policies against money laundering which are in line with all applicable laws and prohibit our employees from accepting or processing proceeds of criminal activities.

We have in place a "whistle-blowing" policy and system for our employees to report suspected criminal acts including corruption, money laundering and frauds.

During the reporting year, we have complied with all relevant laws and regulations that have a significant impact on the Group. There was no legal case of non-compliance with the Prevention of Bribery Ordinance (Cap.201) and other applicable laws or regulations, nor any legal cases regarding corrupt practices or money laundering brought against the Company or its employees during the year. We will monitor and identify applicable laws and regulations as well as their latest development and ensure that various measures including internal control and training are in place to ensure compliance.

4. Community Investment

We always seek to make a positive contribution to build a better world for children. We encourage our employees to participate in volunteering activities organized by local charities. During the year, we have also supported a number of charitable organizations including but not limited to Sachs Family Foundation and The Friends of Cambridge University H.K.

INDEPENDENT AUDITOR'S REPORT

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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 54 to 107, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 2020, the Group has advanced royalties amounted to approximately HK$50 million (2019: HK$44 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 2020 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

5 March 2021

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Note	2020 US$'000 (Note 30)	2020 HK$'000	2019 HK$'000
Revenue	4	**37,321**	**289,240**	358,739
Cost of sales		**(18,998)**	**(147,231)**	(174,485)
Gross profit		**18,323**	**142,009**	184,254
Other revenue	22(i)	**2,319**	**17,976**	–
Marketing expenses		**(10,605)**	**(82,191)**	(80,575)
Selling and distribution expenses		**(845)**	**(6,552)**	(19,466)
Administration expenses		**(13,390)**	**(103,782)**	(119,789)
Operating loss		**(4,198)**	**(32,540)**	(35,576)
Other net income	7	**1,550**	**12,015**	20,568
Finance costs	8	**(264)**	**(2,045)**	(1,469)
Loss before income tax	6	**(2,912)**	**(22,570)**	(16,477)
Income tax expense	9	**(967)**	**(7,493)**	(20,801)
Loss for the year attributable to owners of the Company		**(3,879)**	**(30,063)**	(37,278)
		US cents	*HK cents*	*HK cents*
Loss per share	11			
Basic		**(0.33)**	**(2.55)**	(3.16)
Diluted		**(0.33)**	**(2.55)**	(3.16)

The notes on pages 60 to 107 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	**2020**	2019
	US$'000	***HK$'000***	*HK$'000*
	(Note 30)		
Loss for the year	**(3,879)**	**(30,063)**	(37,278)
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	**(680)**	**(5,269)**	–
Total comprehensive income for the year attributable to owners of the Company	**(4,559)**	**(35,332)**	(37,278)

The notes on pages 60 to 107 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 US$'000 (Note 30)	2020 HK$'000	2019 HK$'000
Non-current assets				
Property, plant and equipment	14	232	1,798	2,276
Right-of-use assets	15.1	1,465	11,353	3,050
Prepayments	19	2,000	15,500	–
Deferred tax assets	24	2,201	17,060	22,608
		5,898	45,711	27,934
Current assets				
Inventories	17	1,327	10,283	19,518
Trade receivables	18	5,328	41,291	66,116
Deposits paid, other receivables and prepayments	19	4,690	36,349	49,846
Taxation recoverable		–	–	2,720
Financial assets at fair value through profit or loss	20	906	7,021	–
Cash and bank balances	27.2	122,573	949,943	1,005,556
		134,824	1,044,887	1,143,756
Current liabilities				
Trade payables	21	1,337	10,365	34,489
Deposits received, other payables and accrued charges	22	10,922	84,639	93,812
Provisions	23	3,018	23,391	42,348
Lease liabilities	15.2	735	5,694	3,169
Taxation payable		1,133	8,781	12,594
		17,145	132,870	186,412
Net current assets		117,679	912,017	957,344
Total assets less current liabilities		123,577	957,728	985,278
Non-current liabilities				
Lease liabilities	15.2	772	5,986	–
Net assets		122,805	951,742	985,278
Equity				
Share capital	26.1	1,523	11,800	11,800
Reserves		121,282	939,942	973,478
Total equity		122,805	951,742	985,278

On behalf of the board

CHENG Bing Kin, Alain
Director

To Shu Sing, Sidney
Director

The notes on pages 60 to 107 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

	Note	2020 US$'000 (Note 30)	2020 HK$'000	2019 HK$'000
Cash flows from operating activities				
Cash used in operations	27.1	**(5,175)**	**(40,106)**	(5,488)
Overseas tax paid		**(752)**	**(5,828)**	(14,157)
Hong Kong profits tax refunded		**355**	**2,751**	–
Net cash used in operating activities		**(5,572)**	**(43,183)**	(19,645)
Cash flows from investing activities				
Purchases of property, plant and equipment		**(97)**	**(755)**	(121)
Purchases of financial assets at fair value through profit or loss		**(504)**	**(3,908)**	–
Dividends received		**–**	**–**	24
Interest received		**819**	**6,351**	20,447
Net cash generated from investing activities		**218**	**1,688**	20,350
Cash flows from financing activities				
Issue of shares		**–**	**–**	76
Repurchase of shares of the Company		**–**	**–**	(149)
Payment of lease liabilities	27.3	**(1,079)**	**(8,360)**	(3,171)
Net cash used in financing activities		**(1,079)**	**(8,360)**	(3,244)
Net decrease in cash and cash equivalents		**(6,433)**	**(49,855)**	(2,539)
Cash and cash equivalents at 1 January		**129,749**	**1,005,556**	1,008,131
Effect of foreign exchange rate changes		**(743)**	**(5,758)**	(36)
Cash and cash equivalents at 31 December	27.2	**122,573**	**949,943**	1,005,556

The notes on pages 60 to 107 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Capital reserve *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2019	11,800	–	407	38,285	4,174	11,221	952,524	1,018,411
Loss and total comprehensive income for the year	–	–	–	–	–	–	(37,278)	(37,278)
Share option scheme								
– value of services	–	–	–	–	–	4,218	–	4,218
– shares issued	2	131	–	–	–	(57)	–	76
– share options lapsed	–	–	–	–	–	(1,697)	1,697	–
Repurchase of shares of the Company	(2)	(131)	2	–	–	–	(18)	(149)
Transactions with owners	–	–	2	–	–	2,464	1,679	4,145
At 31 December 2019	11,800	–	409	38,285	4,174	13,685	916,925	985,278

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

The notes on pages 60 to 107 form an integral part of these financial statements.

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 2020 were approved for issue by the board of directors on 5 March 2021.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

The financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

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

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

2.4 Property, plant and equipment

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.4 Property, plant and equipment (Continued)

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

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

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

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

2.5 Inventories

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

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

2.6 Financial assets

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

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

(i) Classification of financial assets

Investments other than equity investments

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

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

- fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, 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 expected credit losses ("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.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

When there is information (developed internally or obtained from external sources) indicating that a debtor is unlikely to pay, the Group may consider the related receivables as not recoverable and constitute as a default.

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.

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(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 Leased assets

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.

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.

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions (Continued)

(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.

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 Summary of Significant Accounting Policies (Continued)

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.

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 as it accrues using the effective interest method.

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.

2.13.3 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 Summary of Significant Accounting Policies (Continued)

2.14 Employee benefits (Continued)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

2.16 Deferred taxation (Continued)

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

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

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

  (i) the same taxable entity; or

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

2.17 Current taxation

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

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

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

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

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

2.18 Foreign currency translation

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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.

2.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's senior executive management for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. Based on the internal reports reviewed by the senior executive management of the Group that are used to make strategic decision, the only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

2.21 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

3 Adoption of New or Amended HKFRSs

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

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

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 or amended standard 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 2020 from sales of toys was HK$289,240,000 (2019: HK$358,739,000).

5 Segment Information

5.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, prepayments and right-of-use assets ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the property, plant and equipment and right-of-use assets, and the location of operation to which they are related in case of prepayments.

	Revenue		Specified non-current assets	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**24**	282	**26,939**	1,978
Americas				
– U.S.A.	**164,058**	203,164	**418**	3,348
– Others	**22,348**	33,027	**–**	–
Europe	**87,816**	104,447	**1,294**	–
Asia Pacific other than Hong Kong	**14,006**	17,219	**–**	–
Others	**988**	600	**–**	–
	289,216	358,457	**1,712**	3,348
	289,240	358,739	**28,651**	5,326

5.2 Major customers

The Group's customer base includes two (2019: two) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$100,923,000 and HK$46,838,000 (2019: HK$113,670,000 and HK$39,382,000) respectively.

6 Loss before Income Tax

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

	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold	**124,479**	149,395
(Reversal of write down)/Write down of inventories	**(139)**	156
Product development and tooling costs	**20,275**	22,159
Royalties expenses	**54,498**	50,905
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**11,428**	20,540
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 23)*	**(14,634)**	(3,277)
Depreciation		
– property, plant and equipment *(Note 14)*	**1,224**	4,521
– right-of-use assets *(Note 15.1)*	**7,718**	3,051
Directors' and staff remunerations *(Note 12)*	**67,926**	73,870
Allowance for customer concession	**2,408**	4,959
Reversal of allowance for customer concession	**(116)**	(36)
Lease charges for short-term leases	**–**	5,426
Net foreign exchange loss	**1,510**	87
Loss on disposal of property, plant and equipment	**5**	97
Auditors' remuneration	**1,200**	1,200

7 Other Net Income

	2020	2019
	HK$'000	*HK$'000*
Interest income	**6,351**	20,447
Dividend income	**–**	24
Net gain on financial assets at fair value through profit or loss	**3,113**	–
Government subsidies	**2,006**	–
Others	**545**	97
	12,015	20,568

8 Finance Costs

	2020	2019
	HK$'000	*HK$'000*
Bank charges	**1,240**	1,230
Interest on lease liabilities	**805**	239
	2,045	1,469

9 Income Tax Expense

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

	2020	2019
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
Overseas taxation	**2,440**	10,745
Over provision in prior years – Hong Kong	**(30)**	–
(Over)/Under provision in prior years – overseas	**(345)**	192
	2,065	10,937
Deferred taxation		
Origination and reversal of temporary differences	**5,428**	9,864
Income tax expense	**7,493**	20,801

9.2 Reconciliation between tax expense and accounting loss at applicable tax rates:

	2020 *HK$'000*	2019 *HK$'000*
Loss before income tax	**(22,570)**	(16,477)
Tax on loss before income tax, calculated at the rates applicable to (loss)/profits in the tax jurisdiction concerned	**(104)**	3,646
Tax effect of:		
Non-taxable income	**(1,059)**	(854)
Non-deductible expenses	**340**	374
Unrecognised tax losses	**8,691**	17,652
Utilisation of previously unrecognised tax losses	**–**	(209)
(Over)/Under provision in prior years	**(375)**	192
Income tax expense	**7,493**	20,801

10 Dividends

The directors do not recommend the payment of dividend (2019: HK$nil).

11 Loss per Share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$30,063,000 (2019: HK$37,278,000) and the weighted average number of ordinary shares of 1,180,000,000 shares (2019: 1,179,998,000 shares) in issue during the year.

Diluted loss per share for the years ended 31 December 2020 and 2019 equals to the basic loss per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted loss per share.

12 Directors' and Staff Remunerations

	2020 HK$'000	2019 HK$'000
Wages, salaries and other benefits	**64,673**	69,311
Share-based compensation	**1,010**	2,307
Employer's contributions to provident fund	**2,243**	2,252
	67,926	73,870

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

Name of director	Fee 2019 *HK$'000*	Salary 2019 *HK$'000*	Bonus 2019 *HK$'000*	Share-based compensation 2019 *HK$'000*	Other benefits 2019 *HK$'000*	Employer's contribution to provident fund 2019 *HK$'000* *(Note)*	Total 2019 *HK$'000*
CHAN Kong Keung, Stephen	10	960	–	102	7	–	1,079
CHENG Bing Kin, Alain	10	1,176	–	122	7	–	1,315
CHOW Yu Chun, Alexander	330	–	–	51	–	–	381
LAM Wai Hon, Ambrose (appointed on 12 August 2019)	128	–	–	–	–	–	128
LEE Ching Kwok, Rin	330	–	–	51	–	–	381
TO Shu Sing, Sidney	10	2,160	–	203	14	–	2,387
TRAN Vi-hang William (appointed on 12 August 2019)	4	639	–	27	7	7	684
YANG, Victor (resigned on 12 August 2019)	203	–	–	37	–	–	240
	1,025	4,935	–	593	35	7	6,595

Note: Other benefits include medical allowance.

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2020 and 2019.

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 2020 and 2019.

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

13.2 Five highest paid individuals

One (2019: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2019: four) highest paid individuals are as follows:

	2020 *HK$'000*	2019 *HK$'000*
Salaries, other allowances and benefits in kind	7,692	8,124
Bonuses	–	–
Share-based compensation	165	376
Employer's contributions to provident fund	417	416
	8,274	8,916

The emoluments of these four (2019: four) individuals are within the following bands:

	Number of individuals	
	2020	2019
HK$		
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	3	2
2,500,001 – 3,000,000	–	1
	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 2020	**9,939**	**4,077**	**8,175**	**22,191**
Exchange fluctuation	**(8)**	**(9)**	**(39)**	**(56)**
Additions	**–**	**112**	**643**	**755**
Disposals	**–**	**(35)**	**(515)**	**(550)**
At 31 December 2020	**9,931**	**4,145**	**8,264**	**22,340**
Accumulated depreciation				
At 1 January 2020	**9,843**	**2,624**	**7,448**	**19,915**
Exchange fluctuation	**(8)**	**(8)**	**(36)**	**(52)**
Charge for the year	**96**	**538**	**590**	**1,224**
Disposals	**–**	**(35)**	**(510)**	**(545)**
At 31 December 2020	**9,931**	**3,119**	**7,492**	**20,542**
Net book value				
At 31 December 2020	**–**	**1,026**	**772**	**1,798**
Cost				
At 1 January 2019	9,939	4,091	9,033	23,063
Additions	–	59	62	121
Disposals	–	(73)	(920)	(993)
At 31 December 2019	9,939	4,077	8,175	22,191
Accumulated depreciation				
At 1 January 2019	6,939	2,067	7,284	16,290
Charge for the year	2,904	581	1,036	4,521
Disposals	–	(24)	(872)	(896)
At 31 December 2019	9,843	2,624	7,448	19,915
Net book value				
At 31 December 2019	96	1,453	727	2,276

15 Right-of-Use Assets and Lease Liabilities

15.1 Right-of-use assets

Movement during the year:

	2020 HK$'000	2019 HK$'000
At 1 January	**3,050**	5,482
Exchange fluctuation	**(17)**	–
Additions	**17,029**	619
Depreciation	**(7,718)**	(3,051)
Adjustment due to lease modification	**(991)**	–
At 31 December	**11,353**	3,050

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

15.2 Lease liabilities

(i) Maturity analysis:

	2020 HK$'000	2019 HK$'000
Within one year	**5,694**	3,169
After one year but within two years	**5,986**	–
	11,680	3,169

(ii) Movement during the year:

	2020 HK$'000	2019 HK$'000
At 1 January	**3,169**	**5,482**
Exchange fluctuation	**28**	**–**
Additions	**17,029**	**619**
Interest expenses	**805**	**239**
Lease payments	**(8,360)**	**(3,171)**
Adjustment due to lease modification	**(991)**	**–**
At 31 December	**11,680**	**3,169**

(iii) Total cash outflows for leases:

	2020 HK$'000	2019 HK$'000
Payment for short-term leases within operating cash flows	**–**	5,426
Payment for lease liabilities within financing cash flows	**8,360**	3,171
	8,360	8,597

16 Interest in Subsidiaries

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

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

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

17 Inventories

As at 31 December 2020, inventories represent finished toys products with carrying amount of HK$10,283,000 (2019: HK$19,518,000).

18 Trade Receivables

	2020 *HK$'000*	2019 *HK$'000*
Trade receivables	**60,072**	82,899
Less: Allowance for customer concession	**(18,781)**	(16,783)
	41,291	66,116

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

18.1 Aging analysis

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2020 *HK$'000*	2019 *HK$'000*
0 – 60 days	**28,306**	43,546
61 – 90 days	**8,267**	16,753
91 – 180 days	**917**	3,231
Over 180 days	**3,801**	2,586
	41,291	66,116

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:

	2020	2019
	HK$'000	*HK$'000*
Neither past due nor impaired	**29,202**	45,306
1 – 90 days past due	**7,457**	17,033
91 – 180 days past due	**830**	1,192
Over 180 days past due	**3,802**	2,585
	12,089	20,810
	41,291	66,116

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

	2020	2019
	HK$'000	*HK$'000*
Non-current portion		
Advanced royalties *(Note (i))*	**15,500**	–
Current portion		
Advanced royalties *(Note (i))*	**34,002**	44,168
Miscellaneous prepaid expenses, deposits paid and receivables	**2,347**	5,678
	36,349	49,846

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

	2020	2019
	HK$'000	*HK$'000*
Listed equity investment outside Hong Kong	**7,021**	–

21 Trade Payables

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

	2020	2019
	HK$'000	HK$'000
0 – 30 days	**7,528**	27,559
31 – 60 days	**1,725**	5,198
Over 60 days	**1,112**	1,732
	10,365	34,489

22 Deposits Received, Other Payables and Accrued Charges

	2020	2019
	HK$'000	HK$'000
Contract liabilities		
– Purchase commitment guarantee deposits from toy distributors *(Note (i))*	**30,748**	50,532
– Sales deposits received in advance *(Note (ii))*	**14,572**	1,587
Accrued product development, sales, marketing and distribution expenses	**3,344**	3,064
Accrued royalties	**24,084**	23,773
Accrued directors' and staff remunerations	**4,996**	4,528
Withholding tax payable	**4,245**	7,200
Accrued administrative expenses and professional fees	**2,650**	3,128
	84,639	93,812

Notes:

(i) Certain toy distributors paid a non-refundable purchase commitment guarantee deposit in consideration of the Group granting distribution rights for sales and marketing of licensed toy products in certain territories and within a certain time period according to the distribution agreement. The distributor is entitled to recoup this paid deposit against purchases of licensed toy products from the Group by deducting a certain percentage from each sales transaction amount payable to the Group until such deposit is fully recouped. The Group recognises the recouped deposit balance as revenue at the same point of time when the products are delivered to the distributor. During the year, the Group has recognised revenue of HK$2,970,000 (2019: HK$5,519,000) from the balance as at the beginning of the reporting period.

Any unrecouped purchase commitment guarantee deposit at the expiry of a distribution agreement shall be forfeited and credited to profit or loss of the Group. During the year, HK$17,976,000 (2019: HK$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, the Group has recognised revenue of HK$1,587,000 (2019: HK$4,591,000) 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 2020	**8,350**	**24,566**	**1,581**	**7,851**	**42,348**
Exchange fluctuation	**(54)**	**(157)**	**–**	**(51)**	**(262)**
Additional provisions made	**2,180**	**5,424**	**340**	**3,484**	**11,428**
Reversal of unutilised provisions	**(3,259)**	**(9,119)**	**(181)**	**(2,075)**	**(14,634)**
Provisions utilised	**(1,748)**	**(10,004)**	**(763)**	**(2,974)**	**(15,489)**
At 31 December 2020	**5,469**	**10,710**	**977**	**6,235**	**23,391**

24 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2019: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2019: 21%) and 8.84% (2019: 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*	Tax losses *HK$'000*	Other temporary differences *HK$'000* *(Note (a))*	Employee benefits *HK$'000* *(Note (b))*	Total *HK$'000*
At 1 January 2019	214	9,011	6,375	14,139	2,733	32,472
Credited/(Charged) to profit or loss	842	(3,280)	(6,375)	482	(1,533)	(9,864)
At 31 December 2019 and 1 January 2020	**1,056**	**5,731**	**–**	**14,621**	**1,200**	**22,608**
Exchange fluctuation	**(1)**	**(37)**	**–**	**(80)**	**(2)**	**(120)**
Credited/(Charged) to profit or loss	**(223)**	**(3,289)**	**–**	**(1,925)**	**9**	**(5,428)**
At 31 December 2020	**832**	**2,405**	**–**	**12,616**	**1,207**	**17,060**

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 2020 and 2019 due to the uncertainties in global business environment in light of the ongoing pandemic.

The Group's cumulative unrecognised tax losses as of 31 December 2020 amounted to HK$176,181,000 (2019: HK$123,508,000). These tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2020, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$647,058,000 (2019: HK$640,135,000). 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:

	2020		2019	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.795**	**58,596**	0.797	41,921
Granted *(Note (a))*	**–**	**–**	0.792	20,000
Exercised *(Note (b))*	**–**	**–**	0.415	(184)
Lapsed	**0.750**	**(2,017)**	0.837	(3,141)
At 31 December	**0.796**	**56,579**	0.795	58,596
Exercisable at 31 December	**0.792**	**49,496**	0.783	34,430

Notes:

(a) Share options were granted under the 2018 PTL Scheme to other participants on 12 April 2019 at the exercise price of HK$0.792 and expiring on 31 December 2023. The closing price of the ordinary share of the Company on 11 April 2019, being the trading day immediately before the day on which the share options were granted, was HK$0.700.

The fair values of options granted were determined at the date of grant using the Black-Scholes valuation model. The following principal assumptions were used in the calculation:

Date of grant	**12 April 2019**
Share price at date of grant	HK$0.700
Exercise price	HK$0.792
Expected volatility	27.4%
Expected life of option	2.4 years
Risk-free rate	1.61%
Fair value at date of grant	HK$0.094

The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options.

The valuation model requires input of subjective assumptions. Change in the subjective input may materially affect the fair value estimates.

(b) These share options were exercised during the year ended 31 December 2019 at exercise price of HK$0.415. The weighted average closing price of the ordinary shares of the Company immediately before the date on which the options were exercised during the year ended 31 December 2019 was HK$0.82.

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 2020 had a weighted average remaining contractual life of 4.41 years (2019: 5.24 years).

In 2020, HK$1,796,000 share-based compensation expense had been included in the consolidated income statement and the corresponding amount of which had been credited to share-based compensation reserve (2019: HK$4,218,000). 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 2020 and 2019	**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 2019	1,180,000,000	11,800
Exercise of share options	184,000	2
Cancellation of repurchased shares	(184,000)	(2)
At 31 December 2019 and 2020	**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 2019	–	11,221	407	451,622	463,250
Loss for the year	–	–	–	(135,715)	(135,715)
Share option scheme					
– value of services	–	4,218	–	–	4,218
– shares issued	131	(57)	–	–	74
– share options lapsed	–	(1,697)	–	1,697	–
Repurchase of shares of the Company	(131)	–	2	(18)	(147)
At 31 December 2019	–	13,685	409	317,586	331,680
At 1 January 2020	**–**	**13,685**	**409**	**317,586**	**331,680**
Loss for the year	**–**	**–**	**–**	**(83,463)**	**(83,463)**
Share option scheme					
– value of services	**–**	**1,796**	**–**	**–**	**1,796**
– share options lapsed	**–**	**(1,328)**	**–**	**1,328**	**–**
At 31 December 2020	**–**	**14,153**	**409**	**235,451**	**250,013**

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

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 2020 and 2019.

27 Notes to the Consolidated Cash Flow Statement

27.1 Reconciliation of loss before income tax to cash used in operations

	2020 ***HK$'000***	2019 *HK$'000*
Loss before income tax	**(22,570)**	(16,477)
Interest income	**(6,352)**	(20,447)
Dividend income	**–**	(24)
Depreciation of property, plant and equipment	**1,224**	4,521
Depreciation of right-of-use assets	**7,718**	3,051
Interest on lease liabilities	**805**	239
Share-based compensation	**1,796**	4,218
Net gain on financial assets at fair value through profit or loss	**(3,113)**	–
Loss on disposal of property, plant and equipment	**5**	97
Unrealised exchange loss	**578**	125
Operating loss before working capital changes	**(19,909)**	(24,697)
Decrease in inventories	**9,235**	4,718
Decrease in trade receivables, deposits paid, other receivables and prepayments	**22,821**	38,996
Decrease in trade payables, deposits received, other payables and accrued charges and provisions	**(52,253)**	(24,505)
Cash used in operations	**(40,106)**	(5,488)

27.2 Analysis of cash and cash equivalents

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**949,943**	1,005,556

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:

	2020 HK$'000	2019 HK$'000
Within one year	**68,778**	72,839
In the second to fifth years	**161,626**	119,866
After five years	**43,594**	31,200
	273,998	223,905

28 Commitments (Continued)

28.2 Lease commitments

Future lease payments for leases committed but not yet commenced:

	2020 HK$'000	2019 HK$'000
Within one year	**3,666**	6,125
In the second to fifth years	**17,598**	27,445
After five years	**1,936**	6,489
	23,200	40,059

The amounts disclosed above represent future lease payments for leases committed but not yet commenced for office. All future lease payments for leases already commenced before 31 December 2020 have been recognised as lease liabilities under HKFRS 16, *Leases*, and thus are not included in the above disclosed amounts.

29 Related Party Transactions

29.1 The Group had the following transactions with related parties:

	2020 HK$'000	2019 HK$'000
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Belmont Limited *(Note (a), (c))*	**6,417**	6,413
Rent and building management fee paid to fellow subsidiary, Great Westwood Limited *(Note (b), (c))*	**698**	–
Rent and building management fee paid to fellow subsidiary, Bagnols Limited *(Note (d))*	**326**	326

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

Notes:

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

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

(c) The leases mentioned in notes (a) and (b) above in aggregate constitute connected transactions in respect of asset acquisition and details of which are disclosed in the Report of the Directors under the section headed Connected Transactions. These connected transactions were exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(d) The lease with Bagnols Limited in respect of certain HK properties constitutes a connected transaction and was exempt from reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. As at 31 December 2020, the lease liability balance under this lease amounted to HK$nil (2019: HK$317,000).

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

30 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2020.

31 Financial Risk Management and Fair Value Measurement

31.1 Categories of financial instruments

	2020 *HK$'000*	2019 *HK$'000*
Financial assets		
Financial assets at amortised cost		
Trade receivables	**41,291**	66,116
Deposits paid and other receivables	**2,257**	2,480
Cash and bank balances	**949,943**	1,005,556
Financial assets at fair value through profit or loss	**7,021**	–
	1,000,512	1,074,152
Financial liabilities at amortised cost		
Trade payables	**10,365**	34,489
Other payables and accrued charges	**39,320**	41,694
Lease liabilities	**11,680**	3,169
	61,365	79,352

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 (losses)/earnings.

31.2.2 Price risk

The Group is exposed to equity securities price risk arising from 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 2020, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would decrease/increase the Group's loss for the year and increase/decrease the Group's equity by approximately HK$351,000 (2019: HK$nil).

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.

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:

	2020	2019
Sales		
– the largest customer	**35%**	32%
– five largest customers in aggregate	**74%**	69%

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.

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

	2019				
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Total undiscounted amount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	34,489	–	–	34,489	34,489
Other payables and accrued charges	41,694	–	–	41,694	41,694
Lease liabilities	3,256	–	–	3,256	3,169
	79,439	–	–	79,439	79,352

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 2020			
	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:				
Listed equity investment outside Hong Kong	**7,021**	**–**	**–**	**7,021**

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

During the years ended 31 December 2020 and 2019, 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 2020 and 2019.

32 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, *Covid-19 - Related Rent Concessions*	1 June 2020
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-Current*	1 January 2023

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

33 Company Level Statement of Financial Position

	Note	2020 US$'000 (Note 30)	2020 HK$'000	2019 HK$'000
Non-current assets				
Interest in subsidiaries		**19,017**	**147,380**	147,380
Current assets				
Other receivables and prepayments		**48**	**371**	340
Amounts due from subsidiaries		**55**	**427**	599
Financial assets at fair value through profit or loss		**906**	**7,021**	–
Cash and bank balances		**14,989**	**116,168**	204,758
		15,998	**123,987**	205,697
Current liabilities				
Other payables and accrued charges		**70**	**546**	589
Amounts due to subsidiaries		**1,162**	**9,008**	9,008
		1,232	**9,554**	9,597
Net current assets		**14,766**	**114,433**	196,100
Net assets		**33,783**	**261,813**	343,480
Equity				
Share capital	*26.1*	**1,523**	**11,800**	11,800
Reserves	*26.2*	**32,260**	**250,013**	331,680
Total equity		**33,783**	**261,813**	343,480

On behalf of the board

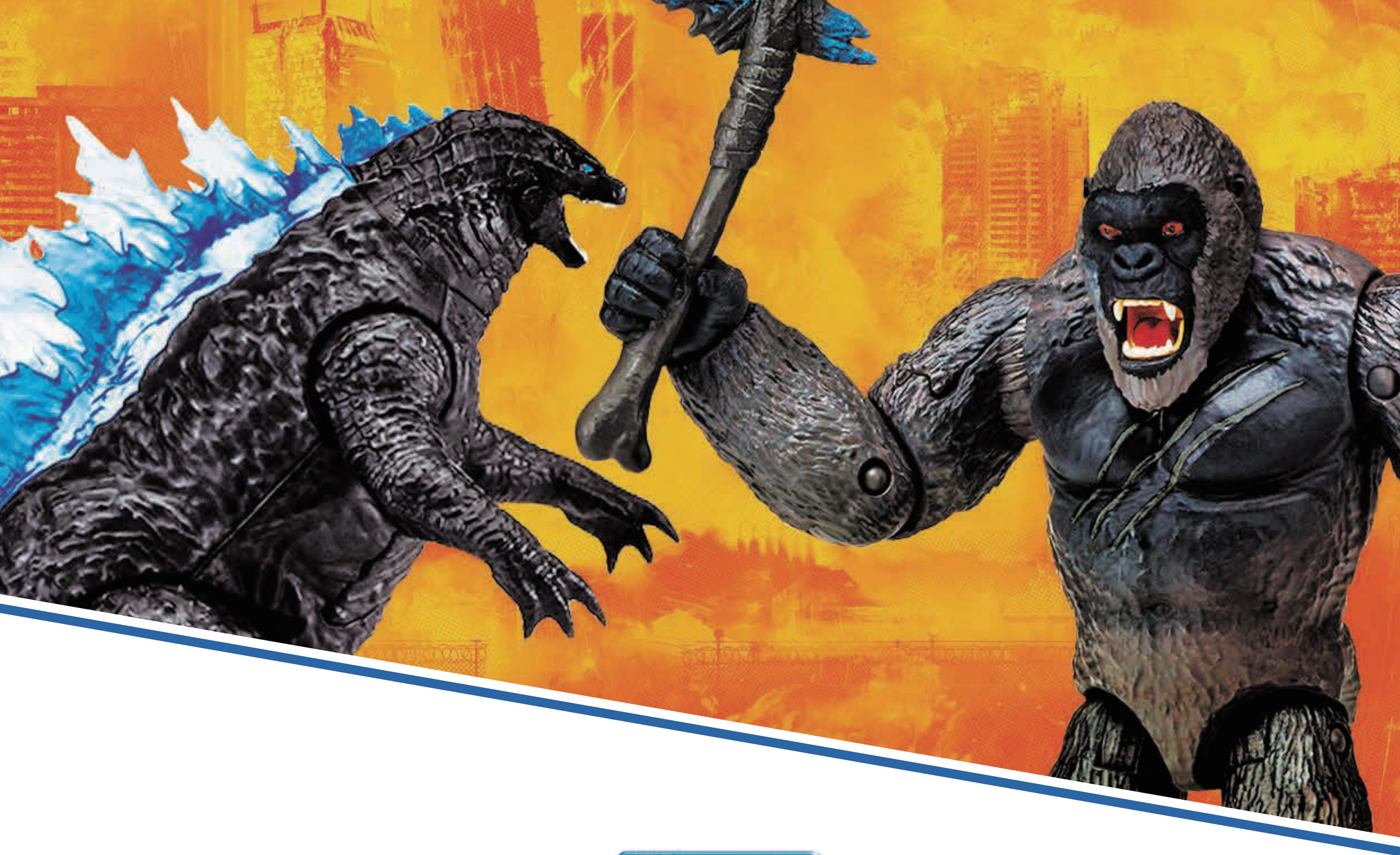
CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
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:

	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**289,240**	358,739	474,182	758,329	992,933
(Loss)/Profit before income tax	**(22,570)**	(16,477)	4,374	88,526	176,122
Income tax expense	**(7,493)**	(20,801)	(3,812)	(32,762)	(65,916)
(Loss)/Profit for the year attributable to owners of the Company	**(30,063)**	(37,278)	562	55,764	110,206
Total assets	**1,090,598**	1,171,690	1,235,210	1,304,669	1,322,280
Total liabilities	**(138,856)**	(186,412)	(217,471)	(239,923)	(195,906)
Net assets	**951,742**	985,278	1,017,739	1,064,746	1,126,374



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(Stock code 869)
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