NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1 General Information

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

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

The financial statements for the year ended 31 December 2022 were approved for issue by the board of directors on 10 March 2023.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

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

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

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

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

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

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

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

2.4 Property, plant and equipment

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.4 Property, plant and equipment (Continued)

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

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

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

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

2.5 Inventories

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

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

2.6 Financial assets

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

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

(i) Classification of financial assets

Investments other than equity investments

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

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

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

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

Equity investments

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

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

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(i) Classification of financial assets (Continued)

Trade receivables

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

Other financial assets

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

(ii) Measurement of financial assets

Financial assets measured at amortised cost

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

Financial assets at FVPL

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

(iii) Impairment of financial assets

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

Measurement of ECLs

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

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

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

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

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

Significant increases in credit risk

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

Significant increases in credit risk (Continued)

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

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

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

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

(iv) Derecognition

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

2.7 Impairment of non-financial assets

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

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

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

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

2.8 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

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

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and restoration, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term and is stated at cost less accumulated depreciation and impairment losses (see note 2.7).

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

2 Summary of Significant Accounting Policies (Continued)

2.8 Leases (Continued)

As a lessee (Continued)

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

2.9 Financial liabilities

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

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

2.10 Provisions

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

(i) Consumer returns

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

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

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

(ii) Cooperative advertising

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

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

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

(iii) Cancellation charges

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

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

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

(iv) Freight allowance

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

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions (Continued)

(iv) Freight allowance (Continued)

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

All provisions are established for specific exposures.

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

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

2.11 Share capital

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

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

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

2.12 Revenue recognition

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

(i) Sale of toys

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

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

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

(ii) Dividend income

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

(iii) Interest income

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

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

2.13.1 Advertising and marketing expenses are expensed as incurred.

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

2.14 Employee benefits

2.14.1 Employee leave entitlements

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

2.14.2 Pension obligations

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

2.14.3 Share-based compensation

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

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

2.15 Borrowing costs

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

2.16 Deferred taxation

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.16 Deferred taxation (Continued)

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

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

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

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

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

  (i) the same taxable entity; or

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

2.17 Current taxation

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

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

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

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

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

2.18 Foreign currency translation

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

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income.

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

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

2.19 Cash and cash equivalents

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

2 Summary of Significant Accounting Policies (Continued)

2.20 Segment reporting

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

2.21 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

3 Adoption of New or Amended HKFRSs

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

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

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

4 Revenue

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products. Revenue represented sales of toys and was recognised at the point in time when customers obtain the control of the goods.

Revenue recognised during the year ended 31 December 2022 from sales of toys was HK$504,248,000 (2021: HK$625,108,000).

5 Segment Information

5.1 Geographical information

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

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

5.2 Major customers

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

6 Profit before Income Tax

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

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

7 Other Net Loss

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

8 Finance Costs

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

9 Income Tax Expense/(Credit)

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

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

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

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

10 Dividends

10.1 Dividends attributable to the year

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

At a meeting held on 10 March 2023, the board of directors declared an interim dividend of HK cents 2 per share to be paid on 17 April 2023 to shareholders whose names appear on the Company's register of members on 28 March 2023. This interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2022.

10 Dividends (Continued)

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

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

11 Earnings per Share

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

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

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

12 Directors' and Staff Remunerations

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

Note: Under the Group's defined contribution schemes, there was a forfeiture of HK$57,000 unvested contribution during the year ended 31 December 2022 (2021: HK$nil). Such forfeited amount was used for reducing the Group's contribution during the current year. There was no amount available to reduce the Group's ongoing contribution otherwise payable at the respective balance sheet dates.

13 Directors' Remuneration and Senior Management's Emoluments

13.1 Directors' emoluments

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

Name of director	Fee 2022 *HK$'000*	Salary 2022 *HK$'000*	Bonus 2022 *HK$'000*	Share-based compensation 2022 *HK$'000*	Other benefits 2022 *HK$'000* *(Note)*	Employer's contribution to provident fund 2022 *HK$'000*	Total 2022 *HK$'000*
CHAN Kong Keung, Stephen	10	576	–	–	9	18	613
CHAN Kwong Fai, Michael	–	2,214	–	–	160	133	2,507
CHOW Yu Chun, Alexander	330	–	–	–	–	–	330
IP Shu Wing, Charles	330	–	–	–	–	–	330
LAM Wai Hon, Ambrose	330	–	–	–	–	–	330
TRAN Vi-hang William	10	1,650	150	–	18	18	1,846
YU Hon To, David	330	–	–	–	–	–	330
	1,340	4,440	150	–	187	169	6,286

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

13.1 Directors' emoluments (Continued)

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

Note: Other benefits include medical allowance.

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2022 and 2021. There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the directors in respect of the years ended 31 December 2022 and 2021.

13.2 Five highest paid individuals

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

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

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

	Number of individuals	
	2022	2021
HK$		
1,500,001 – 2,000,000	1	2
2,000,001 – 2,500,000	3	2
	4	4

14 Property, Plant and Equipment

	Leasehold improvements *HK$'000*	Vehicle, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2022	**9,941**	**4,254**	**8,333**	**22,528**
Exchange fluctuation	**9**	**9**	**41**	**59**
Additions	**–**	**214**	**76**	**290**
Disposals	**(8,621)**	**(347)**	**(1,326)**	**(10,294)**
At 31 December 2022	**1,329**	**4,130**	**7,124**	**12,583**
Accumulated depreciation				
At 1 January 2022	**9,932**	**3,647**	**7,830**	**21,409**
Exchange fluctuation	**9**	**9**	**39**	**57**
Charge for the year	**9**	**462**	**262**	**733**
Disposals	**(8,621)**	**(347)**	**(1,326)**	**(10,294)**
At 31 December 2022	**1,329**	**3,771**	**6,805**	**11,905**
Net book value				
At 31 December 2022	**–**	**359**	**319**	**678**
Cost				
At 1 January 2021	9,931	4,145	8,264	22,340
Additions	10	109	69	188
At 31 December 2021	9,941	4,254	8,333	22,528
Accumulated depreciation				
At 1 January 2021	9,931	3,119	7,492	20,542
Charge for the year	1	528	338	867
At 31 December 2021	9,932	3,647	7,830	21,409
Net book value				
At 31 December 2021	9	607	503	1,119

15 Right-of-Use Assets and Lease Liabilities

15.1 Right-of-use assets

Movement during the year:

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

The right-of-use assets represent the Group's rights to use leased premises as offices, and event and storage space over the lease terms. Adjustment due to lease modification for 2022 represents extension of lease term upon renewal of existing leases.

15.2 Lease liabilities

(i) Maturity analysis:

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

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

15.2 Lease liabilities (Continued)

(ii) Movement during the year:

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

(iii) Total cash outflows for leases during the year ended 31 December 2022 were HK$9,379,000 (2021: HK$8,932,000), included within financing cash flows in the consolidated cash flow statement.

16 Interest in Subsidiaries

Details of the principal subsidiaries of the Company as at 31 December 2022 and 2021 are as follows:

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

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

17 Inventories

As at 31 December 2022, inventories represent finished toys products with carrying amount of HK$23,700,000 (2021: HK$58,007,000).

18 Trade Receivables

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

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

18.1 Aging analysis

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days (2021: 60 to 90 days). The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

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

18 Trade Receivables (Continued)

18.2 Trade receivables that are not impaired

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

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

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

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

19 Deposits Paid, Other Receivables and Prepayments

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

Note:

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

20 Financial Assets at Fair Value through Profit or Loss

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

21 Trade Payables

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

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

22 Deposits Received, Other Payables and Accrued Charges

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

Notes:

(i) Certain toy distributors paid a non-refundable purchase commitment guarantee deposit in consideration of the Group granting distribution rights for sales and marketing of licensed toy products in certain territories and within a certain time period according to the distribution agreement. The distributor is entitled to recoup this paid deposit against purchases of licensed toy products from the Group by deducting a certain percentage from each sales transaction amount payable to the Group until such deposit is fully recouped. The Group recognises the recouped deposit balance as revenue at the same point of time when the products are delivered to the distributor. During the year ended 31 December 2022, the Group has recognised revenue of HK$560,000 (2021: HK$2,714,000) from the balance as at the beginning of the reporting period.

Any unrecouped purchase commitment guarantee deposit at the expiry of a distribution agreement shall be forfeited and credited to profit or loss of the Group. During the year ended 31 December 2022, HK$29,227,000 (2021: HK$ nil) of such deposits has been forfeited and recorded as other revenue.

(ii) This balance represents sales deposits received in advance from toy distributors before delivery of products. The Group recognised this sales deposit balance as revenue when the products are delivered to distributors. During the year ended 31 December 2022, the Group has recognised revenue of HK$24,356,000 (2021: HK$14,572,000) from the balance as at the beginning of the reporting period.

23 Provisions

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

24 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2021: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2021: 21%) and 8.84% (2021: 8.84%) respectively in the U.S..

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

	Accelerated Depreciation *HK$'000*	Unrealised profits on inventories *HK$'000*	Other temporary differences *HK$'000* *(Note(a))*	Employee benefits *HK$'000* *(Note(b))*	Total *HK$'000*
At 1 January 2021	832	2,405	12,616	1,207	17,060
(Charged)/Credited to profit or loss	(70)	6,326	8,897	(83)	15,070
At 31 December 2021 and 1 January 2022	**762**	**8,731**	**21,513**	**1,124**	**32,130**
Exchange fluctuation	**–**	**56**	**87**	**1**	**144**
Credited/(Charged) to profit or loss	**113**	**(4,244)**	**3,225**	**1,714**	**808**
At 31 December 2022	**875**	**4,543**	**24,825**	**2,839**	**33,082**

Notes:

(a) Other temporary differences mainly represent provisions.

(b) Employee benefits represents share-based compensation.

Deferred tax assets not recognised

The Group has not recognised any deferred tax asset in relation to tax losses during the years ended 31 December 2022 and 2021 due to the uncertainties in global business environment.

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

Deferred tax liabilities not recognised

As at 31 December 2022, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$658,057,000 (2021: HK$657,201,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

25 Equity Settled Share-based Transactions

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

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

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

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

Notes:

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

The share options outstanding at 31 December 2022 had a weighted average remaining contractual life of 3.08 years (2021: 3.61 years).

In 2022, HK$nil (2021: HK$357,000) share-based compensation expense had been included in the consolidated income statement and the corresponding amount of which had been credited to share-based compensation reserve. No liabilities were recognised for share-based payment transactions.

26 Equity – Group and Company

26.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2022 and 2021	**3,000,000,000**	**30,000**

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2021, 31 December 2021 and 31 December 2022	**1,180,000,000**	**11,800**

26.2 Reserves

Company

	Share premium	Share-based compensation reserve	Capital redemption reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	–	14,153	409	235,451	250,013
Profit for the year	–	–	–	67,576	67,576
Share option scheme					
– value of services	–	357	–	–	357
– share options lapsed	–	(1,495)	–	1,495	–
Unclaimed dividends forfeited	–	–	–	118	118
At 31 December 2021	–	13,015	409	304,640	318,064
At 1 January 2022	**–**	**13,015**	**409**	**304,640**	**318,064**
Profit for the year	**–**	**–**	**–**	**27,582**	**27,582**
Share option scheme					
– share options lapsed	**–**	**(1,661)**	**–**	**1,661**	**–**
2021 interim dividend paid	**–**	**–**	**–**	**(23,600)**	**(23,600)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**43**	**43**
At 31 December 2022	**–**	**11,354**	**409**	**310,326**	**322,089**

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

26 Equity – Group and Company (Continued)

26.3 Capital management

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

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

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2022 and 2021.

27 Notes to the Consolidated Cash Flow Statement

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

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

27.2 Analysis of cash and cash equivalents

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

27.3 Reconciliation of liabilities arising from financing activities

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

28 Commitments

28.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

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

28.2 Lease commitments

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

29 Related Party Transactions

29.1 The Group had the following transactions with related parties:

	2022 HK$'000	2021 HK$'000
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Belmont Limited *(Note (a), (d))*	**5,028**	5,375
Rent and building management fee paid to fellow subsidiary, Great Westwood Limited (Note (b), (d))	**720**	723
Rent and building management fee paid to fellow subsidiary, Prestige Property Management Limited as agent of Bagnols Limited *(Note (c), (d))*	**326**	326

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

Notes:

(a) On 31 December 2019, the Group entered into a lease with Prestige Property Management Limited as agent of Belmont Limited in respect of certain HK properties with a lease term from 1 January 2020 to 31 December 2022. On 16 December 2022, the Group entered into a renewal lease for the same HK properties with a lease term from 1 January 2023 to 31 December 2025 and recognised a right-of-use asset and a lease liability of approximately HK$11.8 million respectively. At 31 December 2022, the lease liability balance under this lease amounted to HK$11,822,000 (2021: HK$4,139,000).

(b) On 31 December 2019, the Group entered into a lease with Great Westwood Limited in respect of a UK property with a lease term from 1 January 2020 to 31 December 2022. On 16 December 2022, the Group entered into a renewal lease for the same UK property with a lease term from 1 January 2023 to 31 December 2025 and recognised a right-of-use asset and a lease liability of approximately HK$1.8 million respectively. At 31 December 2022, the lease liability balance under this lease amounted to HK$1,797,000 (2021: HK$701,000).

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

(d) The leases mentioned in notes (a), (b) and (c) above entered into during the year 2022 in aggregate constitute connected transactions in respect of assets acquisition and details of which are disclosed in the Report of the Directors under the section headed "Connected Transactions" and the announcement of the Company dated 16 December 2022. These connected transactions were exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

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

30 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2022.

31 Financial Risk Management and Fair Value Measurement

31.1 Categories of financial instruments

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

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors

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

31.2.1 Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency different from domestic currencies used to fund the operations of the relevant group companies. The currency giving rise to this risk is mainly United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates may have an impact on consolidated earnings/(losses).

31.2.2 Price risk

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

At 31 December 2022, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and increase/decrease the Group's equity by approximately HK$2,929,000 (2021: increase/decrease the Group's profit for the year and increase/decrease the Group's equity by HK$3,562,000).

31.2.3 Credit risk

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

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

At 31 December 2022, the Group's gross trade receivables amounted to approximately HK$55,336,000 (2021: HK$115,706,000) were assigned to factoring and receivable processing agents with the collection period consistent with the normal trade terms with toy business customers in the United States.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material. Taking into account (i) the historical credit loss experience over the past years, (ii) the majority of the Group's trade receivables arising from sales to customers in the United States has been assigned to a factoring and receivable processing agent which is a reputable financial institution and (iii) all trade receivables arising from sales to customers outside the United States are secured by letters of credit or advanced payment, the expected credit loss rate for the Group's trade receivables as at 31 December 2022 was assessed to be 0% (2021: 0%). Accordingly, no provision matrix is disclosed.

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

Concentrations of credit risk

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

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

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors (Continued)

31.2.4 Liquidity risk

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

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

	2022				
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Total undiscounted amount *HK$'000*	Carrying amount *HK$'000*
Trade payables	11,764	–	–	11,764	11,764
Other payables and accrued charges	40,956	–	–	40,956	40,956
Lease liabilities	9,506	9,635	11,716	30,857	28,437
	62,226	9,635	11,716	83,577	81,157

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

31.3 Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	At 31 December 2022			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Equity investments listed in Hong Kong	**15,250**	**–**	**–**	**15,250**
Equity investments listed outside Hong Kong	**43,334**	**–**	**–**	**43,334**
	58,584	**–**	**–**	**58,584**

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

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31.4 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, cash and bank balances, trade payables, other payables and accrued charges and lease liabilities carried at amortised cost) approximate their fair values as at 31 December 2022 and 2021.

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance Contracts and related amendments*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of Accounting Policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current Liabilities with Convenants*	1 January 2024

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

33 Company Level Statement of Financial Position

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

On behalf of the board

CHAN Kong Keung, Stephen
Director

TRAN Vi-hang William
Director