2019 Annual Report

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Corporate Information

Directors
TO Shu Sing, Sidney
(Chairman and Executive Director)
CHAN, Helen *(Executive Director)*
CHENG Bing Kin, Alain
(Executive Director)
IP Shu Wing, Charles
(Independent Non-executive Director)
LEE Ka Sze, Carmelo
(Non-executive Director)
LO Kai Yiu, Anthony
(Independent Non-executive Director)
TANG Wing Yung, Thomas
(Independent Non-executive Director)
TSIM Tak Lung
(Deputy Chairman and Non-executive Director)
YU Hon To, David
(Independent Non-executive Director)

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditors
Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

Principal Bankers
The Bank of East Asia, Limited
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 Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited
(Stock Code: 635)

Website
www.playmates.net

Statement from the Chairman

Dear Shareholders,

2019 began with significant uncertainties in the global economic order on account of US-China trade dispute and Brexit. During the year, our made-in-China toys twice narrowly avoided being subject to US tariff. By the end of the year, despite the two largest economic powers reaching agreement on the Phase One US-China trade deal and the passing of the Brexit Withdrawal Agreement Bill in the UK House of Commons, significant uncertainties remain.

Closer to home, widespread outbreaks of social unrest in Hong Kong since the second half of 2019 had severely impacted local economic activities. Turnovers of our restaurants dropped about 11% year-over-year.

On a positive note, the application for the wholesale conversion of our industrial building in Tuen Mun for commercial use was conditionally approved. Otherwise, income from our property investments and associated businesses generally remained stable compared to the previous year.

However, the viral epidemic caused by the novel coronavirus COVID-19 is expected to further disrupt the local economy during the coming year.

During 2019, Playmates Toys focused its efforts on building the pipeline of new brands and platforms to be introduced in the coming years. New licenses acquired include tie-ins to movies from major studios; new animated series; YouTube stars, and an iconic music artist. Among the exciting new brands launching in 2020 are ***Power Players***, ***MonsterVerse*** and ***Disney's Frozen 2 Adventure Storytelling Figures***.

Playmates Toys also remains firmly committed to the long term success of its established brands including ***Teenage Mutant Ninja Turtles*** and ***Ben 10***. In 2020, the ***Turtles*** program will have a planned hiatus as Playmates Toys continues to work closely with the ViacomCBS-Nickelodeon team on the development of new adventures of the ***Turtles***.

The manufacturing facilities of the principal suppliers of finished goods for Playmates Toys are based in southern China. The ongoing epidemic is expected to severely impact the supply chain at least in the first half of 2020. We will monitor the risks and uncertainties in connection with the epidemic and work closely with the suppliers to mitigate the adverse impact arising therefrom.

Against the uncertainties and challenges of its operating environment, Playmates Toys will continue to prudently manage operating costs and adhere to the stated strategy of nurturing its established brands while investing selectively in new opportunities.

I report with the deepest sorrow that Mr. Chan Tai Ho, our founder and former chairman, passed away on 5 March 2020. His entrepreneurial skill and outstanding leadership laid the solid foundation for the growth of the Group.

On behalf of my fellow board members, I must congratulate our legendary former chairman, Mr. Thomas Chan, who has recently been inducted into the prestigious US Toy Industry Hall of Fame. The honor is well deserved.

I want to thank Mr. Allen Lee, who retired during the year from the board, for his long and excellent service. I also welcome Mr. Thomas Tang and Mr. Carmelo Lee who recently joined the board as independent non-executive director and non-executive director respectively.

As always, I am grateful to the shareholders for their trust and support, and my colleagues and business partners for their continued dedication and valuable contributions, especially during the difficult times as a result of the ongoing epidemic.

Yours Faithfully

TO Shu Sing, Sidney
Chairman of the board

Hong Kong, 6 March 2020

Group Overview

Playmates Holdings group's global revenue for the year ended 31 December 2019 was HK$622.6 million (2018: HK$733.6 million); reflecting a decrease of 15.1% compared to the prior year. The Group reported an operating profit of HK$441.7 million (2018: HK$507.7 million) and net profit attributable to shareholders was HK$416.7 million (2018: HK$520.6 million). Basic earnings per share was HK cents 20.21 (2018: HK cents 25.74). Net asset value per share was HK$3.37 as at 31 December 2019 (2018: HK$3.33).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2019 was HK$252.3 million (2018: HK$247.5 million), reflecting a 1.9% increase compared to the prior year. Revenue from the property investments and property management businesses increased 3.2% to HK$232.4 million (2018: HK$225.1 million), while revenue from the food and beverage business decreased by 11.2% compared to 2018 at HK$19.9 million (2018: HK$22.4 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK$6.1 billion (2018: HK$5.8 billion). A net revaluation surplus of HK$261.3 million was recorded in the consolidated income statement of the Group (2018: HK$333.2 million). Segment operating profit including net revaluation surplus was HK$456.0 million (2018: HK$522.8 million).

(a) Property Investments

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes overseas investment properties in the United Kingdom, the United States of America and Japan, which in aggregate accounted for 7.2% of the fair value of the Group's overall investment property portfolio (2018: 7.4%).

Aggregate rental income generated from the investment properties of the Group was HK$211.1 million, an increase of 2.4% from the prior year (2018: HK$206.2 million). Overall occupancy rate was 68% as at 31 December 2019 (2018: 77%).

(i) Commercial

The Group's investment in commercial properties consists of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With a flagship store of a leading global brand as a tenant, the building is a landmark on Canton Road, which is one of the premier shopping districts in Hong Kong. However, with the social unrest in Hong Kong since the second half of 2019 and the outbreak of the novel coronavirus COVID-19 in early 2020, the number of tourists visiting the area dropped significantly. We will closely monitor the risks and uncertainties in connection with the coronavirus and take appropriate measures as necessary.

(ii) Residential

The Group's principal investment in residential properties includes units in Hillview on MacDonnell Road, Mid-Levels, Hong Kong. A major renovation of the exterior and common facilities of the building started in 2019 is expected to enhance the value of the property over the longer term. With resilient demand for and limited supply of up-market residential properties in Mid-Levels, we are optimistic that our investment in the Hillview units will benefit from this renovation.

(iii) Industrial

The Group's investment in industrial properties consists of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. In response to the revived government policy to revitalize and optimize the use of existing industrial buildings, the Group had submitted a planning application in June 2019 to the Town Planning Board of Hong Kong to seek permission for the wholesale conversion of Playmates Factory Building for commercial uses. On January 3, 2020, this application was conditionally approved. The property value has been enhanced with this positive development. The Group will continue to monitor the social economic environment before proceeding with the building conversion.

(b) Property Management

The Group engaged Savills Property Management Limited ("Savills") to manage The Toy House and Playmates Factory Building. Savills provides comprehensive property management services, including repair and maintenance, building security, general cleaning for common areas, hand-over and take-over of premises, and the monitoring of reinstatement and refurbishment works.

Income generated from the property management business segment was HK$21.3 million, an increase of 12.7% from prior year (2018: HK$18.9 million).

(c) Food & Beverage Business

Revenue generated from the food and beverage business for the year decreased by 11.2% to HK$19.9 million (2018:HK$22.4 million) due to the social unrest and weakened consumer sentiment in the second half of the year.

We will continue to maintain a long term view of our property investments and associated businesses and will continue to adjust the balance of our property portfolio to achieve our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

Playmates Toys

Playmates Toys group worldwide turnover for the year ended December 31, 2019 was HK$359 million (2018: HK$474 million), a decrease of 24% compared to the prior year. The decrease in turnover was a result of a contraction in its main continuing brands: ***Teenage Mutant Ninja Turtles*** and ***Ben 10***.

The US continued to be our biggest market in 2019, contributing 56.6% of revenue. Europe as a whole contributed 29.1%, the rest of the Americas 9.2% and 4.9% came from Asia Pacific. According to The NPD Group, the leading provider of toys point-of-sale market research data, the US toy market contracted 4.3%[1] in 2019, reflecting a challenging retail environment driven by a difficult comparison during the first half of 2019 against the Toys "R" Us liquidation in 2018, six fewer shopping days between Thanksgiving and Christmas, competition from video games, among other factors. Many other major international toy markets were impacted by similar factors, in addition to macroeconomic challenges.

[1] *Source: The NPD Group / Retail Tracking Service Annual 2019 Adjusted Dollars.*

Playmates Toys (Continued)

Gross profit ratio on toy sales was 51.4% (2018: 52.9%). The slight decrease in gross profit ratio was attributable mainly to a higher percentage of overall sales generated in international markets with lower gross margin. Recurring operating expenses decreased by 15% from 2018, reflecting lower marketing, selling, and distribution expenses, and stable overhead expenses.

Playmates Toys group reported a loss before income tax of HK$16 million (2018: Profit before tax of HK$4.4 million). Net loss was HK$37 million (2018: Net profit of HK$0.6 million). Playmates Toys group's 2019 tax expense was HK$21 million (2018: HK$3.8 million), mainly comprised of a U.S. tax provision and a write down of deferred tax assets due to the uncertainties in global business environment and the potential adverse impact on the China-based supply chain of the Group in light of the ongoing viral epidemic.

The manufacturing facilities of the principal suppliers of finished goods for Playmates Toys are based in southern China. At present, although most of the suppliers are gradually resuming production subject to further government advice or restrictions due to the ongoing viral epidemic, it is expected that the supply chain would be severely affected at least in the first half of 2020. We will monitor the risks and uncertainties in connection with the epidemic and work closely with the suppliers to mitigate the adverse impact arising therefrom.

Portfolio Investments

The Group engages in portfolio investments which involve investing in listed equity shares and managed funds. The investment policy provides for a set of prudent guidance and control framework to achieve the objective of managing a portfolio that is highly liquid and offers reasonable risk-adjusted returns through capital appreciation and dividend and interest income.

As at 31 December 2019, fair market value of the Group's investment portfolio was HK$72.1 million (2018: HK$97.7 million) representing 0.9% of the total assets of the Group (2018: 1.2%). This comprised of HK$58.6 million of equities listed in Hong Kong (2018: HK$74.2 million), HK$10.6 million of equities listed overseas (2018: HK$19.9 million) and HK$2.9 million of unlisted managed funds (2018: HK$3.6 million). None of the individual securities positions held by the Group had a market value that exceeded 0.2% of the total assets of the Group. The top 10 listed securities in aggregate represented 0.8% of the total assets of the Group and included Wharf Real Estate Investment Company Limited (1997.HK), Amazon.com, Inc. (AMZN.US), Sun Hung Kai Properties Limited (16.HK), CK Hutchison Holdings Limited (1.HK), Hong Kong Exchanges and Clearing Limited (388.HK), Henderson Land Development Company Limited (12.HK), New World Development Company Limited (17.HK), HSBC Holdings plc (5.HK), Bayerische Motoren Werke AG (BMW.GR), Kerry Properties Limited (683.HK).

The Group reported a net gain from investments of HK$16.6 million in 2019 (2018: net loss of HK$3.1 million). In 2019, dividend and interest income generated from the portfolio were HK$11.6 million (2018: HK$11.9 million).

The Group will remain vigilant in monitoring and balancing the investment portfolio, taking into account developments in major global economies and securities markets.

Directors and Senior Management

Biographical details of directors are shown below:

TO Shu Sing, Sidney

Chairman and Executive Director

Mr. To, age 62, 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. Mr. To was appointed Chairman of board in May 2017. He is also the chairman of the board of Playmates Toys Limited. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

CHAN, Helen

Executive Director

Ms. Chan, age 40, was appointed a director of the Company in May 2017. She graduated magna cum laude from Yale University in 2001 with a bachelor's degree in Economics. She subsequently worked in New York City as a consultant with one of the leading financial consulting firms for 2 years. She then obtained her Masters of Business Administration in Marketing and Finance at the Wharton School of Business in 2005.

After graduating business school, Ms. Chan pursued a career in retail with one of the largest global luxury retailers. She joined the company as a Merchandising Senior Analyst in their New York headquarters. Her responsibilities increased over time as she rotated through various teams in the organization. She was then transferred to Hong Kong in 2009 to assist with the regionalization initiative of the company. She was promoted to Director of Asia Merchandising in 2011 where she was responsible for spearheading the merchandising needs of the region.

In 2014, after 9 years in the retail industry, Ms. Chan joined the Company where she is responsible for the management of the real estate portfolio and treasury investments of the Group.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 57, was appointed a director of the Company in March 2006. He is the Group Legal Counsel and also an executive director of Playmates Toys 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.

IP Shu Wing, Charles

Independent Non-executive Director

Mr. Ip, age 69, was appointed a director of the Company in 1999. Mr. Ip has over 40 years of experience in business management and has held a number of key management positions in various multi-national corporations. He has been re-designated from a Non-executive Director to an Independent Non-executive Director of the Company with effect from 25 March 2011.

LEE Ka Sze, Carmelo

Non-executive Director

Mr. Lee, age 59, was appointed a director of the Company in November 2019. He is a practicing solicitor and a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. Mr. Lee obtained a Bachelor of Laws degree and Postgraduate Certificate in Laws from The University of Hong Kong and qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia.

Mr. Lee is one of the four chairmen of The Listing Review Committee of Stock Exchange, a convenor and a member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong, a chairman of the Appeal Tribunal Panel (Buildings), and a non-official member of the InnoHK Steering Committee.

Mr. Lee is a non-executive director of CSPC Pharmaceutical Group Limited and Safety Godown Company Limited and an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., KWG Group Holdings Limited and Esprit Holdings Limited. All of these companies are listed on the Stock Exchange. He was a non-executive director of Hopewell Holdings Limited (until 3 May 2019), Planetree International Development Limited (until 30 April 2019) and Termbray Industries International (Holdings) Limited (until 13 September 2019). Save as disclosed above, Mr. Lee has not held any directorships in public companies the securities of which are listed on the securities market in Hong Kong or overseas in the last three years.

LO Kai Yiu, Anthony

Independent Non-executive Director

Mr. Lo, age 71 was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 12 years of professional accounting experience, he has over 33 years of experience in investment banking and other financial services. Mr. Lo serves as a director of a number of public and private companies.

TANG Wing Yung, Thomas

Independent Non-executive Director

Mr. Tang, age 64, was appointed a director of the Company in November 2019. He obtained a Bachelor of Science degree in Modern Mathematics from Surrey University, United Kingdom. He has been an associate member of The Institute of Chartered Accountants in England and Wales since 1981. He is also a fellow member of The Hong Kong Institute of Certified Public Accountants and has over 38 years of experience in accounting and finance.

Mr. Tang is currently an executive director and group chief financial officer of Sino Land Company Limited and Sino Hotels (Holdings) Limited. He was an executive director and group chief financial officer of Esprit Holdings Limited. All these companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

TSIM Tak Lung

Deputy Chairman and Non-executive Director

Mr. Tsim, age 73, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

YU Hon To, David

Independent Non-executive Director

Mr. Yu, age 71, was appointed a director of the Company in 1995. He is a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. He is an independent non-executive director of listed companies in Hong Kong including MS Group Holdings Limited, China Renewable Energy Investment Limited, China Resources Gas Group Limited, Haier Electronics Group Co., Limited, Keck Seng Investments (Hong Kong) Limited, Media Chinese International Limited, New Century Asset Management Limited (as manager of New Century Real Estate Investment Trust) and One Media Group Limited. He resigned as an independent non-executive director of Synergis Holdings Limited on 1 January 2018.

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2019.

Principal Activities and Geographical Analysis of Operations

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 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:*

   Investment properties account for a significant portion of the Group's total assets. Any significant change in the fair value of the Group's investment properties may affect our financial results, although such change may not reflect the Group's operating and cash flow performance. Furthermore, our rental income from investment properties may be adversely impacted by strong competition in the market.

   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 36.2 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. 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 5.3, 21 and 36.2.2 to the financial statements.

Licensors

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

Business Review (Continued)

Relationships with stakeholders (Continued)

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	28%
– five largest suppliers in aggregate	86%
Sales	
– the largest customer	27%
– five largest customers in aggregate	62%

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 47.

The directors have declared a first interim dividend of HK cents 1.50 per ordinary share and a special interim dividend of HK cents 10.00 per ordinary share, totalling HK$233,105,000, which was paid on 23 October 2019. The first interim dividend was paid in the form of cash and the special interim dividend was paid in cash with a scrip dividend alternative.

The directors have declared a second interim dividend of HK cents 1.50 per ordinary share and a second special interim dividend of HK cents 1.50 per ordinary share, totally HK$63,495,000, which is calculated on the basis of 2,116,500,000 ordinary shares in issue at the date of board meeting held on 6 March 2020.

Dividend Policy

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

(a) the Company's actual and expected financial performance;
(b) dividends received from the Company's subsidiaries and associates;
(c) retained earnings and distributable reserves of the Company and its subsidiaries and associates;
(d) the liquidity position of the Group;
(e) the Group's expected working capital requirements;
(f) general business conditions and strategies;
(g) taxation considerations;
(h) possible effects on creditworthiness;
(i) legal, statutory and regulatory restrictions;
(j) contractual restrictions; and
(k) any other factors that the Board deem appropriate.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 53 to 54. Movements in the reserves of the Company during the year are set out in note 31.2 to the financial statements.

Distributable reserves of the Company at 31 December 2019, calculated under the Companies Act 1981 of Bermuda, amounted to HK$1,343,096,000 (2018: HK$1,416,804,000).

Financial Analysis

Analysis of bank loans and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 24 to the financial statements.

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 2019, trade receivables related to toy operation were HK$66,116,000 (2018: HK$140,005,000) and inventories related to toy operation were HK$19,518,000 (2018: HK$24,237,000) or 5.4% (2018: 5.1%) of revenue of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Overall occupancy rate was 68% as at 31 December 2019 (2018: 77%). Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2019, the Group's financial assets at fair value through profit or loss amounted to HK$72,060,000 (2018: HK$97,663,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2019 was 9.3% compared to 8.5% at 31 December 2018. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.2 at 31 December 2019 (2018: 2.5).

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 2019, the Group's cash and bank balances were HK$1,541,334,000 (2018: HK$1,479,188,000), of which HK$1,374,760,000 (2018: HK$1,007,638,000) was denominated in United States dollar, HK$16,810,000 (2018: HK$21,835,000) in British pound, HK$45,763,000 (2018: HK$49,358,000) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

Employees

As at 31 December 2019, the Group had a total of 109 employees in Hong Kong, the United States of America and the United Kingdom (2018: 115 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.

Financial Guarantee

Details of the Company's financial guarantee contracts are set out in note 24 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2019 are set out in note 24 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$518,000 (2018: HK$1,272,000).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 15 to the financial statements.

Principal Properties

Details of the principal properties of the Group held for investment purposes are set out in note 15 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 31.1 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 124.

Purchase, Sale or Redemption of Shares

During the period, 76,177,128 shares of HK$0.01 each were repurchased by the Company at prices ranging from HK$1.02 to HK$1.16 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 31.1 to the financial statements.

Directors

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

Mr. TO Shu Sing, Sidney *(Chairman)*
Ms. CHAN, Helen *(Executive Director)*
Mr. CHENG Bing Kin, Alain *(Executive Director)*
Mr. IP Shu Wing, Charles *(Independent Non-executive Director)*
Mr. LEE Ka Sze, Carmelo *(Non-executive Director) – appointed on 5 November 2019*
Mr. LEE Peng Fei, Allen *(Independent Non-executive Director) – retired on 24 May 2019*
Mr. LO Kai Yiu, Anthony *(Independent Non-executive Director)*
Mr. TANG Wing Yung, Thomas *(Independent Non-executive Director) – appointed on 5 November 2019*
Mr. TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)*

Pursuant to Bye-law 87(1) of the Company, Ms. Chan, Helen and Mr. Tsim Tak Lung shall retire by rotation at the forthcoming annual general meeting. Ms. Chan, Helen and Mr. Tsim Tak Lung will offer themselves for re-election at the same meeting.

Pursuant to Bye-law 86(2) of the Company, Mr. Lee Ka Sze, Carmelo and Mr. Tang Wing Yung, Thomas shall hold office until the next following annual general meeting and shall then be eligible for re-election at that meeting. Mr. Lee Ka Sze, Carmelo and Mr. Tang Wing Yung, Thomas will offer themselves for re-election at the forthcoming 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.

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 and Contracts

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company or its 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 particulars of the share options of a subsidiary of the Company that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Share Options of Playmates Toys Limited ("PTL")

Share options of PTL, an indirect non-wholly owned subsidiary of the Company, are granted to directors of PTL, employees of PTL group and other participants, pursuant to the Share Option Scheme of PTL adopted on 25 January 2008 ("2008 PTL Scheme") and the Share Option Scheme of PTL adopted on 21 May 2018 ("2018 PTL Scheme"). Details of the Schemes are as follows:

Purpose	:	(i)	To motivate the eligible participants to optimise their performance and efficiency for the benefit of PTL and its subsidiaries ("PTL 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 PTL Group.
Participants	:	(i)	Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL 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 6 March 2020	**2008 PTL Scheme** 10,263,500 ordinary shares, representing 0.87% of the issued capital. **2018 PTL Scheme** 48,332,000 ordinary shares, representing 4.10% of the issued capital
Maximum entitlement of each participant	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL.
The period within which the ordinary shares must be taken up under an option	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	Not applicable.
The basis for determining the exercise price	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the 2008 PTL Scheme and the 2018 PTL Scheme	**2008 PTL Scheme** Remained in force until 31 January 2018. **2018 PTL Scheme** Remains in force until 21 May 2028.

Share Options (Continued)

Share Options of PTL (Continued)

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

			Number of share options				
Participant	**Date of grant**	**Exercise Price** *HK$*	**Balance at 1 January 2019**	**Granted during the year** *(Note (1))*	**Exercised during the year** *(Note (2))*	**Lapsed during the year**	**Balance at 31 December 2019**
2018 PTL Scheme							
TO Shu Sing, Sidney *Chairman and Director of the Company and PTL*	29 June 2018	0.826	2,000,000	–	–	–	2,000,000
CHAN, Helen *Director of the Company*	29 June 2018	0.826	1,000,000	–	–	–	1,000,000
CHENG Bing Kin, Alain *Director of the Company and PTL*	29 June 2018	0.826	1,200,000	–	–	–	1,200,000
Directors of PTL							
CHAN Kong Keung, Stephen	29 June 2018	0.826	1,000,000	–	–	–	1,000,000
CHOW Yu Chun, Alexander	29 June 2018	0.826	500,000	–	–	–	500,000
LEE Ching Kwok, Rin	29 June 2018	0.826	500,000	–	–	–	500,000
TRAN Vi-hang William *(Note (3))*	29 June 2018	0.826	1,000,000	–	–	–	1,000,000
YANG, Victor *(Note (4))*	29 June 2018	0.826	500,000	–	–	500,000	–
Continuous Contract Employees of PTL Group, excluding directors of PTL	29 June 2018	0.826	15,772,000	–	–	220,000	15,552,000
Other Participants	29 June 2018	0.826	5,780,000	–	–	200,000	5,580,000
	12 April 2019	0.792	–	20,000,000	–	–	20,000,000

Participant	Date of grant	Exercise Price HK$	Number of share options: Balance at 1 January 2019	Granted during the year (Note (1))	Exercised during the year (Note (2))	Lapsed during the year	Balance at 31 December 2019
2008 PTL Scheme							
Directors of PTL							
CHOW Yu Chun, Alexander	13 April 2012	0.415	250,000	–	–	–	250,000
	15 May 2013	0.930	525,000	–	–	–	525,000
YANG, Victor *(Note (4))*	13 April 2012	0.415	125,000	–	–	125,000	–
	15 May 2013	0.930	525,000	–	–	525,000	–
Continuous Contract Employees of PTL Group, excluding Directors of PTL	20 January 2010	0.828	981,000	–	–	222,000	759,000
	18 April 2011	0.315	528,000	–	–	–	528,000
	13 April 2012	0.415	1,297,500	–	–	–	1,297,500
	15 May 2013	0.930	3,625,500	–	–	120,000	3,505,500
Other Participants	20 January 2010	0.828	443,000	–	–	443,000	–
	30 March 2010	0.673	1,110,000	–	–	–	1,110,000
	18 April 2011	0.315	574,000	–	–	–	574,000
	13 April 2012	0.415	1,122,000	–	184,000	186,000	752,000
	15 May 2013	0.930	1,562,500	–	–	600,000	962,500

Notes:

(1) The closing price of the ordinary shares of PTL on 11 April 2019, being the trading day immediately before the date on which the share options were granted during the year, was HK$0.70.

(2) The weighted average closing price of the ordinary shares of PTL immediately before the date on which the share options were exercised by the other participant of PTL Group during the year was HK$0.82.

(3) Mr. Tran Vi-hang William was appointed a director of PTL on 12 August 2019.

(4) Mr. Yang, Victor resigned as a director of PTL on 12 August 2019.

The above share options are exercisable in stages in accordance with the respective terms of the 2008 PTL Scheme and the 2018 PTL Scheme within ten years after the date of grant. 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 2019, 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	20,000,000 ordinary shares	0.94%
CHAN, Helen	Personal	28,000,000 ordinary shares	1.32%
CHENG Bing Kin, Alain	Personal	2,300,000 ordinary shares	0.11%
IP Shu Wing, Charles	Personal	3,320,800 ordinary shares	0.16%
LO Kai Yiu, Anthony	Personal	250,000 ordinary shares	0.01%
TSIM Tak Lung	Personal	1,100,160 ordinary shares	0.05%
YU Hon To, David	Personal	228,000 ordinary shares	0.01%
	Corporate *(Note (a))*	5,472,000 ordinary shares	0.26%

Long positions in shares of PTL

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	1,800,000 ordinary shares	0.15%
IP Shu Wing, Charles	Personal	2,487,026 ordinary shares	0.21%
LO Kai Yiu, Anthony	Personal	376,000 ordinary shares	0.03%
TSIM Tak Lung	Personal	259,632 ordinary shares	0.02%
YU Hon To, David	Personal	176,000 ordinary shares	0.01%
	Corporate *(Note (b))*	1,065,600 ordinary shares	0.09%

Long positions in underlying shares of PTL

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, Helen	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%

Notes:

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

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

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 2019.

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 2019, 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 2019, person (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, was recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Nature of interests	Number of shares held	Percentage interest held
Chan Chun Hoo, Thomas	Personal, Associate and Corporation *(Note (i))*	1,342,000,000 ordinary shares	63.39%
TGC Assets Limited	Corporation *(Note (ii))*	1,070,000,000 ordinary shares	50.55%

Notes:

(i) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") was interested in and deemed to be interested in 1,342,000,000 shares of the Company of which 142,000,000 shares were held by Mr. Chan directly, 130,000,000 shares were held by his wife and 1,070,000,000 shares were held by TGC Assets Limited ("TGC").

(ii) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and he was deemed to be interested in the 1,070,000,000 shares held by TGC.

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

Save as disclosed above, as at 31 December 2019, 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 1999 and subsequently amended in 2005, 2009, 2012 and 2015.

The Audit Committee provides an important link between the board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises five non-executive directors, namely Mr. Lo Kai Yiu, Anthony as chairman, Mr. Lee Ka Sze, Carmelo, Mr. Tang Wing Yung, Thomas, Mr. Tsim Tak Lung and Mr. Yu Hon To, David as members.

Sufficiency of Public Float

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

Auditors

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

On behalf of the board
TO Shu Sing, Sidney
Chairman
Hong Kong, 6 March 2020

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 2019, 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, Helen *(Executive Director)*
CHENG Bing Kin, Alain *(Executive Director)*
IP Shu Wing, Charles *(Independent Non-executive Director)*
LEE Ka Sze, Carmelo *(Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*
TANG Wing Yung, Thomas *(Independent Non-executive Director)*
TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and six non-executive directors. Of the six non-executive directors, four are independent non-executive directors. In addition, three of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the board except for the in-law relationship between Mr. Tsim Tak Lung and Mr. To Shu Sing, Sidney.

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. 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 2019, all directors have participated in continuous professional development programmes such as in-house briefings and external seminars to develop and refresh their knowledge and skills. Materials on new or salient changes to laws and regulations applicable to the Group were provided to the directors. All directors have provided the Company with their respective training record pursuant to the Code.

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

Directors	Reading	Attending in-house briefings/seminars/ conferences
TO Shu Sing, Sidney	✓	✓
CHAN, Helen	✓	✓
CHENG Bing Kin, Alain	✓	✓
IP Shu Wing, Charles	✓	✓
LEE Ka Sze, Carmelo	✓	✓
LO Kai Yiu, Anthony	✓	✓
TANG Wing Yung, Thomas	✓	✓
TSIM Tak Lung	✓	✓
YU Hon To, David	✓	✓

Board Meetings and Proceedings

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

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

The board held five meetings in 2019. 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	5/5	N/A	2/2	2/2	1/1
CHAN, Helen	4/5	N/A	N/A	N/A	1/1
CHENG Bing Kin, Alain	5/5	N/A	N/A	N/A	1/1
IP Shu Wing, Charles *Note 1*	5/5	N/A	2/2	1/1	1/1
LEE Ka Sze, Carmelo *Note 2*	N/A	N/A	N/A	N/A	N/A
LEE Peng Fei, Allen *Note 3*	2/2	1/1	1/1	1/1	1/1
LO Kai Yiu, Anthony	5/5	2/2	2/2	2/2	0/1
TANG Wing Yung, Thomas *Note 4*	N/A	N/A	N/A	N/A	N/A
TSIM Tak Lung	5/5	2/2	2/2	N/A	1/1
YU Hon To, David *Note 5*	5/5	2/2	1/1	N/A	1/1

Notes:

1. Mr. Ip Shu Wing, Charles was appointed as the chairman of the Compensation Committee and a member of the Nomination Committee on 24 May 2019.
2. Mr. Lee Ka Sze, Carmelo was appointed on 5 November 2019. He was appointed as a member of the Audit Committee and the Nomination Committee on the same date.
3. Mr. Lee Peng Fei, Allen retired after the AGM on 24 May 2019. He ceased to be the chairman of the Compensation Committee and a member of the Audit Committee and the Nomination Committee on the same date.
4. Mr. Tang Wing Yung, Thomas was appointed on 5 November 2019. He was appointed as a member of the Audit Committee and the Nomination Committee on the same date.
5. Mr. Yu Hon To, David was appointed as a member of the Compensation Committee on 24 May 2019.

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 1999 and its current members include:

LO Kai Yiu, Anthony – *Committee Chairman (Independent Non-executive Director)*
LEE Ka Sze, Carmelo *(Non-executive Director)*
TANG Wing Yung, Thomas *(Independent Non-executive Director)*
TSIM Tak Lung *(Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

The majority 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 composition and members of the Audit Committee exceeds the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference of the Audit Committee are posted on the websites of the Company and the Stock Exchange.

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

The Audit Committee has held two meetings during the financial year. During the year, the Audit Committee reviewed the Company's interim and annual results for the year ended 31 December 2019. 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 6 March 2020, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2019 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

The Compensation Committee was established in 2004 and its current members include:

IP Shu Wing, Charles – *Committee Chairman (Independent Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*
TO Shu Sing, Sidney *(Executive Director)*
TSIM Tak Lung *(Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

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

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

Remuneration Policy for Non-executive Director and Executive Directors

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

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 14.1 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 (Executive Director)*
IP Shu Wing, Charles *(Independent Non-executive Director)*
LEE Ka Sze, Carmelo *(Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*
TANG Wing Yung, Thomas *(Independent Non-executive Director)*

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

The Nomination Committee held two meetings during the year. The Nomination Committee reviewed the structure, size and diversity of the Board, assessed the independence of all independent non-executive directors and made recommendation to the board on the appointment and re-appointment of the directors. During the year, the Nomination Committee considered nomination of Mr. Lee Ka Sze, Carmelo and Mr. Tang Wing Yung, Thomas as new directors of the Company in accordance with the process and objective criteria contained in the Nomination Policy (including but not limited to skills, knowledge, experience, expertise, professional and educational qualifications), with due regard to the benefits of diversity as set out in the Board Diversity Policy.

Board Diversity Policy

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

Nomination Policy

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

(i) develop and review the Company's policies and practices on corporate governance;
(ii) review and monitor the training and continuous professional development of directors and senior management;
(iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(iv) develop, review and monitor the code of conduct applicable to employees and directors; and
(v) review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company in 2004. 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 2019. The Model Code also applies to other specified senior management of the Group.

DIRECTORS' INTERESTS

Details of directors' interests in the securities of the Company are set out in pages 20 to 21 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

Risk Management

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

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

Control Effectiveness

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

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 2019, 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$1,800,000. 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 2019. 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 41 to 46 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.

Communication with Stakeholders

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
Tenants	• Continue direct communication mechanism • Regular visits
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.

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 2019, 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:

Toys Business

- 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)

Properties Investment

- Use high-efficiency lightings to reduce electricity consumption
- Upgrade air-conditioning system to improve efficiency in office building
- Select environmentally-friendly cleaning products
- Encourage tenants to use environmentally-friendly designs and materials in fitting out their premises
- Place waste separation bins in common areas to facilitate and provide more recycling incentives
- Promote environmental awareness among tenants and occupants and encouraging them to reduce water and electricity consumption
- Reduce use of paper towel by installing hand dryer machines in toilets
- Implement controlled use of chiller units during night time
- Shut down passenger lifts during night time

Food and Beverage Business

- Support the strawless campaign and encourage customers to use less plastic straws
- Shut down equipment, electricity, water, gas and air-conditioning supply when they are not needed
- Recycle wastes, aluminum cans, plastic and glass bottles etc.
- Promote environmental awareness among staff to save energy, water and natural resources and to reduce waste.

Overview of Environmental Data *(note 1)*

1. Greenhouse Gas (GHG) Emissions

Indicators	**2019**	2018
Direct emissions (Scope 1) (**kgCO_2e**) *(note 2)*	**64,907**	44,621
Indirect emissions (Scope 2) (**kgCO_2e**) *(note 3)*	**1,929,634**	1,940,027
Indirect emissions (Scope 3) (**kgCO_2e**) *(note 4)*	**21,152**	26,396
Total GHG emissions (Scope 1, 2 and 3) (kgCO_2e)	**2,015,693**	2,011,044
Total GHG emissions intensity (kg/HK$ million revenue)	**3,235**	2,740

2. Non-hazardous waste

Indicators	**2019**	2018
Total non-hazardous waste produced (tonnes)	**120**	124
Total non-hazardous waste produced intensity (tonnes/HK$ million revenue)	**0.19**	0.16

3. Effluent and waste management

Indicators	2019	2018
Total waste water discharged (m^3)	**6,685**	10,376
Waste disposed to landfill (kg)		
• General office waste (kg)	**93,101**	94,549
• Grease trap waste disposed to landfill (kg)	**26,900**	29,200
Total waste disposed to landfill (kg)	**120,001**	123,749
Waste collected for recycling (kg)		
• Metals (kg)	**5**	6
• Plastics (kg)	**8**	7
Total waste collected for recycling (kg)	**13**	13

4. Energy consumption

Indicators	2019	2018
Direct energy consumption (MWh)		
• Unleaded Petrol	**10,730**	9,199
Indirect energy consumption (MWh)		
• Electricity	**3,049,645**	3,065,175
• Gas	**13,929**	14,945
Total energy consumption (MWh)	**3,074,304**	3,089,319
Total energy consumption intensity (MWh/HK$ million of revenue)	**4,935**	4,209

5. Water consumption

Indicators	2019	2018
Total water consumption (m^3) *(note 5)*	**7,937**	11,793
Total water consumption intensity (m^3/HK$ million of revenue)	**13**	16

1. PROTECTING THE ENVIRONMENT (Continued)

Overview of Environmental Data *(note 1)* (Continued)

6. Packaging materials

Indicators	2019	2018
Total packaging material used (including plastic and papers) (tonnes)	**1,517**	1,939
Intensity of packaging material used (kg) (Material for packaging/number of products)	**0.2**	0.19

Notes:

1. Unless otherwise specified, the environmental data covers the Group's owned and operated facilities (offices, restaurants and common areas of the buildings owned and managed by the Group) 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 and towngas.
4. Scope 3 refers to indirect GHG emission such as consumption of paper and business air travel.
5. In 2019, there is no issue in sourcing water that is fit for purpose.

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.

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. For example, during the year arrangements were made for our restaurant staff to attend applicable courses organized by the Occupational Safety & Health Council to raise their awareness of occupational hazards and to enhance their knowledge of occupational safety and health. We also invited Occupational Health Services of the Labour Department of Hong Kong to provide training on occupational health for office workers.

There was no case of fatality due to workplace incident in the reporting year.

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. Property Management and Food & Beverage Businesses

The Group Support and promote green property management and procurement practices. We select environmentally-friendly products in managing our buildings and encourage our tenants to use environmentally-friendly designs and fit out materials. In our food and beverage business operations, we strictly adhere to local food safety standards. We develop long term relationships with our suppliers to ensure reliable and high standard of food supplies at all times.

b. Supply Chain Management of Toy Business

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.

c. *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.

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.

3. OPERATING PRACTICES (Continued)

d. 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.

e. 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.

f. 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.

g. 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 regarding corrupt practices or money laundering brought against the Company or its employees during the year.

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 MTV Staying Alive Foundation, The Friends of Cambridge University H.K and Sachs Family Foundation.

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To the members of
Playmates Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Playmates Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 123, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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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Key Audit Matters (Continued)

Valuation of investment properties

Refer to notes 2.5 and 15 to the consolidated financial statements

The Group's investment properties measured at fair value amounted to approximately HK$6,119 million (2018: HK$5,844 million) as at 31 December 2019 and a net fair value gain on investment properties of HK$261 million (2018: HK$333 million) was recorded for the year then ended.

The Group engaged independent professional valuers to perform the valuation of investment properties. Significant judgments and estimation, including valuation methodologies and key assumptions used, are required to determine the fair value of investment properties by the valuers.

We identified the valuation of investment properties as a key audit matter due to the significant judgments and estimates involved and the financial impacts on the consolidated financial statements.

How the matter was addressed in our report

Our audit procedures in relation to valuation of investment properties included:

- assessing the competence, capabilities and objectivity of the independent professional valuers;
- evaluating and assessing the methodologies adopted and the appropriateness of the key assumptions, including market rent, capitalisation rate, etc, by referencing to market information and by comparing the fair value of other comparable properties.

Based on the above procedures, we obtained evidence to support the significant judgments and estimates used in the valuation of investment properties.

Revenue recognition for sales of toys

Refer to notes 2.15 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. There was no accounting judgment made in determining sales transactions (see notes 2.1 and 2.15).

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.

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How the matter was addressed in our report

Our audit procedures to assess the recognition of revenue included:

- assessing the design and operating effectiveness of the key 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.

We found the revenue recorded to be supported by the available evidence.

Recognition of deferred tax assets

Refer to notes 2.1, 2.19 and 29 to the consolidated financial statements

We identified the recognition of deferred tax assets as a key audit matter due to the recognition of these assets involving judgment by management as to the likelihood of the realisation of deferred tax assets, which is based on a number of factors including whether taxable profits in future periods are available.

As at 31 December 2019, the Group has recognised HK$24 million (2018: HK$34 million) of deferred tax assets in the consolidated statement of financial position.

How the matter was addressed in our report

Our audit procedures to assess the recognition of deferred tax assets included:

- evaluating management's assessment on the sufficiency of future taxable profits in support of the recognition of deferred tax assets;
- involving our tax specialists to assist in evaluating the judgment and assumptions adopted by management to determine the recognition and recoverability of the deferred tax assets, in light of current tax laws;
- obtaining the tax filings and returns between the Group and taxation authorities regarding the tax positions of the Group.

Based on the above procedures, we obtained evidence to support management's judgment adopted in the recognition of deferred tax assets.

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Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2019 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.

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.
- 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, 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, related safeguards.

Grant Thornton
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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

6 March 2020

Lin Ching Yee Daniel
Practising Certificate No.: P02771

Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019 **US$'000** (Note 35)	2019 **HK$'000**	2018 HK$'000
Revenue	4	**79,815**	**622,566**	733,559
Cost of sales		**(25,132)**	**(196,028)**	(244,715)
Gross profit		**54,683**	**426,538**	488,844
Marketing expenses		**(10,330)**	**(80,575)**	(109,613)
Selling and distribution expenses		**(2,495)**	**(19,466)**	(27,108)
Administration expenses		**(20,866)**	**(162,749)**	(169,293)
Impairment loss on trade receivables		**–**	**–**	(5,287)
Net gain/(loss) on financial assets at fair value through profit or loss	6	**2,132**	**16,627**	(3,065)
Net revaluation surplus on investment properties	15	**33,505**	**261,338**	333,223
Operating profit		**56,629**	**441,713**	507,701
Other net income	8	**3,660**	**28,551**	65,486
Finance costs	9	**(3,005)**	**(23,442)**	(20,601)
Profit before income tax	7	**57,284**	**446,822**	552,586
Income tax expense	10	**(6,336)**	**(49,423)**	(32,038)
Profit for the year		**50,948**	**397,399**	520,548
Profit/(Loss) for the year attributable to:				
Owners of the Company		**53,425**	**416,717**	520,625
Non-controlling interests		**(2,477)**	**(19,318)**	(77)
		50,948	**397,399**	520,548
		US cents	***HK cents***	*HK cents*
Earnings per share	12			
Basic		**2.59**	**20.21**	25.74
Diluted		**2.59**	**20.21**	25.74

The notes on pages 55 to 123 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 ***US$'000*** *(Note 35)*	**2019** ***HK$'000***	2018 *HK$'000*
Profit for the year	**50,948**	**397,399**	520,548
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	**872**	**6,801**	(11,550)
Total comprehensive income for the year	**51,820**	**404,200**	508,998
Total comprehensive income attributable to:			
Owners of the Company	**54,297**	**423,518**	509,075
Non-controlling interests	**(2,477)**	**(19,318)**	(77)
	51,820	**404,200**	508,998

The notes on pages 55 to 123 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	**2019** **US$'000** (Note 35)	**2019** **HK$'000**	2018 HK$'000
Non-current assets				
Fixed assets				
– Investment properties	*15*	**784,543**	**6,119,436**	5,844,058
– Other property, plant and equipment	*15*	**29,479**	**229,932**	245,518
		814,022	**6,349,368**	6,089,576
Prepayments for fixed assets		**2,868**	**22,374**	2,781
Right-of-use assets	*16.1*	**351**	**2,741**	–
Goodwill	*17*	**766**	**5,976**	5,976
Interest in an associated company	*19*	**–**	**–**	5,920
Deferred tax assets	*29*	**3,078**	**24,007**	34,141
		821,085	**6,404,466**	6,138,394
Current assets				
Inventories	*20*	**2,524**	**19,691**	24,431
Trade receivables	*21*	**8,619**	**67,226**	141,289
Deposits paid, other receivables and prepayments	*22*	**10,338**	**80,640**	93,518
Taxation recoverable		**349**	**2,720**	3,524
Financial assets at fair value through profit or loss	*23*	**9,238**	**72,060**	97,663
Cash and bank balances	*32.2*	**197,607**	**1,541,334**	1,479,188
		228,675	**1,783,671**	1,839,613
Current liabilities				
Bank loans	*24*	**68,244**	**532,300**	474,425
Trade payables	*25*	**4,546**	**35,461**	38,571
Deposits received, other payables and accrued charges	*26*	**18,248**	**142,346**	165,124
Loan from an associated company	*27*	**–**	**–**	5,831
Provisions	*28*	**5,429**	**42,348**	46,637
Lease liabilities	*16.2*	**366**	**2,852**	–
Taxation payable		**5,321**	**41,505**	16,481
		102,154	**796,812**	747,069
Net current assets		**126,521**	**986,859**	1,092,544
Total assets less current liabilities		**947,606**	**7,391,325**	7,230,938

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	**2019** ***US$'000*** *(Note 35)*	**2019** ***HK$'000***	2018 *HK$'000*
Non-current liabilities				
Bank loans	*24*	**29,625**	**231,075**	200,875
Deferred tax liabilities	*29*	**3,881**	**30,273**	30,958
		33,506	**261,348**	231,833
Net assets		**914,100**	**7,129,977**	6,999,105
Equity				
Share capital	*31.1*	**2,714**	**21,169**	21,000
Reserves		**849,487**	**6,625,995**	6,478,342
Equity attributable to the owners of the Company		**852,201**	**6,647,164**	6,499,342
Non-controlling interests		**61,899**	**482,813**	499,763
Total equity		**914,100**	**7,129,977**	6,999,105

On behalf of the board

CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
Director

The notes on pages 55 to 123 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	**2019** ***US$'000*** *(Note 35)*	**2019** ***HK$'000***	2018 *HK$'000*
Cash flows from operating activities				
Cash generated from operations	*32.1*	**36,931**	**288,064**	218,141
Interest paid		**(2,743)**	**(21,398)**	(17,157)
Interest received		**1,134**	**8,849**	5,485
Dividends received from financial assets at fair value through profit or loss		**349**	**2,722**	6,410
Hong Kong profits tax paid		**–**	**–**	(28,489)
Hong Kong profits tax refunded		**–**	**–**	13,829
Overseas tax paid		**(1,816)**	**(14,167)**	(8,479)
Net cash generated from operating activities		**33,855**	**264,070**	189,740
Cash flows from investing activities				
Capitalised subsequent expenditure on investment properties		**(729)**	**(5,687)**	(12,812)
Purchases of other property, plant and equipment		**(26)**	**(206)**	(1,866)
Prepayments for fixed assets		**(2,868)**	**(22,374)**	(2,781)
Purchases of financial assets at fair value through profit or loss		**–**	**–**	(42,113)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	**–**	65,439
Proceeds from disposal of other property, plant and equipment		**–**	**–**	180
Dividends received from financial assets at fair value through profit or loss		**3**	**24**	254
Interest received		**2,667**	**20,806**	15,767
Net cash (used in)/generated from investing activities		**(953)**	**(7,437)**	22,068

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	**2019** **US$'000** (Note 35)	**2019** **HK$'000**	2018 HK$'000
Cash flows from financing activities				
Issue of shares of a listed subsidiary		**10**	**76**	418
Repurchase of shares of the Company		**(10,292)**	**(80,278)**	(49,471)
Repurchase of its own shares by a listed subsidiary		**(19)**	**(149)**	(16,927)
New bank loans	*32.3*	**13,359**	**104,200**	110,000
Repayment of bank loans	*32.3*	**(2,179)**	**(17,000)**	(18,075)
Dividends paid to owners of the Company		**(25,368)**	**(197,867)**	(160,705)
Dividends paid to non-controlling interests		**–**	**–**	(17,409)
Payment of lease liabilities	*32.3*	**(365)**	**(2,845)**	–
Net cash used in financing activities		**(24,854)**	**(193,863)**	(152,169)
Net increase in cash and cash equivalents		**8,048**	**62,770**	59,639
Cash and cash equivalents at 1 January		**189,639**	**1,479,188**	1,423,626
Effect of foreign exchange rate changes		**(80)**	**(624)**	(4,077)
Cash and cash equivalents at 31 December	*32.2*	**197,607**	**1,541,334**	1,479,188

The notes on pages 55 to 123 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Share repurchase reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2018	20,278	1,856	7,433	(3,329)	510,684	(21,125)	3,912	31,812	5,647,964	6,199,485	530,367	6,729,852
Profit/(Loss) for the year	–	–	–	–	–	–	–	–	520,625	520,625	(77)	520,548
Other comprehensive income:												
Exchange differences arising on translation of foreign subsidiaries	–	–	–	–	–	(11,550)	–	–	–	(11,550)	–	(11,550)
Total comprehensive income for the year	–	–	–	–	–	(11,550)	–	–	520,625	509,075	(77)	508,998
Repurchase of shares of the Company	(494)	(5,639)	494	2,874	(46,212)	–	–	–	(494)	(49,471)	–	(49,471)
Repurchase of its own shares by a listed subsidiary	–	–	–	455	(9,062)	–	–	–	–	(8,607)	(8,320)	(16,927)
Share option scheme												
– value of services	–	–	–	–	–	–	2,211	–	–	2,211	2,138	4,349
– shares issued	–	–	–	–	360	–	(147)	–	–	213	205	418
– share options lapsed	–	–	–	–	–	–	(19)	–	19	–	–	–
2017 second interim dividend paid	–	–	–	–	(20,070)	–	–	–	–	(20,070)	–	(20,070)
2017 second special interim dividend paid	–	–	–	–	(40,140)	–	–	–	–	(40,140)	–	(40,140)
2018 first interim dividend paid	–	–	–	–	(29,760)	–	–	–	–	(29,760)	–	(29,760)
2018 first special interim dividend paid	–	–	–	–	(198,400)	–	–	–	–	(198,400)	–	(198,400)
Shares issued in respect of scrip dividend of 2018 first special interim dividend	1,216	126,449	–	–	–	–	–	–	–	127,665	–	127,665
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(17,409)	(17,409)
Changes in ownership interests in subsidiaries without change of control	–	–	–	–	–	–	–	–	7,141	7,141	(7,141)	–
Transactions with owners	722	120,810	494	3,329	(343,284)	–	2,045	–	6,666	(209,218)	(30,527)	(239,745)
At 31 December 2018	21,000	122,666	7,927	–	167,400	(32,675)	5,957	31,812	6,175,255	6,499,342	499,763	6,999,105

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Share repurchase reserve HK$'000	Reserve on consolidation HK$'000	Exchange reserve HK$'000	Share-based compensation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2018	21,000	122,666	7,927	-	167,400	(32,675)	5,957	31,812	6,175,255	6,499,342	499,763	6,999,105
Impact on initial application of HKFRS 16	-	-	-	-	-	-	-	-	341	341	331	672
Adjusted balance at 1 January 2019	21,000	122,666	7,927	-	167,400	(32,675)	5,957	31,812	6,175,596	6,499,683	500,094	6,999,777
Profit for the year	-	-	-	-	-	-	-	-	416,717	416,717	(19,318)	397,399
Other comprehensive income:												
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	-	6,801	-	-	-	6,801	-	6,801
Total comprehensive income for the year	-	-	-	-	-	6,801	-	-	416,717	423,518	(19,318)	404,200
Repurchase of shares of the Company	(758)	(79,069)	758	(451)	-	-	-	-	(758)	(80,278)	-	(80,278)
Repurchase of its own shares by a listed subsidiary	-	-	-	-	(76)	-	-	-	-	(76)	(73)	(149)
Share option scheme												
– value of services	-	-	-	-	-	-	2,145	-	-	2,145	2,073	4,218
– shares issued	-	-	-	-	69	-	(30)	-	-	39	37	76
– share options lapsed	-	-	-	-	-	-	(863)	-	863	-	-	-
2018 second interim dividend paid	-	-	-	-	(31,500)	-	-	-	-	(31,500)	-	(31,500)
2018 second special interim dividend paid	-	-	-	-	(31,500)	-	-	-	-	(31,500)	-	(31,500)
2019 first interim dividend paid	-	-	-	-	(30,405)	-	-	-	-	(30,405)	-	(30,405)
2019 first special interim dividend paid	-	-	-	-	(61,047)	-	-	-	(43,415)	(104,462)	-	(104,462)
Shares issued in respect of scrip dividend of 2019 first special interim dividend	927	97,311	-	-	(12,941)	-	-	-	(85,297)	-	-	-
Transactions with owners	169	18,242	758	(451)	(167,400)	-	1,252	-	(128,607)	(276,037)	2,037	(274,000)
At 31 December 2019	21,169	140,908	8,685	(451)	-	(25,874)	7,209	31,812	6,463,706	6,647,164	482,813	7,129,977

The notes on pages 55 to 123 form an integral part of these financial statements.

1 GENERAL INFORMATION

The Company was incorporated in Bermuda on 10 October 1991. 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 principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 18 to the financial statements.

The financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 6 March 2020.

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 investment properties and 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 2.7 "Inventories", note 2.12 "Provisions", note 2.16 "Advertising and marketing expenses, advanced royalties and product development costs", note 2.19 "Deferred taxation" and note 2.20 "Current taxation" to the financial statements. Other than that, no significant accounting estimations and judgments have been made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income respectively for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset or, when applicable, the cost on initial recognition of an investment in an associated company or a joint venture.

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 Associated companies

An associated company is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

In the consolidated financial statements, an investment in an associated company is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associated company is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associated company's net assets less any identified impairment loss, unless it is classified as held for sale. The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associated company for the year, including any impairment loss on the investment in the associated company recognised for the year.

When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Where unrealised losses on assets sales between the Group and its associated company are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective.

After the application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associated company. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in associated company is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associated company and its carrying amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Fixed assets

Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the nature and location of the investment property. The carrying amounts recognised at the end of the reporting period reflect the prevailing market conditions at the end of the reporting period.

When the use of a property changes such that it is reclassified as other property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Gains or losses arising from either changes in the fair value or the sale of an investment property are recognised in profit or loss in the period in which they arise.

Other property, plant and equipment

Other 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 are recognised in profit or loss.

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

Land and buildings	Over the shorter of remaining lease term and 40 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.

2.6 Goodwill

Goodwill represents the excess of (i) aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the date of acquisition.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.7 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 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.

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 2.15 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (Continued)

(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, 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 in 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.

2.9 Impairment of non-financial assets

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Other property, plant and equipment, right-of-use assets, interest in subsidiaries and an associated company 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 which are 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. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which the goodwill is monitored for internal management purpose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets (Continued)

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, 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.

2.10 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.

(i) 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 2.9).

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.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

Rental income from operating leases is recognised in accordance with note 2.15.

2.11 Financial liabilities

The Group's financial liabilities include trade and other payables, bank loans, loan from an associated company and lease liabilities. They are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.18). A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables and loan from an associated company

Trade and other payables and loan from an associated company are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

Bank loans

Bank loans are recognised initially at fair value, net of transaction costs incurred. Bank loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Bank loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Accounting policies for lease liabilities are set out in note 2.10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 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 the end of each reporting period, 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)

2.13 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 (share repurchase reserve) attributable to the Company's owners until the shares are cancelled or reissued.

2.14 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract is initially recognised as deferred income within trade and other payables at fair value. Where consideration is received or receivable for issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

2.15 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) Rental income

Rental income from letting the Group's portfolio of investment properties is recognised on a straight-line basis over the lease term.

(iii) Property management income

Property management income is recognised when services are rendered over time.

(iv) Restaurant income

Restaurant income is recognised when services are rendered.

(v) Dividend income

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

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2.16.1 Advertising and marketing expenses are expensed as incurred.

2.16.2 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.

2.16.3 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.

2.17 Employee benefits

2.17.1 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.

2.17.2 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.

2.17.3 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.19 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 and associated company, 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.

For investment properties measured using the fair value model in accordance with the accounting policy above, the measurement of the related deferred tax liability or asset reflects the tax consequences of recovering the carrying amount of the investment properties entirely through sale.

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.

2.20 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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 end of the reporting period 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. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

2.22 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.

2.23 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 Group has presented the following three reportable segments.

Property investments and associated businesses: this segment invests and leases commercial, industrial and residential premises for rental income, to gain from the appreciation in properties' values in the long term and to provide property management services for property management fee income, and operates restaurants.

Investment business: this segment invests in financial instruments including listed equity and managed funds for interest income and dividend income and to gain from the appreciation in instruments' values.

Toy business: this segment engages in the design, development, marketing and distribution of toys and family entertainment activity products.

Each of these reportable segments is managed separately as each of the product and service lines requires different resources. All inter-segment transfers are carried out at arm's length prices.

Segment assets include all tangible and intangible non-current and current assets except deferred tax assets, taxation recoverable and other corporate assets which namely "unallocated assets". Segment liabilities include all current and non-current liabilities except deferred tax liabilities, taxation payable and other corporate payables which namely "unallocated liabilities". Corporate assets and liabilities are not allocated to a segment as they are not directly attributable to the business activities of any reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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 a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the 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 in this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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.

There is no impact to the Group's existing contracts under this new lease definition. Contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to lease of offices.

For further details on the Group's lease accounting policies, please see note 2.10.

3 ADOPTION OF NEW OR AMENDED HKFRSs (CONTINUED)

(a) Changes in the accounting policies (Continued)

(iii) Lessor accounting

The Group leases out a number of properties under its property investments and associated businesses segment. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The incremental borrowing rate used for determination of the present value of the remaining lease payments was 5%.

To ease the transition to HKFRS 16, the Group elected to adopt the practical expedient by not applying the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application, i.e. where the lease term ends on or before 31 December 2019.

The following table reconciles the operating lease commitments as disclosed in note 33.2.1(ii) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitment as at 31 December 2018	5,775
Less: discounting impact	(293)
Lease liabilities as at 1 January 2019	**5,482**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities as at 1 January 2019.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position at initial application:

	At 31 December 2018 *HK$'000*	Adoption of HKFRS 16 *HK$'000*	**At 1 January 2019** ***HK$'000***
Non-current assets			
Right-of-use assets	–	5,482	**5,482**
Current liabilities			
Lease liabilities	–	2,630	**2,630**
Non-current liabilities			
Lease liabilities	–	2,852	**2,852**
Equity			
Retained profits	6,175,255	341	**6,175,596**
Non-controlling interests	499,763	331	**500,094**

(c) Impact on the financial result of the Group after the adoption of HKFRS 16

In the consolidated income statement, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The financial impact to the Group's consolidated income statement is not significant.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows. Total cash flows are unaffected and the adoption of HKFRS 16 does not have a significant impact to the Group's consolidated cash flow statement.

4 REVENUE

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers:		
– Sale of toys	**358,739**	474,182
– Restaurant income	**19,886**	22,376
– Property management income	**21,287**	18,942
	399,912	515,500
Revenue from other sources:		
– Rental income from investment properties	**211,083**	206,164
– Dividend income	**2,722**	6,410
– Interest income	**8,849**	5,485
	222,654	218,059
Total revenue	**622,566**	733,559

5 SEGMENT INFORMATION

5.1 Segment results, assets and liabilities

The Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment to assess segment performance and allocate resources between segments.

Inter-segment revenue represents inter-company rental and property management fee charged on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

The segment results for the year ended 31 December 2019 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Gross revenue from contracts with customers by timing of revenue recognition				
– Point in time	**19,886**	**–**	**358,739**	**378,625**
– Over time	**23,867**	**–**	**–**	**23,867**
Gross revenue from other sources	**221,478**	**11,571**	**–**	**233,049**
Inter-segment revenue	**(12,975)**	**–**	**–**	**(12,975)**
Revenue from external customers	**252,256**	**11,571**	**358,739**	**622,566**
Segment profit/(loss) before depreciation	**468,081**	**27,840**	**(28,314)**	**467,607**
Depreciation	**(12,081)**	**–**	**(7,262)**	**(19,343)**
Segment operating profit/(loss)	**456,000**	**27,840**	**(35,576)**	**448,264**
Other net (loss)/income	**(873)**	**–**	**20,568**	**19,695**
Finance costs	**(21,456)**	**(22)**	**(1,469)**	**(22,947)**
	(22,329)	**(22)**	**19,099**	**(3,252)**
Segment profit/(loss) before income tax *(Note)*	**433,671**	**27,818**	**(16,477)**	**445,012**
Unallocated other income				**8,500**
Unallocated corporate expenses				**(6,690)**
Profit before income tax				**446,822**

Note:

Segment profit/(loss) before income tax included the following:

Interest income	**2**	**8,849**	**20,447**	
Dividend income	**–**	**2,722**	**24**	
Net revaluation surplus on investment properties	**261,338**	**–**	**–**	
Net gain on financial assets at fair value through profit or loss	**–**	**16,627**	**–**	

5 SEGMENT INFORMATION (CONTINUED)

5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2018 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Gross revenue from contracts with customers by timing of revenue recognition				
– Point in time	22,376	–	474,182	496,558
– Over time	21,462	–	–	21,462
Gross revenue from other sources	216,468	11,895	–	228,363
Inter-segment revenue	(12,824)	–	–	(12,824)
Revenue from external customers	247,482	11,895	474,182	733,559
Segment profit/(loss) before depreciation	535,238	8,464	(8,295)	535,407
Depreciation	(12,456)	–	(5,023)	(17,479)
Segment operating profit/(loss)	522,782	8,464	(13,318)	517,928
Other net (loss)/income	(1,436)	–	20,822	19,386
Finance costs	(17,195)	(18)	(3,130)	(20,343)
	(18,631)	(18)	17,692	(957)
Segment profit before income tax *(Note)*	504,151	8,446	4,374	516,971
Unallocated other income				46,100
Unallocated corporate expenses				(10,485)
Profit before income tax				552,586

Note:

Segment profit before income tax included the following:

	Property investments and associated businesses	Investment business	Toy business
Interest income	–	5,485	15,767
Dividend income	–	6,410	254
Net revaluation surplus on investment properties	333,223	–	–
Net (loss)/gain on financial assets at fair value through profit or loss	–	(3,065)	4,731

The segment assets and liabilities as at 31 December 2019 are as follows:

	Property investments and associated businesses *HK$'000*	**Investment business** *HK$'000*	**Toy business** *HK$'000*	**Total** *HK$'000*
Reportable segment assets (including cash and bank balances)	**6,424,395**	**578,099**	**1,146,362**	**8,148,856**
Inter-segment elimination	**–**	**–**	**(1,980)**	**(1,980)**
Deferred tax assets				**24,007**
Taxation recoverable				**2,720**
Unallocated assets *(Note)*				**14,534**
Total assets				**8,188,137**
Reportable segment liabilities	**808,432**	**–**	**173,811**	**982,243**
Inter-segment elimination	**(1,670)**	**–**	**(310)**	**(1,980)**
Deferred tax liabilities				**30,273**
Taxation payable				**41,505**
Unallocated liabilities				**6,119**
Total liabilities				**1,058,160**
Capital expenditure	**28,146**	**–**	**121**	

Note:

Included HK$8.5 million to be received by PPL pursuant to the Decision of the High Court of Hong Kong dated 6 November 2019, details of which are disclosed in Note 8.

5 SEGMENT INFORMATION (CONTINUED)

5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2018 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Reportable segment assets (including cash and bank balances)	6,144,691	545,467	1,194,097	7,884,255
Interest in an associated company	–	–	5,920	5,920
Total reportable segment assets	6,144,691	545,467	1,200,017	7,890,175
Inter-segment elimination	(53)	–	(1,670)	(1,723)
Deferred tax assets				34,141
Taxation recoverable				3,524
Unallocated assets				51,890
Total assets				7,978,007
Reportable segment liabilities	724,718	3,900	201,658	930,276
Inter-segment elimination	(1,670)	–	(53)	(1,723)
Deferred tax liabilities				30,958
Taxation payable				16,481
Unallocated liabilities				2,910
Total liabilities				978,902
Capital expenditure	16,382	–	1,077	

5.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, prepayments for fixed assets, right-of-use assets, goodwill and interest in an associated company ("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 assets in case of fixed assets and right-of-use assets, the location of operation to which they are allocated in case of goodwill, and the place of domicile in case of interest in an associated company.

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**260,177**	255,555	**5,869,619**	5,603,550
Americas				
– U.S.A.	**203,191**	303,380	**181,448**	197,283
– Others	**33,027**	39,898	**–**	–
Europe	**104,572**	95,811	**232,518**	207,918
Asia Pacific other than Hong Kong	**20,999**	34,163	**96,874**	95,502
Others	**600**	4,752	**–**	–
	362,389	478,004	**510,840**	500,703
	622,566	733,559	**6,380,459**	6,104,253

5.3 Major customers

The Group's customer base includes two (2018: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK$166,886,000 and HK$113,670,000 (2018: HK$159,829,000, HK$129,951,000 and HK$87,384,000) respectively.

6 NET GAIN/(LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	*HK$'000*
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	**1,103**	(17,875)
Net realised gain on financial assets at fair value through profit or loss	**15,524**	14,810
	16,627	(3,065)

7 PROFIT BEFORE INCOME TAX

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

	2019 HK$'000	2018 HK$'000
Cost of inventories sold	**156,561**	195,374
Write down of inventories	**156**	685
Product development and tooling costs	**22,159**	30,660
Royalties expenses	**50,905**	63,597
Direct operating expenses arising from investment properties that generate rental income	**4,152**	4,072
Direct operating expenses arising from investment properties that did not generate rental income	**1,243**	1,194
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 28)*	**20,540**	36,096
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance *(Note 28)*	**(3,277)**	(10,649)
Depreciation		
– other property, plant and equipment *(Note 15)*	**16,801**	17,904
– right-of-use assets *(Note 16.1)*	**2,741**	–
Directors' and staff remunerations *(Note 13)*	**93,943**	95,037
Impairment loss on trade receivables *(Note 21)*	**–**	5,287
Allowance for customer concession	**4,959**	6,875
Reversal of allowance for customer concession	**(36)**	(2,769)
Operating leases expense on office	**–**	2,706
Loss/(Gain) on disposal of other property, plant and equipment	**97**	(99)
Auditors' remuneration	**1,800**	1,800

8 OTHER NET INCOME

	2019 HK$'000	2018 HK$'000
Net foreign exchange loss on translation of bank loans	**(875)**	(2,000)
Net investment gain and income from Playmates Toys' treasury investments	**20,471**	20,752
Others *(Note)*	**8,955**	46,734
	28,551	65,486

Note:

Others in 2019 included a recognition as net income of HK$8.5 million (2018: HK$46.1 million), being the net income to be received by Profit Point Limited ("PPL"), an indirect wholly-owned subsidiary of the Company pursuant to the Decision of the High Court of Hong Kong dated 6 November 2019. Please refer to the announcements published by the Company on 17 February 2017, 25 May 2016, 24 December 2013 and 10 September 2003 for the details of the related legal case.

9 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank loans	**21,398**	17,157
Interest on lease liabilities	**215**	–
Bank charges	**1,829**	3,444
	23,442	20,601

10 INCOME TAX EXPENSE

10.1 Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2019 HK$'000	2018 HK$'000
Current taxation		
Hong Kong profits tax	**29,047**	28,817
Overseas taxation	**10,755**	8,433
Over provision in prior years – Hong Kong	**–**	(140)
Under provision in prior years – overseas	**192**	–
	39,994	37,110
Deferred taxation		
Origination and reversal of temporary differences	**9,429**	(5,072)
Income tax expense	**49,423**	32,038

10 INCOME TAX EXPENSE (CONTINUED)

10.2 Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Profit before income tax	**446,822**	552,586
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**75,694**	90,392
Tax effect of:		
Non-taxable income	**(46,995)**	(61,924)
Non-deductible expenses	**4,451**	3,029
Utilisation of previously unrecognised tax losses	**(2,511)**	–
Unrecognised tax losses	**18,627**	664
Recognition of previously unrecognised temporary differences	**(35)**	17
Under/(Over) provision in prior years	**192**	(140)
Income tax expense	**49,423**	32,038

11 DIVIDENDS

11.1 Dividends attributable to the year

	2019 HK$'000	2018 HK$'000
First interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	**30,405**	29,760
First special interim dividend of HK cents 10.0 per share (2018: HK cents 10.0 per share)	**202,700**	198,400
Second interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	**31,748**	31,500
Second special interim dividend of HK cents 1.5 per share (2018: HK cents 1.5 per share)	**31,748**	31,500
	296,601	291,160

At a meeting held on 12 August 2019, the board of directors resolved to pay in cash first interim dividend of HK cents 1.5 per share ("First Interim Dividend"). In addition, in view of the surplus cash available in the Group and uncertainties in the global investment climate, the board of directors resolved to pay in cash with a scrip dividend alternative first special interim dividend of HK cents 10 per share ("First Special Interim Dividend"). The First Interim Dividend and the First Special Interim Dividend were paid on 23 October 2019.

At a meeting held on 6 March 2020, the board of directors declared a second interim dividend of HK cents 1.5 per share and a second special interim dividend of HK cents 1.5 per share to be paid on 9 April 2020 to shareholders whose names appear on the Company's register of members on 25 March 2020. This second interim dividend and second special interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2019.

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

	2019	2018
	HK$'000	*HK$'000*
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 1.50 per share (2018: HK cents 1.00 per share)	**31,500**	20,070
Second special interim dividend of HK cents 1.50 per share (2018: HK cents 2.00 per share)	**31,500**	40,140
	63,000	60,210

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$416,717,000 (2018: HK$520,625,000) and the weighted average number of ordinary shares of 2,061,987,000 shares (2018: 2,022,276,000 shares) in issue during the year.

Diluted earnings per share for the years ended 31 December 2019 and 2018 equals to the basic earnings per share as there were no potential ordinary shares.

The dilutive effect of the share options issued by the Group's listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2019 and 2018.

13 DIRECTORS' AND STAFF REMUNERATIONS

	2019	2018
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**88,754**	88,441
Share-based compensation	**2,387**	3,759
Employer's contributions to provident fund	**2,802**	2,837
	93,943	95,037

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 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 2019 *HK$'000*	Salary 2019 *HK$'000*	Bonus 2019 *HK$'000*	Share-based compensation 2019 *HK$'000*	Other benefits 2019 *HK$'000* *(Note)*	Employer's contribution to provident fund 2019 *HK$'000*	Total 2019 *HK$'000*
CHAN, Helen	10	2,400	–	102	29	18	2,559
CHENG Bing Kin, Alain	20	2,352	–	122	14	18	2,526
IP Shu Wing, Charles	267	–	–	–	–	–	267
LEE Ka Sze, Carmelo (appointed on 5 November 2019)	47	–	–	–	–	–	47
LEE Peng Fei, Allen (retired on 24 May 2019)	142	–	–	–	–	–	142
LO Kai Yiu, Anthony	360	–	–	–	–	–	360
TANG Wing Yung, Thomas (appointed on 5 November 2019)	47	–	–	–	–	–	47
TO Shu Sing, Sidney	20	4,080	–	203	29	18	4,350
TSIM Tak Lung	300	–	–	–	–	–	300
YU Hon To, David	284	–	–	–	–	–	284
	1,497	8,832	–	427	72	54	10,882

Name of director	Fee 2018 *HK$'000*	Salary 2018 *HK$'000*	Bonus 2018 *HK$'000*	Share-based compensation 2018 *HK$'000*	Other benefits 2018 *HK$'000* *(Note)*	Employer's contribution to provident fund 2018 *HK$'000*	Total 2018 *HK$'000*
CHAN, Helen	10	2,400	–	147	29	18	2,604
CHENG Bing Kin, Alain	20	2,352	–	177	14	18	2,581
IP Shu Wing, Charles	200	–	–	–	–	–	200
LEE Peng Fei, Allen	360	–	–	–	–	–	360
LO Kai Yiu, Anthony	360	–	–	–	–	–	360
TO Shu Sing, Sidney	20	4,080	–	295	29	18	4,442
TSIM Tak Lung	300	–	–	–	–	–	300
YU Hon To, David	260	–	–	–	–	–	260
	1,530	8,832	–	619	72	54	11,107

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2019 and 2018.

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 2019 and 2018.

Note: Other benefits include medical allowance.

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

14.2 Five highest paid individuals

Three (2018: three) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other two (2018: two) highest paid individuals are as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**4,358**	4,399
Bonuses	**–**	–
Share-based compensation	**254**	369
Employer's contributions to provident fund	**217**	215
	4,829	4,983

The emoluments of these two (2018: two) individuals are within the following bands:

	Number of individuals	
	2019	2018
HK$		
2,000,001 – 2,500,000	**1**	1
2,500,001 – 3,000,000	**1**	1
	2	2

15 FIXED ASSETS

	Land and buildings *HK$'000*	Vehicle, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Total *HK$'000*
Cost or valuation						
At 1 January 2019	**221,900**	**116,734**	**12,334**	**350,968**	**5,844,058**	**6,195,026**
Exchange fluctuation	**–**	**1,442**	**–**	**1,442**	**5,572**	**7,014**
Additions	**–**	**132**	**74**	**206**	**–**	**206**
Capitalised subsequent expenditure	**–**	**–**	**–**	**–**	**8,468**	**8,468**
Net revaluation surplus	**–**	**–**	**–**	**–**	**261,338**	**261,338**
Disposals	**–**	**(73)**	**(920)**	**(993)**	**–**	**(993)**
At 31 December 2019	**221,900**	**118,235**	**11,488**	**351,623**	**6,119,436**	**6,471,059**
Accumulated depreciation						
At 1 January 2019	**50,220**	**44,694**	**10,536**	**105,450**	**–**	**105,450**
Exchange fluctuation	**–**	**336**	**–**	**336**	**–**	**336**
Charge for the year	**8,551**	**7,187**	**1,063**	**16,801**	**–**	**16,801**
Disposals	**–**	**(24)**	**(872)**	**(896)**	**–**	**(896)**
At 31 December 2019	**58,771**	**52,193**	**10,727**	**121,691**	**–**	**121,691**
Net book value						
At 31 December 2019	**163,129**	**66,042**	**761**	**229,932**	**6,119,436**	**6,349,368**

Surplus on revaluation of land and buildings is recognised in other comprehensive income and included under “property revaluation reserve”.

Net revaluation surplus of investment properties is recognised in the line item “net revaluation surplus on investment properties” on the face of the consolidated income statement.

Exchange fluctuation of investment properties is recognised in other comprehensive income in “exchange reserve”.

15 FIXED ASSETS (CONTINUED)

	Land and buildings HK$'000	Vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2018	221,900	118,928	12,159	352,987	5,502,632	5,855,619
Exchange fluctuation	–	(3,062)	–	(3,062)	(8,719)	(11,781)
Additions	–	1,684	182	1,866	–	1,866
Capitalised subsequent expenditure	–	–	–	–	16,922	16,922
Net revaluation surplus	–	–	–	–	333,223	333,223
Disposals	–	(816)	(7)	(823)	–	(823)
At 31 December 2018	221,900	116,734	12,334	350,968	5,844,058	6,195,026
Accumulated depreciation						
At 1 January 2018	41,669	38,173	9,026	88,868	–	88,868
Exchange fluctuation	–	(580)	–	(580)	–	(580)
Charge for the year	8,551	7,836	1,517	17,904	–	17,904
Disposals	–	(735)	(7)	(742)	–	(742)
At 31 December 2018	50,220	44,694	10,536	105,450	–	105,450
Net book value						
At 31 December 2018	171,680	72,040	1,798	245,518	5,844,058	6,089,576

The Group's interests in properties at their net book values are analysed as follows:

	2019		2018	
	Land and buildings	**Investment properties**	Land and buildings	Investment properties
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
In Hong Kong, held under:				
Long term leases	**–**	**657,100**	–	646,200
Medium term leases	**163,129**	**5,018,900**	171,680	4,764,000
Outside Hong Kong:				
Freehold	**–**	**443,436**	–	433,858
	163,129	**6,119,436**	171,680	5,844,058

Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties 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

15 FIXED ASSETS (CONTINUED)

Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

		2019		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement:				
Investment properties in Hong Kong	**–**	**–**	**5,676,000**	**5,676,000**
Investment properties outside Hong Kong	**–**	**–**	**443,436**	**443,436**
	–	**–**	**6,119,436**	**6,119,436**

		2018		
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement:				
Investment properties in Hong Kong	–	–	5,410,200	5,410,200
Investment properties outside Hong Kong	–	–	433,858	433,858
	–	–	5,844,058	5,844,058

During the years ended 31 December 2019 and 2018, 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.

The investment properties in Hong Kong were revalued as at 31 December 2019. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued.

The investment properties outside Hong Kong were revalued as at 31 December 2019. The valuations were carried out by independent firms of surveyors, Knight Frank LLP, Cushman & Wakefield, Inc. and Savills Japan Co., Ltd., who have among their staff members of the Royal Institution of Chartered Surveyors, Certified General Real Estate Appraisers and Japan Association of Real Estate Appraisers, with recent experience in the location and category of the properties being valued.

The Group's management has discussion with the surveyors on the valuation assumptions when the valuation is performed at each interim and annual reporting period end.

(ii) Information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Weighted average
Investment properties in Hong Kong	(a) Income capitalisation approach	Prevailing market rent per square foot	HK$99 (2018: HK$103)
		Capitalisation rate	3.6% (2018: 3.6%)
	(b) Market capitalisation approach	Discount on quality, location, view and floor level of the properties	0.3% (2018: 2.4%)
	(c) Residual valuation approach	Market price per square foot	HK$8,308 (2018: N/A)
Investment properties outside Hong Kong	Market comparison approach	Premium on location and quality of the properties	4.5% (2018: 4.4%)

The fair value of investment properties located in Hong Kong is determined using one of the following valuation techniques:

(a) Income capitalisation approach:

This approach capitalises the net income associated with the properties using capitalisation rates. The valuation takes into account the prevailing market rent, which is estimated by independent valuers with reference to recent lettings of comparable properties. The capitalisation rates used have been adjusted for the quality and location of the properties. The fair value measurement is positively correlated to the rental, and negatively correlated to the capitalisation rates.

(b) Market comparison approach:

This approach makes reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount mainly specific to the quality, location, view and floor level of the properties compared to the recent sales. The fair value measurement is positively correlated to the quality, location, view and floor level.

15 FIXED ASSETS (CONTINUED)

Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

(c) Residual valuation approach:

The residual valuation method involves firstly the assessment of gross development value, which is the value of the proposed development, as if completed at the date of valuation by market comparison approach. Estimated outstanding cost of the development including costs of construction, professional fee, finance costs and associated costs, plus an allowance for developer's risk and profit, estimated by the independent valuers, are then deducted from the gross development value. The resultant residue figure is the fair value. The fair value measurement is positively correlated to the market price, and negatively correlated to the estimated construction/ other costs to completion and the estimated developer's profit margin.

The valuation technique for Playmates Factory Building was changed from income capitalisation approach in 2018 to residual valuation approach in 2019. This change was made to take into account the wholesale conversion conditional approval obtained from the Town Planning Board of Hong Kong on 3 January 2020.

The fair value of investment properties located outside Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount mainly specific to the location and quality of the properties compared to the recent sales. The fair value measurement is positively correlated to the location and quality.

Details of the principal properties of the Group as at 31 December 2019 are as follows:

Location	Use	Category of the lease	Group's interest
The Toy House 100 Canton Road Tsimshatsui, Hong Kong	Commercial	Medium term lease	100%
A number of residential flats situated at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel, Hong Kong	Residential	Long term lease	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun, Hong Kong	Industrial	Medium term lease	100%

At 31 December 2019, certain of the Group's investment properties and land and buildings with a net book value of approximately HK$5,474,500,000 and HK$163,129,000 (2018: HK$5,212,300,000 and HK$171,680,000) respectively were pledged to secure general banking facilities granted to the Group (note 24).

16 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

16.1 Right-of-use assets

Movement during the year:

	HK$'000
At 31 December 2018	–
Recognition upon initial application of HKFRS 16 at 1 January 2019	5,482
Depreciation	(2,741)
At 31 December 2019	**2,741**

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

16.2 Lease liabilities

(i) Maturity analysis:

	2019 HK$'000	2018 HK$'000
Within one year	**2,852**	–

(ii) Movement during the year:

	HK$'000
At 31 December 2018	–
Recognition upon initial application of HKFRS 16 at 1 January 2019	5,482
Interest expenses	215
Lease payments	(2,845)
At 31 December 2019	**2,852**

(iii) Total cash outflows for leases during the year ended 31 December 2019 were HK$2,845,000.

17 GOODWILL

	HK$'000
Gross and net carrying amount	
At 1 January 2018, 31 December 2018 and 31 December 2019	**5,976**

18 INTEREST IN SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2019 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:				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1 each	100%	Property investment, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Playmates International Company Limited	Hong Kong	1 ordinary share	50.85% (Note)	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	50.85% (Note)	Toy marketing and distribution, U.S.A.
Playmates Toys Limited	Bermuda	1,180,000,000 ordinary shares of HK$0.01 each	50.85% (Note)	Investment holding, Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	100 ordinary shares	70%	Restaurant operation, Hong Kong
Team Green Innovation Inc.	U.S.A.	10 common stocks of US$0.01 each	50.85% (Note)	Product design and development services, U.S.A.

Note: As at 31 December 2019, the Group has 50.85% equity interest in these companies. As the Group is the majority shareholder of these companies and has control over these companies, thus these companies are subsidiaries of the Group.

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.

The following table lists out the information relating to Playmates Toys Limited, the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2019	2018
	HK$'000	*HK$'000*
NCI percentage	**49.15%**	49.15%
Non-current assets	**27,934**	45,165
Current assets	**1,143,756**	1,190,045
Current liabilities	**(186,412)**	(217,471)
Net assets	**985,278**	1,017,739
Carrying amount of NCI	**484,289**	500,244
Revenue	**358,739**	474,182
(Loss)/Profit for the year	**(37,278)**	562
Total comprehensive income	**(37,278)**	562
(Loss)/Profit allocated to NCI	**(18,323)**	276
Dividends paid to NCI	**–**	(17,409)
Cash flows (used in)/generated from operating activities	**(19,645)**	838
Cash flows generated from investing activities	**20,350**	38,450
Cash flows used in financing activities	**(3,244)**	(51,918)

19 INTEREST IN AN ASSOCIATED COMPANY

	2019 *HK$'000*	2018 *HK$'000*
Cost of investment	**–**	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	**–**	(12,157)
	–	5,920

As at 31 December 2018, the Group held interests in the following associated company:

Name of company	Place of incorporation	Particulars of issued shares	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	200 ordinary shares of US$1 each	49%

Unimax was dissolved by voluntary winding-up on 10 September 2019.

20 INVENTORIES

Carrying amount of inventories represent:

	2019 *HK$'000*	2018 *HK$'000*
Finished toys products	**19,518**	24,237
Food and beverage	**173**	194
	19,691	24,431

21 TRADE RECEIVABLES

	2019 *HK$'000*	2018 *HK$'000*
Trade receivables	**84,009**	160,742
Less: Allowance for impairment *(Note 21.2)*	**–**	(2,664)
Less: Allowance for customer concession	**(16,783)**	(16,789)
	67,226	141,289

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

21.1 Aging analysis

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. For property investments and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2019 *HK$'000*	2018 *HK$'000*
0-60 days	**44,648**	95,565
61-90 days	**16,761**	39,872
91-180 days	**3,231**	3,182
Over 180 days	**2,586**	2,670
	67,226	141,289

21.2 Impairment of trade receivables

The movement in the allowance for impairment during the year is as follows:

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**2,664**	2,664
Impairment loss recognised	**–**	5,287
Impairment allowance written off	**(2,664)**	(5,287)
At 31 December	**–**	2,664

21 TRADE RECEIVABLES (CONTINUED)

21.3 Trade receivables that are not impaired

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

	2019 HK$'000	2018 HK$'000
Neither past due nor impaired	**45,306**	104,443
1-90 days past due	**18,143**	33,709
91-180 days past due	**1,192**	482
Over 180 days past due	**2,585**	2,655
	21,920	36,846
	67,226	141,289

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.

22 DEPOSIT PAID, OTHER RECEIVABLES AND PREPAYMENTS

At 31 December 2019, deposit paid, other receivables and prepayments of the Group include:

(i) Receivables related to rent free periods given to tenants of HK$20,994,000 (2018: HK$27,420,000), which are amortised over the respective lease terms.

(ii) Advanced royalties of HK$44,168,000 (2018: HK$8,242,000) paid to toy licensors. These advanced royalties are recoupable by the Group against future royalties payable to toy licensors for future sales of licensed toy products.

(iii) HK$8.5 million to be received by PPL pursuant to the Decision of the High Court of Hong Kong dated 6 November 2019, details of which are disclosed in note 8.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Listed equity investment in Hong Kong	**58,580**	74,228
Listed equity investment outside Hong Kong	**10,561**	19,871
Unlisted managed funds	**2,919**	3,564
	72,060	97,663

24 BANK LOANS

	2019 HK$'000	2018 HK$'000
Secured bank loans repayable		
Within one year	**532,300**	474,425
In the second year	**16,200**	9,000
In the third to fifth year	**124,850**	27,000
After five years	**90,025**	164,875
	763,375	675,300
Current portion included in current liabilities	**(532,300)**	(474,425)
Non-current portion	**231,075**	200,875

Except for bank loans amounted to HK$89,500,000 (2018: HK$88,625,000) denominated in Japanese Yen, all bank loans were denominated in HK dollar. All bank loans were on a floating interest rate basis and their effective interest rate at the end of the reporting period was 3.28% p.a. (2018: 3.23% p.a.).

The carrying amounts of short term bank loans approximate their fair value.

As at 31 December 2019, the Group has banking facilities amounting to HK$1,018,475,000 (2018: HK$1,033,075,000), of which HK$763,375,000 (2018: HK$675,300,000) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK$5,474,500,000 and HK$163,129,000 (2018: HK$5,212,300,000 and HK$171,680,000) respectively of the Group at 31 December 2019.

24 BANK LOANS (CONTINUED)

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$360,000,000 (2018: HK$360,000,000), of which HK$318,475,000 (2018: HK$306,675,000) of such banking facilities were utilised as at 31 December 2019. This represents the Company's exposure under the financial guarantee contracts. Under the guarantee contracts, the Company would be liable to pay the banks if the banks are unable to recover the loans. No provision for the Company's obligation under the financial guarantee contracts has been made as it was not probable that the repayment of loans would be in default.

25 TRADE PAYABLES

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

	2019 ***HK$'000***	2018 *HK$'000*
0-30 days	**28,382**	37,182
31-60 days	**5,248**	415
Over 60 days	**1,831**	974
	35,461	38,571

26 DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUED CHARGES

	2019 ***HK$'000***	2018 *HK$'000*
Contract liabilities		
– Purchase commitment guarantee deposits from toy distributors *(Note (i))*	**50,532**	56,051
– Sales deposits received in advance *(Note (ii))*	**1,587**	4,591
Security deposits and advance receipts from tenants	**37,449**	39,685
Accrued product development, sales, marketing and distribution expenses	**3,064**	6,088
Accrued royalties	**23,773**	33,925
Accrued directors' and staff remunerations	**5,536**	5,660
Withholding tax payable	**7,200**	2,996
Accrued administrative expenses and professional fees	**13,205**	16,128
	142,346	165,124

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$5,519,000 (2018: HK$7,433,000) 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 recognised by the Group as other income.

(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$4,591,000 (2018: HK$4,425,000) from the balance as at the beginning of the reporting period.

27 LOAN FROM AN ASSOCIATED COMPANY

The loan from Unimax as at 31 December 2018 was unsecured, interest free and repayable on demand without a fixed repayment term. The loan was settled in 2019 by way of dividend declared from Unimax, which was a non-cash transaction. Unimax was dissolved by voluntary winding-up on 10 September 2019.

28 PROVISIONS

	Consumer returns *HK$'000*	Cooperative advertising *HK$'000*	Cancellation charges *HK$'000*	Freight allowance *HK$'000*	Total *HK$'000*
At 1 January 2019	**9,465**	**26,367**	**1,526**	**9,279**	**46,637**
Additional provisions made	**3,424**	**11,868**	**108**	**5,140**	**20,540**
Reversal of unutilised provisions	**(954)**	**(1,956)**	**(1)**	**(366)**	**(3,277)**
Provisions utilised	**(3,585)**	**(11,713)**	**(52)**	**(6,202)**	**(21,552)**
At 31 December 2019	**8,350**	**24,566**	**1,581**	**7,851**	**42,348**

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2018: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2018: 21%) and 8.84% (2018: 8.84%) respectively in the U.S..

The movement in the deferred tax assets/(liabilities) during the year is as follows:

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**3,183**	(1,858)
(Charged)/Credited to profit or loss	**(9,429)**	5,072
Exchange fluctuation	**(20)**	(31)
At 31 December	**(6,266)**	3,183

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

	Investment properties revaluation surplus *HK$'000*	Accelerated tax depreciation *HK$'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 2018	(8,055)	(22,773)	10,091	946	16,455	1,478	(1,858)
Credited/(Charged) to profit or loss	769	(431)	(1,080)	6,875	(2,316)	1,255	5,072
Exchange fluctuation	(31)	–	–	–	–	–	(31)
At 31 December 2018 and 1 January 2019	**(7,317)**	**(23,204)**	**9,011**	**7,821**	**14,139**	**2,733**	**3,183**
Credited/(Charged) to profit or loss	**1,548**	**(336)**	**(3,280)**	**(6,332)**	**504**	**(1,533)**	**(9,429)**
Exchange fluctuation	**(20)**	**–**	**–**	**–**	**–**	**–**	**(20)**
At 31 December 2019	**(5,789)**	**(23,540)**	**5,731**	**1,489**	**14,643**	**1,200**	**(6,266)**

Notes:

(a) Other temporary differences mainly represent the provisions.

(b) Employee benefits represents share-based compensation.

The amounts recognised in the consolidated statement of financial position are as follows:

	2019	2018
	HK$'000	*HK$'000*
Deferred tax assets	**24,007**	34,141
Deferred tax liabilities	**(30,273)**	(30,958)
Net deferred tax (liabilities)/assets	**(6,266)**	3,183

Deferred tax assets not recognised

The Group has not recognised tax losses of HK$155,242,000 (2018: HK$57,571,000). In 2019, the Group has written down deferred tax assets related to tax losses due to the uncertainties in global business environment and the potential adverse impact on the China-based supply chain of the Group in light of the ongoing viral epidemic. The tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2019, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$642,379,000 (2018: HK$617,011,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

30 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has not adopted any share option scheme and has no share options outstanding during the years ended 31 December 2019 and 2018.

Equity settled share-based transactions of Playmates Toys Limited ("PTL"), an indirectly non-wholly owned subsidiary of the Company

The share option scheme of PTL 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 PTL 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.

Details of the 2008 PTL Scheme and 2018 PTL Scheme, movements in the number of share options outstanding during the year and principal assumptions used in the calculation of fair value of shares options granted during the year are set out in the Report of the Directors and the annual report of PTL for the year ended 31 December 2019.

Subject to the waiver or variation by the board of PTL 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 2019 had a weighted average remaining contractual life of 5.24 years (2018: 7.62 years).

In 2019, HK$4,218,000 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 of PTL (2018: HK$4,349,000). No liabilities were recognised due to share-based payment transactions.

31 EQUITY – GROUP AND COMPANY

31.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2019 and 2018	**30,000,000,000**	**300,000**

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2018	2,027,782,000	20,278
Shares issued in respect of scrip dividend of 2018 first special interim dividend	121,585,752	1,216
Cancellation of repurchased shares	(49,367,752)	(494)
At 31 December 2018 and 1 January 2019	**2,100,000,000**	**21,000**
Shares issued in respect of scrip dividend of 2019 first special interim dividend	**92,677,128**	**927**
Cancellation of repurchased shares *(Note)*	**(75,767,128)**	**(758)**
At 31 December 2019	**2,116,910,000**	**21,169**

Note:

During the year, the Company repurchased a total of 76,177,128 shares of HK$0.01 each of the Company on the Stock Exchange as follows:

Month/year	Par value per share *HK$*	Number of shares repurchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate price paid *HK$'000*
March 2019	0.01	69,144,000	1.05	1.05	72,601
May 2019	0.01	1,622,000	1.10	1.09	1,784
June 2019	0.01	1,374,000	1.15	1.10	1,561
July 2019	0.01	778,000	1.16	1.11	889
August 2019	0.01	82,000	1.16	1.15	94
October 2019	0.01	2,321,128	1.07	1.02	2,416
November 2019	0.01	446,000	1.08	1.08	482
December 2019	0.01	410,000	1.10	1.10	451

Save and except the 410,000 shares of HK$0.01 each repurchased in December 2019 which were cancelled in January 2020, all of the above repurchased shares were cancelled during the year. The issued capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or the contributed surplus account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

31 EQUITY – GROUP AND COMPANY (CONTINUED)

31.2 Reserves

Company

	Share premium HK$'000	Share repurchase reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	–	(2,874)	7,433	545,390	966,863	1,516,812
Profit for the year	–	–	–	–	231,700	231,700
Repurchase of shares	(5,639)	2,874	494	(46,212)	(494)	(48,977)
2017 second interim dividend paid	–	–	–	(20,070)	–	(20,070)
2017 second special interim dividend paid	–	–	–	(40,140)	–	(40,140)
2018 first interim dividend paid	–	–	–	(29,760)	–	(29,760)
2018 first special interim dividend paid	–	–	–	(198,400)	–	(198,400)
Shares issued in respect of scrip dividend of 2018 first special interim dividend	126,449	–	–	–	–	126,449
At 31 December 2018	120,810	–	7,927	210,808	1,198,069	1,537,614
At 1 January 2019	**120,810**	**–**	**7,927**	**210,808**	**1,198,069**	**1,537,614**
Profit for the year	**–**	**–**	**–**	**–**	**222,397**	**222,397**
Repurchase of shares	**(79,069)**	**(451)**	**758**	**–**	**(758)**	**(79,520)**
2018 second interim dividend paid	**–**	**–**	**–**	**(31,500)**	**–**	**(31,500)**
2018 second special interim dividend paid	**–**	**–**	**–**	**(31,500)**	**–**	**(31,500)**
2019 first interim dividend paid	**–**	**–**	**–**	**(30,405)**	**–**	**(30,405)**
2019 first special interim dividend paid	**–**	**–**	**–**	**(104,462)**	**–**	**(104,462)**
Shares issued in respect of scrip dividend of 2019 first special interim dividend	**97,311**	**–**	**–**	**(12,941)**	**(85,297)**	**(927)**
At 31 December 2019	**139,052**	**(451)**	**8,685**	**–**	**1,334,411**	**1,481,697**

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

31.3 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 the 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 2019 and 2018.

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2019	2018
	HK$'000	*HK$'000*
Profit before income tax	**446,822**	552,586
Interest income	**(29,654)**	(21,252)
Interest on bank loans	**21,398**	17,157
Interest on lease liabilities	**215**	–
Dividend income from financial assets at fair value through profit or loss	**(2,746)**	(6,664)
Depreciation of other property, plant and equipment	**16,801**	17,904
Depreciation of right-of-use assets	**2,741**	–
Share-based compensation	**4,218**	4,349
Net revaluation surplus on investment properties	**(261,338)**	(333,223)
Loss/(Gain) on disposal of other property, plant and equipment	**97**	(99)
Net gain on financial assets at fair value through profit or loss	**(16,627)**	(1,666)
Unrealised exchange loss	**1,639**	5,760
Operating profit before working capital changes	**183,566**	234,852
Decrease/(Increase) in inventories	**4,740**	(1,527)
Decrease/(Increase) in trade receivables, deposits paid, other receivables and prepayments	**86,941**	(17,741)
Decrease in financial assets at fair value through profit or loss	**42,230**	18,632
Decrease in trade payables, deposits received, other payables and accrued charges and provisions	**(29,413)**	(16,075)
Cash generated from operations	**288,064**	218,141

32.2 Analysis of cash and cash equivalents

	2019	2018
	HK$'000	*HK$'000*
Cash and bank balances	**1,541,334**	1,479,188

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

32.3 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group s liabilities from financing activities, including both cash and non-cash changes. 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.

	Lease liabilities *HK$'000* *(Note 16)*	Bank loans *HK$'000* *(Note 24)*
At 1 January 2018	–	581,375
Changes from financing cash flows:		
Proceeds from new bank loans	–	110,000
Repayment of bank loans	–	(18,075)
Total changes from financing cash flows	–	91,925
Non-cash flow changes:		
Exchange adjustments	–	2,000
At 31 December 2018	–	675,300
At 31 December 2018	–	**675,300**
Impact on initial application of HKFRS 16	**5,482**	–
At 1 January 2019	**5,482**	**675,300**
Changes from financing cash flows:		
Proceeds from new bank loans	**–**	**104,200**
Repayment of bank loans	**–**	**(17,000)**
Payment of lease liabilities	**(2,845)**	**–**
Total changes from financing cash flows	**(2,845)**	**87,200**
Non-cash flow changes:		
Exchange adjustments	**–**	**875**
Interest expenses	**215**	**–**
Total non-cash flow changes	**215**	**875**
At 31 December 2019	**2,852**	**763,375**

33 COMMITMENTS

33.1 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:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**72,839**	43,852
In the second to fifth years	**119,866**	43,368
After five years	**31,200**	–
	223,905	87,220

33.2 Lease commitments

The Group acts as lessee and lessor under leases.

33.2.1 As lessee

(i) *At 31 December 2019 – future lease payments for leases committed but not yet commenced*

	2019
	HK$'000
Within one year	**–**
In the second to fifth years	**15,196**
After five years	**6,489**
	21,685

The amounts disclosed above represent future lease payments for leases committed but not yet commenced at 31 December 2019 for offices. All future lease payments for leases already commenced before 31 December 2019 have been recognised as lease liabilities under HKFRS 16 and thus are not included in the above disclosed amounts. Details of the impact on initial application of HKFRS 16 and details regarding the Group s future lease payments on lease liabilities are disclosed in note 3 and note 36.2.3 respectively.

33 COMMITMENTS (CONTINUED)

33.2 Lease commitments (Continued)

33.2.1 As lessee (Continued)

(ii) At 31 December 2018 – future minimum lease payments under all non-cancellable operating leases under HKAS 17

	2018 *HK$'000*
Within one year	2,845
In the second to fifth years	2,930
	5,775

33.2.2 As lessor

At 31 December 2019, the future aggregate minimum lease payments under non-cancellable leases for commercial, industrial and residential premises receivable by the Group were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Within one year	**212,395**	206,320
In the second to fifth years	**367,471**	545,733
	579,866	752,053

33.3 Capital commitments

Capital commitments outstanding at 31 December 2019 not provided for at the end of the reporting period were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Contracted for	**29,769**	5,605

34 RELATED PARTY TRANSACTIONS

During the years ended 31 December 2019 and 2018, the Group did not enter into significant transactions with related parties.

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 14.1.

35 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 2019.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

36.1 Categories of financial instruments

	2019	2018
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost		
Trade receivables	**67,226**	141,289
Deposits paid and other receivables	**11,712**	53,251
Cash and bank balances	**1,541,334**	1,479,188
Financial assets at fair value through profit or loss	**72,060**	97,663
	1,692,332	1,771,391
Financial liabilities at amortised cost		
Bank loans	**763,375**	675,300
Trade payables	**35,461**	38,571
Other payables and accrued charges	**90,229**	104,479
Loan from an associated company	**–**	5,831
Lease liabilities	**2,852**	–
	891,917	824,181

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (CONTINUED)

36.2 Financial risk factors

Exposure to market risk (including currency, interest rate and price risks), 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:

36.2.1 Market risk

(i) 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.

(ii) Interest rate risk

The Group s interest rate risk arises primarily from bank loans at floating rates, which expose the Group to cash flow interest rate risk.

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group s profit for the year and equity by approximately HK$3,817,000 (2018: HK$3,377,000).

(iii) 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 and managed funds, the Group diversifies its portfolio.

At 31 December 2019, 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 equity by approximately HK$3,603,000 (2018: HK$4,883,000).

36.2.2 Credit risk

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

The credit risk for financial assets at fair value through profit or loss is considered negligible as the counterparties are reputable financial institutions.

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 36.1 above.

Concentrations of credit risk

The Group places its cash investments in highly rated financial institutions which limits the exposure to the financial institutions.

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:

	2019	2018
Sales		
– the largest customer	**27%**	22%
– five largest customers in aggregate	**62%**	62%

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (CONTINUED)

36.2 Financial risk factors (Continued)

36.2.3 *Liquidity risk*

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and marketable securities, 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 the financial liabilities.

	2019					
	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$'000*	**Over 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Bank loans	**541,742**	**24,771**	**145,539**	**91,082**	**803,134**	**763,375**
Trade payables	**35,461**	**–**	**–**	**–**	**35,461**	**35,461**
Other payables and accrued charges	**90,229**	**–**	**–**	**–**	**90,229**	**90,229**
Lease liabilities	**2,930**	**–**	**–**	**–**	**2,930**	**2,852**
	670,362	**24,771**	**145,539**	**91,082**	**931,754**	**891,917**

	2018					
	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$'000*	Over 5 years *HK$'000*	Total undiscounted amount *HK$'000*	Carrying amount *HK$'000*
Bank loans	482,861	15,991	46,036	169,913	714,801	675,300
Trade payables	38,571	–	–	–	38,571	38,571
Other payables and accrued charges	104,479	–	–	–	104,479	104,479
Loan from an associated company	5,831	–	–	–	5,831	5,831
	631,742	15,991	46,036	169,913	863,682	824,181

36.3 *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

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	**58,580**	**–**	**–**	**58,580**
Listed equity investment outside Hong Kong	**10,561**	**–**	**–**	**10,561**
Unlisted managed funds	**–**	**2,919**	**–**	**2,919**
	69,141	**2,919**	**–**	**72,060**

	2018			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	74,228	–	–	74,228
Listed equity investment outside Hong Kong	19,871	–	–	19,871
Unlisted managed funds	–	3,564	–	3,564
	94,099	3,564	–	97,663

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (CONTINUED)

36.3 Financial assets and liabilities measured at fair value (Continued)

The fair values of unlisted managed funds in Level 2 have been determined by reference to the reported net asset value at the end of the reporting period.

During the years ended 31 December 2019 and 2018, 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.

36.4 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, bank loans, other payables and accrued charges, loan from an associated company and lease liabilities carried at amortised cost) approximate their fair values as at 31 December 2019 and 2018.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

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.

38 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2019** ***US$'000*** *(Note 35)*	**2019** ***HK$'000***	2018 *HK$'000*
Non-current assets				
Interest in subsidiaries		**192,433**	**1,500,980**	1,558,790
Current assets				
Prepayments		**62**	**483**	610
Cash and bank balances		**521**	**4,061**	1,450
		583	**4,544**	2,060
Current liabilities				
Other payables and accrued charges		**283**	**2,211**	2,127
Taxation payable		**57**	**447**	109
		340	**2,658**	2,236
Net current assets/ (liabilities)		**243**	**1,886**	(176)
Net assets		**192,676**	**1,502,866**	1,558,614
Equity				
Share capital	*31.1*	**2,714**	**21,169**	21,000
Reserves	*31.2*	**189,962**	**1,481,697**	1,537,614
Total equity		**192,676**	**1,502,866**	1,558,614

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:

	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**622,566**	733,559	1,009,261	1,250,726	1,791,204
Profit before income tax	**446,822**	552,586	372,119	43,239	702,135
Income tax expense	**(49,423)**	(32,038)	(61,932)	(95,727)	(147,840)
Profit/(Loss) for the year	**397,399**	520,548	310,187	(52,488)	554,295
Profit/(Loss) for the year attributable to:					
Owners of the Company	**416,717**	520,625	282,196	(110,132)	413,718
Non-controlling interests	**(19,318)**	(77)	27,991	57,644	140,577
	397,399	520,548	310,187	(52,488)	554,295
Total assets	**8,188,137**	7,978,007	7,630,864	7,488,050	7,792,928
Total liabilities	**(1,058,160)**	(978,902)	(901,012)	(778,241)	(865,342)
Net assets	**7,129,977**	6,999,105	6,729,852	6,709,809	6,927,586

Playmates Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock code 635)
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