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PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 635)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2022 as follows:

Consolidated Income Statement

For the year ended 31 December 2022

	Note	2022 US\$'000 (Note 12)	2022 HK\$'000	2021 HK\$'000
Revenue	3	92,260	719,629	860,763
Cost of sales		(36,099)	(281,574)	(336,883)
Gross profit		56,161	438,055	523,880
Other revenue	4	3,747	29,227	-
Marketing and licensing expenses		(12,489)	(97,412)	(137,648)
Selling and distribution expenses		(4,947)	(38,585)	(30,690)
Administration expenses		(16,491)	(128,642)	(137,589)
Net revaluation deficit on investment properties		(42,339)	(330,246)	(204,127)
Operating (loss)/profit		(16,358)	(127,603)	13,826
Other net loss	5	(4,146)	(32,334)	(5,097)
Finance costs		(2,171)	(16,931)	(13,508)
Loss before income tax	6	(22,675)	(176,868)	(4,779)
Income tax expense	7	(3,991)	(31,132)	(21,812)
Loss for the year		(26,666)	(208,000)	(26,591)

	2022 <i>US\$'000</i> <i>(Note 12)</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/Profit for the year attributable to:			
Owners of the Company	(27,279)	(212,779)	(49,430)
Non-controlling interests	613	4,779	22,839
	(26,666)	(208,000)	(26,591)
	<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	9		
Basic	(1.31)	(10.24)	(2.36)
Diluted	(1.31)	(10.24)	(2.36)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	2022 <i>US\$'000</i> <i>(Note 12)</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss for the year	(26,666)	(208,000)	(26,591)
Other comprehensive income, including reclassification adjustments:			
Items that may be reclassified subsequently to profit or loss:			
- Exchange differences arising on translation of foreign subsidiaries	(3,213)	(25,061)	(9,326)
- Release of exchange reserve upon disposal of a subsidiary	-	-	5,869
Item that will not be reclassified to profit or loss:			
- Surplus on revaluation of land and buildings	-	-	98,216
Total comprehensive income for the year	(29,879)	(233,061)	68,168
Total comprehensive income attributable to:			
Owners of the Company	(30,835)	(240,514)	45,329
Non-controlling interests	956	7,453	22,839
	(29,879)	(233,061)	68,168

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	2022 US\$'000 (Note 12)	2022 HK\$'000	2021 HK\$'000
Non-current assets				
Fixed assets				
- Investment properties		653,429	5,096,744	5,432,064
- Other property, plant and equipment		18,611	145,171	155,874
		672,040	5,241,915	5,587,938
Right-of-use assets		1,593	12,426	15,959
Goodwill		766	5,976	5,976
Prepayments		146	1,135	8,409
Deferred tax assets		4,367	34,063	33,206
		678,912	5,295,515	5,651,488
Current assets				
Inventories		3,038	23,700	58,007
Trade receivables	10	8,393	65,467	128,879
Deposits paid, other receivables and prepayments		6,156	48,020	73,280
Taxation recoverable		584	4,554	813
Financial assets at fair value through profit or loss		16,946	132,178	160,955
Cash and bank balances		138,888	1,083,324	1,464,689
		174,005	1,357,243	1,886,623
Current liabilities				
Bank loans		19,385	151,200	581,600
Trade payables	11	1,599	12,471	28,585
Deposits received, other payables and accrued charges		18,004	140,437	212,262
Provisions		4,862	37,924	37,287
Lease liabilities		470	3,668	3,346
Taxation payable		1,392	10,856	10,044
		45,712	356,556	873,124
Net current assets		128,293	1,000,687	1,013,499
Total assets less current liabilities		807,205	6,296,202	6,664,987

	2022 <i>Note</i> US\$'000 <i>(Note 12)</i>	2022 HK\$'000	2021 HK\$'000
Non-current liabilities			
Bank loans	23,587	183,975	200,175
Lease liabilities	1,312	10,237	13,816
Deferred tax liabilities	5,396	42,091	40,611
	30,295	236,303	254,602
Net assets	776,910	6,059,899	6,410,385
Equity			
Share capital	2,658	20,735	20,900
Reserves	712,068	5,554,125	5,900,320
Equity attributable to the owners of the Company	714,726	5,574,860	5,921,220
Non-controlling interests	62,184	485,039	489,165
Total equity	776,910	6,059,899	6,410,385

Notes:

1. Basis of preparation

The 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. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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 accounting policies used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2021, except for the adoption of the new or amended HKFRSs which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2022. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

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

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

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

3. Revenue and segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers:		
- Sale of toys	504,248	625,108
- Restaurant income	-	5,627
- Property management income	21,157	20,034
	<hr/> 525,405	<hr/> 650,769
Revenue from other sources:		
- Rental income from investment properties	189,607	207,408
- Dividend income	2,663	2,203
- Interest income	1,954	383
	<hr/> 194,224	<hr/> 209,994
Total revenue	<hr/> 719,629	<hr/> 860,763

Segment results, assets and liabilities

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.

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.

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 2022 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross revenue from contracts with customers by timing of revenue recognition				
- Point in time	-	-	504,248	504,248
- Over time	21,933	-	-	21,933
Gross revenue from other sources	194,831	4,617	-	199,448
Inter-segment revenue	<u>(6,000)</u>	-	-	<u>(6,000)</u>
Revenue from external customers	210,764	4,617	504,248	719,629
Segment (loss)/profit before depreciation	(148,123)	4,568	38,761	(104,794)
Depreciation	<u>(8,727)</u>	-	<u>(4,370)</u>	<u>(13,097)</u>
Segment operating (loss)/profit	(156,850)	4,568	34,391	(117,891)
Other net income/(loss)	1,024	(16,120)	(17,257)	(32,353)
Finance costs	<u>(14,593)</u>	<u>(25)</u>	<u>(2,229)</u>	<u>(16,847)</u>
	<u>(13,569)</u>	<u>(16,145)</u>	<u>(19,486)</u>	<u>(49,200)</u>
Segment (loss)/profit before income tax <i>(Note)</i>	<u>(170,419)</u>	<u>(11,577)</u>	<u>14,905</u>	<u>(167,091)</u>
Unallocated corporate expenses				<u>(9,777)</u>
Loss before income tax				<u>(176,868)</u>

Note:

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

Interest income	513	1,954	11,223
Dividend income	-	2,663	588
Net revaluation deficit on investment properties	(330,246)	-	-
Net loss on financial assets at fair value through profit or loss	-	(16,120)	(29,812)

The segment results for the year ended 31 December 2021 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross revenue from contracts with customers by timing of revenue recognition				
- Point in time	5,627	-	625,108	630,735
- Over time	21,528	-	-	21,528
Gross revenue from other sources	214,771	2,586	-	217,357
<u>Inter-segment revenue</u>	<u>(8,857)</u>	<u>-</u>	<u>-</u>	<u>(8,857)</u>
<u>Revenue from external customers</u>	<u>233,069</u>	<u>2,586</u>	<u>625,108</u>	<u>860,763</u>
Segment (loss)/profit before depreciation	(6,992)	2,186	41,818	37,012
<u>Depreciation</u>	<u>(10,324)</u>	<u>-</u>	<u>(4,480)</u>	<u>(14,804)</u>
<u>Segment operating (loss)/profit</u>	<u>(17,316)</u>	<u>2,186</u>	<u>37,338</u>	<u>22,208</u>
Other net income/(loss)	2,374	(4,743)	(2,728)	(5,097)
<u>Finance costs</u>	<u>(10,879)</u>	<u>(23)</u>	<u>(2,568)</u>	<u>(13,470)</u>
	<u>(8,505)</u>	<u>(4,766)</u>	<u>(5,296)</u>	<u>(18,567)</u>
Segment (loss)/profit before income tax <i>(Note)</i>	<u>(25,821)</u>	<u>(2,580)</u>	<u>32,042</u>	<u>3,641</u>
Unallocated corporate expenses				<u>(8,420)</u>
Loss before income tax				<u>(4,779)</u>

Note:

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

Interest income	-	383	835
Dividend income	-	2,203	394
Net revaluation deficit on investment properties	(204,127)	-	-
Net loss on financial assets at fair value through profit or loss	-	(4,447)	(8,796)

The segment assets and liabilities as at 31 December 2022 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	<u>5,271,397</u>	<u>207,370</u>	<u>1,144,259</u>	<u>6,623,026</u>
Inter-segment elimination	(41)	-	(16,037)	(16,078)
Deferred tax assets				34,063
Taxation recoverable				4,554
Unallocated assets				<u>7,193</u>
Total assets				<u>6,652,758</u>
Reportable segment liabilities	<u>375,353</u>	-	<u>179,722</u>	555,075
Inter-segment elimination	(1,505)	-	(14,573)	(16,078)
Deferred tax liabilities				42,091
Taxation payable				10,856
Unallocated liabilities				<u>915</u>
Total liabilities				<u>592,859</u>
Capital expenditure	<u>16,029</u>	-	<u>290</u>	

The segment assets and liabilities as at 31 December 2021 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	5,639,955	640,146	1,226,896	7,506,997
Inter-segment elimination	-	-	(6,387)	(6,387)
Deferred tax assets				33,206
Taxation recoverable				813
Unallocated assets				<u>3,482</u>
Total assets				<u>7,538,111</u>
Reportable segment liabilities	829,096	-	253,490	1,082,586
Inter-segment elimination	(1,523)	-	(4,864)	(6,387)
Deferred tax liabilities				40,611
Taxation payable				10,044
Unallocated liabilities				<u>872</u>
Total liabilities				<u>1,127,726</u>
Capital expenditure	30,603	-	188	

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, right-of-use assets and goodwill ("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, and the location of operation to which they are related in case of prepayments and goodwill.

	Revenue from external customers		Specified non-current assets	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Hong Kong (place of domicile)	213,289	234,802	4,802,816	5,127,759
Americas				
- U.S.A.	303,150	344,854	189,368	187,666
- Others	46,765	44,862	-	-
Europe	128,709	193,185	184,209	209,087
Asia Pacific other than Hong Kong	25,046	41,906	85,059	93,770
Others	2,670	1,154	-	-
	506,340	625,961	458,636	490,523
	719,629	860,763	5,261,452	5,618,282

Major customers

The Group's customer base includes four (2021: 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\$154,891,000, HK\$96,769,000, HK\$90,358,000 and HK\$87,766,000 (2021: HK\$185,193,000, HK\$168,930,000 and HK\$141,060,000) respectively.

4. Other revenue

Other revenue represents forfeiture of unrecouped purchase commitment guarantee deposits from toy distributors at the expiry of distribution agreements (2021: HK\$nil).

5. Other net loss

	2022 HK\$'000	2021 HK\$'000
Net (loss)/gain on financial assets at fair value through profit or loss (<i>Note</i>):		
- unrealised	(44,847)	(13,263)
- realised	(1,085)	20
From Playmates Toys' treasury:		
- interest income	11,223	835
- dividend income	588	394
Government subsidies	1,104	5,910
Gain on disposal of subsidiaries	-	1,399
Others	683	(392)
	(32,334)	(5,097)

Note:

In the net (loss)/gain on financial assets at fair value through profit or loss, unrealised loss of HK\$29,812,000 (2021: HK\$8,796,000) was attributable to Playmates Toys' treasury investment.

6. Loss before income tax

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold	243,563	299,088
Write down of inventories	2,942	330
Product development and tooling costs	18,348	18,986
Royalties expenses	68,276	84,688
Direct operating expenses arising from investment properties that generate rental income	5,215	4,617
Direct operating expenses arising from investment properties that did not generate rental income	1,497	1,493
Provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	30,655	28,960
Reversal of unutilised provision for consumer returns, cooperative advertising, cancellation charges and freight allowance	(3,880)	(4,130)
Depreciation		
- other property, plant and equipment	9,670	11,223
- right-of-use assets	3,637	3,613
Directors' and staff remunerations	72,018	81,655
Allowance for customer concession	14,251	4,572
Reversal of allowance for customer concession	(9,647)	(6,640)
Gain on disposal of other property, plant and equipment	(73)	-
<u>Auditors' remuneration</u>	<u>2,000</u>	<u>2,000</u>

7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	23,073	27,627
Overseas taxation	5,983	4,100
Over provision in prior years – Hong Kong	(30)	(30)
<u>Under/(Over) provision in prior years – overseas</u>	<u>86</u>	<u>(78)</u>
	<u>29,112</u>	<u>31,619</u>
Deferred taxation		
<u>Origination and reversal of temporary differences</u>	<u>2,020</u>	<u>(9,807)</u>
<u>Income tax expense</u>	<u>31,132</u>	<u>21,812</u>

8. Dividends

(a) Dividends attributable to the year

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
First interim dividend of HK cents 1.5 per share (2021: HK cents 1.5 per share)	31,200	31,350
Second interim dividend of HK cents 1.5 per share (2021: HK cents 1.5 per share)	31,096	31,350
Special interim dividend of HK cents 1.5 per share (2021: HK cents 1.5 per share)	31,096	31,350
	<u>93,392</u>	<u>94,050</u>

At a meeting held on 19 August 2022, the board of directors declared a first interim dividend of HK cents 1.5 per share, which was paid on 23 September 2022.

At a meeting held on 10 March 2023, the board of directors declared a second interim dividend of HK cents 1.5 per share and a special interim dividend of HK cents 1.5 per share to be paid on 17 April 2023 to shareholders whose names appear on the Company's register of members on 28 March 2023. This second interim dividend and 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 2022.

(b) Dividends attributable to previous financial year and paid during the year

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 1.5 per share (2021: HK cents 3.0 per share)	31,200	62,700
Special interim dividend of HK cents 1.5 per share (2021: HK cents 3.0 per share)	31,200	62,700
	<u>62,400</u>	<u>125,400</u>

9. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$212,779,000 (2021: HK\$49,430,000) and the weighted average number of ordinary shares of 2,078,438,000 shares (2021: 2,090,085,000 shares) in issue during the year.

Diluted loss per share for the years ended 31 December 2022 and 2021 equals to the basic loss 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 2022 and 2021.

10. Trade receivables

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 (2021: 60 to 90 days). For property investments and management business, 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 60 days	41,102	85,735
61 – 90 days	20,335	35,541
91 – 180 days	3,339	3,918
Over 180 days	691	3,685
	65,467	128,879

11. Trade payables

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 30 days	11,556	27,056
31 – 60 days	48	5
Over 60 days	867	1,524
	12,471	28,585

12. US dollar equivalents

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

MANAGEMENT DISCUSSION AND ANALYSIS

Group Overview

Playmates Holdings's global revenue for the year ended 31 December 2022 was HK\$719.6 million (2021: HK\$860.8 million); reflecting a decrease of 16.4% compared to the prior year. Before taking into account net revaluation deficit on investment properties, the Group's operating profit was HK\$202.6 million (2021: HK\$218.0 million).

The Group recorded a net revaluation deficit on investment properties of HK\$330.2 million (2021: HK\$204.1 million). After taking into account such net revaluation deficit on investment properties, net loss attributable to shareholders was HK\$212.8 million (2021: HK\$49.4 million). Basic loss per share was HK cents 10.24 (2021: HK cents 2.36). Net asset value per share was HK\$2.92 as at 31 December 2022 (2021: HK\$3.07).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2022 was HK\$210.8 million (2021: HK\$233.1 million), reflecting a 9.6% decrease compared to the prior year. Revenue from the property investments and property management businesses decreased 7.3% to HK\$210.8 million (2021: HK\$227.4 million), while no revenue was generated from the food and beverage business due to the disposal of our equity interest in the business in May 2021 (2021: HK\$5.6 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$5.1 billion (2021: HK\$5.4 billion). A net revaluation deficit of HK\$330.2 million was recorded in the consolidated income statement of the Group (2021: HK\$204.1 million). Segment operating loss including net revaluation deficit was HK\$156.9 million (2021: HK\$17.3 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 7.8% of the fair value of the Group's overall investment property portfolio (2021: 7.7%).

Aggregate rental income generated from the investment properties of the Group was HK\$189.6 million, a decrease of 8.6% from the prior year (2021: HK\$207.4 million). Overall occupancy rate was 63% as at 31 December 2022 (2021: 62%).

(i) Commercial

The Group's investment in commercial properties consists of The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. Although we expect Canton Road to remain one of the premier shopping districts in Hong Kong over the long term, retail and commercial activities in the area remain disrupted during 2022 due to sustained COVID travel restrictions and social distancing measures. Looking forward, with the removal of these measures and the reopening of the border between Hong Kong and mainland China in early 2023, retail and commercial activities are anticipated to benefit from the resumption of tourism travel and will improve the demand for offices and F&B premises in the vicinity.

We renewed a significant lease on the commercial podium floors of The Toy House in October 2022 at open market rent, which was substantially lower than the rent level in 2022. The Group's aggregate rental income for 2023 is expected to be reduced as a result of this significant lease renewal. Further details of this significant lease renewal were disclosed in the announcement of the Company dated 28 October 2022.

(ii) Residential

The Group's principal investment in residential properties includes units in Hillview on MacDonnell Road, Mid-Levels, Hong Kong. Interior renovation and improvement works are being performed successively on our units starting in 2022 and continuing into 2023. We expect these upgrades will enhance the value of the property over the long term. We are optimistic that our investment will benefit from these enhancements.

(iii) Industrial

The Group's investment in industrial properties consists of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. With the revived government policy to revitalize and optimize the use of existing industrial buildings, the Group 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 Group will continue to monitor the economic environment before proceeding with the building conversion and deciding on the scale of the project.

(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\$21.2 million, an increase of 5.6% from prior year (2021: HK\$20.0 million).

We will continue to maintain a long-term view of our property investments and associated businesses, and 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, 2022 was HK\$504 million (2021: HK\$625 million), representing a decrease of 19% compared to the prior year, due primarily to a contraction in ***Godzilla vs. Kong*** product sales compared to 2021, when the ***Godzilla vs. Kong*** movie was released. This is partially offset by the expansion of our ***Miraculous: Tales of Ladybug & Cat Noir*** toy line. The US continued to be our biggest market in 2022, contributing 60% of revenue. Europe as a whole contributed 25%, the rest of the Americas 9% and 5% came from Asia Pacific.

Gross profit ratio on toy sales was 47% (2021: 49%). Lower gross profit margin in 2022 reflected elevated discounts and writedowns to reduce our inventory level in response to a volatile and challenging consumer environment. Operating expenses decreased by 13% compared to the prior year

but increased slightly as a percentage of revenue, reflecting higher selling and distribution expenses, offset by lower marketing expenses and stable administrative expenses.

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

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

Brand Overview

Teenage Mutant Ninja Turtles

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

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

Miraculous: Tales of Ladybug & Cat Noir

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

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 of 31 December 2022, fair market value of the Group's investment portfolio was HK\$132.2 million (31 December 2021: HK\$161.0 million) representing 2.0% of the total assets of the Group (31 December 2021: 2.1%). This comprised HK\$65.9 million of equities listed in Hong Kong (31 December 2021: HK\$71.8 million), HK\$66.3 million of equities listed overseas (31 December 2021: HK\$88.1 million) and HK\$nil of unlisted managed funds (31 December 2021: HK\$1.1 million). None of the individual securities positions held by the Group had a market value that exceeded 0.3% of the total assets of the Group. The top 10 listed securities in aggregate represented 1.5% of the total assets of the Group and included The Walt Disney Company (DIS.US), Wharf Real Estate Investment Company Limited (1997.HK), Apple Inc. (AAPL.US), Tencent Holdings Limited (700.HK), Amazon.com, Inc. (AMZN.US), Vitasoy International Holdings Limited (345.HK), New World Development Company Limited (17.HK), Sun Hung Kai Properties Limited (16.HK), Alphabet Inc. (GOOG.US) and Microsoft Corporation (MSFT.US).

The Group reported a net loss from investments of HK\$45.9 million in 2022 (2021: net loss of HK\$13.2 million). In 2022, dividend and interest income generated from the portfolio were HK\$17.0 million (2021: HK\$3.8 million).

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

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. As a result, a disproportionately high balance of trade receivables is typically generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2022, trade receivables related to toy operation were HK\$60,962,000 (2021: HK\$124,378,000) and inventories related to toy operation were HK\$23,700,000 (2021: HK\$58,007,000) or 4.7% (2021: 9.3%) of revenue of toy operation. Lower inventories at 31 December 2022 reflected the Group's strategy to reduce inventory level in response to a volatile and challenging consumer environment.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Overall occupancy rate was 63% as at 31 December 2022 (2021: 62%). 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 2022, the Group's financial assets at fair value through profit or loss amounted to HK\$132,178,000 (2021: HK\$160,955,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2022 was 5.0% compared to 10.4% at 31 December 2021. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.8 at 31 December 2022 (2021: 2.2).

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2022, the Group's cash and bank balances were HK\$1,083,324,000 (2021: HK\$1,464,689,000), of which HK\$914,039,000 (2021: HK\$1,272,770,000) was denominated in United States dollar, HK\$55,977,000 (2021: HK\$66,066,000) in British pound, HK\$44,061,000 (2021: HK\$46,372,000) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year, 16,660,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$0.53 to HK\$0.81 per share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions ("**Code Provisions**") of Part 2 of the Corporate Governance Code ("**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") for the year ended 31 December 2022, except the followings:

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

The Code Provision C.1.6 provides that generally the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of shareholders. Mr. Tsim Tak Lung, who retired as a non-executive director of the Company at the conclusion of the annual general meeting on 27 April 2022 ("**AGM**"), was unable to attend the AGM due to other prior engagement.

The Audit Committee has 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 including a review of the accounts for the year ended 31 December 2022.

DIVIDENDS

The board of directors declared a second interim dividend of HK cents 1.5 per share and a special interim dividend of HK cents 1.5 per share. The said second interim dividend and special interim dividend will be paid on 17 April 2023 to the shareholders on the Register of Members of the Company on 28 March 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27 March 2023 to 28 March 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 24 March 2023.

On behalf of the Board
CHAN Kwong Fai, Michael
Chairman

Hong Kong, 10 March 2023

As at the date hereof, the board of directors of the Company comprises the following directors:

Mr. Chan Kwong Fai, Michael (*Chairman*), Ms. Chan, Helen (*Executive Director*), Mr. Chan Kong Keung, Stephen (*Executive Director*), Mr. Lee Ka Sze, Carmelo (*Non-executive Director*), Mr. Lo Kai Yiu, Anthony (*Independent Nonexecutive Director*), Dr. Or Ching Fai, Raymond (*Independent Non-executive Director*) and Mr. Tang Wing Yung, Thomas (*Independent Non-executive Director*)