2010 Annual Report

Playmates TOYS

Corporate Information

Directors
CHAN Chun Hoo, Thomas *(Chairman)*
CHENG Bing Kin, Alain *(Executive Director)*
CHOW Yu Chun, Alexander
(Independent Non-executive Director)
LEE Ching Kwok, Rin
(Independent Non-executive Director)
TO Shu Sing, Sidney *(Executive Director)*
YANG, Victor *(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 Jingdu Tianhua
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

Principal Bankers
The Bank of East Asia, Limited
Chong Hing Bank Limited
Hang Seng Bank Limited

Principal Share Registrars
The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

Branch Share Registrars
Tricor Abacus Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

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

Website
www.playmatestoys.com

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Statement from the Chairman

2010 brought early signs of the world emerging from the worst economic crisis in recent times. It was a year of mixed results across segments of the economy and across territories. After years of negative growth, the toy industry reported increases in retail sales in 2010 in many developed markets including the US and the largest markets in Europe. However, the average consumer, while a little more confident than a year ago, continued to worry about employment and the coming threat of inflation.

As expected, our sales in 2010 were lower than the year before as we divested of non-performing brands and realigned our product portfolio to focus on selected quality brands reflecting our core competence. Initial result is seen in the successful launch of ***Hearts for Hearts Girls***, a line of beautiful multicultural dolls created to deliver an empowering social message. The line has received positive consumer response and won a number of awards.

2011 begins with major uncertainties in the economic and operating environments. Developing political events of significance, especially in the major oil producing regions, may jeopardise the budding economic recovery in the developed countries. It is a concern that rising raw material prices, labor and other PRC manufacturing costs may drive inflation to levels rarely experienced in traditionally low inflation markets such as the US, and may negatively impact on the improving but still fragile consumer sentiment.

Preparations for the 2012 re-launch of ***Teenage Mutant Ninja Turtles*** are making good progress as planned. We are working closely with Nickelodeon on the development of the all new ***TMNT*** products to be launched with the US premiere of the CGI animated TV series scheduled for Fall 2012, and to be followed by a feature film from Paramount Pictures planned for 2013.

I am grateful to our shareholders, business partners for their continued support and my fellow directors and colleagues for their dedication and commitment.

CHAN Chun Hoo, Thomas
Chairman of the board

Hong Kong, 25 March 2011

Business Review and Prospects

Building for the Future

Playmates Toys group worldwide sales for the year ended 31 December 2010 was HK$148 million (2009: HK$636 million); reflected a decrease of 76.7% compared to the prior year. The group reported an operating loss of HK$90 million (2009: HK$35 million) and net loss attributable to shareholders of HK$96 million (2009: HK$87 million). Basic loss per share was HK cents 11.39 (2009: HK cents 17.00).

Gross profit ratio on toy sales was 41.9% (2009: 45.9%). The decrease was attributable to: a higher portion of sales to lower margin international markets compared to 2009, which were partially offset by a decrease in development expenses and tooling costs.

Recurring operating expenses were managed to a level lower than last year with lower advertising and promotional spending, as well as a reduction in sales and distribution expenses. The reported net loss attributable to shareholders reflected write off of minimum guarantees associated with non performing licenses and non-recurring items including unused bartered advertising credits, office relocation and staff redundancy costs.

Playmates Toys sales in 2010 were lower than last year due to underperformance of both continuing and new brands. During the year, a number of non-performing brands were divested and the product portfolio was realigned to focus on quality brands.

The toy industry as a whole reported a 2% increase in retail sales in 2010 in the US, and similar positive growth in many major developed markets around the world. US retail sales in the fourth quarter, representing close to half of the total for the year, increased by 3% over fourth quarter 2009 and sales in December 2010 increased by 4% over December 2009. Nevertheless, despite signs of growing consumer optimism towards the end of last year, major retailers ended 2010 with higher levels of inventory than the year before. As a result, US retailers are expected to continue to pursue a strategy of tight inventory control and to be cautious in selecting new brands.

We expect our operating environment to remain challenging in 2011, but if consumer confidence continues to improve, it is hopeful that retailers may become more receptive to new brand selections as their inventory burden is reduced. Playmates Toys will continue to pursue a focused operating strategy, diligent risk management and sustained costs and expenses controls. New property acquisitions will be highly selective and focused on our core competence.

Brand Overview

During the year there were limited sales contributions from the continuing Boys brands as the lifecycles of the movie related properties came to their end, and a planned strategic cooling off period for the ***Teenage Mutant Ninja Turtles (“TMNT”)*** in anticipation of the re-launch in 2012. Preparations for the re-launch are progressing in earnest with the premiere of an all new CGI animated TV series on Nickelodeon scheduled for Fall 2012 followed by a feature film from Paramount Pictures produced by Michael Bay planned for 2013. Playmates’ core ***TMNT*** toy line is planned to launch in tandem with the TV programming and movie events supported by a multimedia, multi-platform marketing and promotion campaign.

Among the new introductions in 2010, the ***Shrek Forever After*** movie related merchandise did not perform up to expectation and will be discontinued. ***Hero 108***, a line of collectible figures with card games and playsets based on the animated show on Cartoon Network, performed at launch to below expectations across different territories as the new show took time to establish its appeal. Distribution of the line will reach new markets in Europe and elsewhere on the back of a new season of TV episodes and a re-launch of the ***Hero 108*** MMOG game site.

The collection of highly detailed and articulated figures capturing the essence of ***Michael Jackson, King of Pop*** in iconic poses was launched in late 2010. The brand will be extended by the releases of successive waves of new figures, each showcasing a pivotal moment in his illustrious career, and capitalising on key events including rollouts of new albums by Sony Entertainment and the *Michael Jackson THE IMMORTAL World Tour* by Cirque du Soleil in 2011.

Lucha Libre USA: Masked Warriors, a line of figures and role play accessories capitalises on the renewed popularity of professional wrestling and is based on the US version of the traditional, rich heritage of Mexican wrestling broadcast on MTV2, MTV3 and Galavision. The producer, Lucha Libre USA, teamed up with Hard Rock Hotel & Casino who provided venues to host the live events. Initial shipment commenced in late 2010 with plans to further expand distribution in 2011.

Leveraging the successful collaboration with 20th Century Fox on ***The Simpsons***, in 2011 Playmates will launch a line of interactive figures and playsets modeled on the characters and humor of ***Family Guy***, one of the highest rated TV shows and a top selling DVD series in the US with an established fan base built on a 10 year heritage.

The continuing Girls brands also performed at a lower level in 2010 compared to 2009. The ***iCarly*** show, currently in its 4th season, remains among the top rated kids TV shows in the US although merchandising efforts are met with limited success. The line of gadgets and dolls inspired by the show will continue distribution at selected major retailers in the US. International distribution will cover additional markets as the show reaches more territories around the world in 2011. New Girls brands launched in 2010, ***Rainbow Brite*** and ***My Pixies***, did not perform up to expectation and will not continue in 2011.

Hearts for Hearts Girls is a line of beautiful multicultural dolls each depicting a girl from a different part of the world who is taking action to make positive change in ways unique to her home country. Each doll comes with a booklet that tells the story of the girl and how she strives to make a difference and to "change the world one heart at a time". The brand is created to deliver an empowering social message to girls of varying ethnic backgrounds. Proceeds from sales include a donation to nonprofit organisations that support causes in the regions represented by the dolls. World Vision, a 60 year old humanitarian organisation dedicated to helping people in over 100 countries, is our first nonprofit partner. The hearts4heartsgirls.com interactive website features games, activities and real stories about real girls. ***Hearts for Hearts Girls*** attracted wide media coverage and won a number of awards, including Oppenheim Gold Seal Award, Dr. Toy's 10 Best Socially Responsible Toy Award, Dr. Toy's 100 Best Children's Products Award, and one of the dolls is an Industry's Choice winner of the 2011 DOTY (Doll of the Year) Award in the Children's Play Doll category. Test launch of the brand in Chicago last December was a success with very positive consumer response. Full US national launch is planned for Fall 2011. International rollout will also commence this year.

A number of new brands are under development to be introduced in late 2011 or beyond. ***Waterbabies***, of which Playmates has sold over 15 million dolls between 1991 and 2005, will be re-introduced to a new generation of girls. Similar to Playmates' original ***Nano*** but utilising latest available technologies, ***Nano V*** responds intelligently to voice instructions and movements such as rocking, patting, and tickling, allowing little girls to play "mommy" to nurture and care for virtual babies.

Directors and Senior Management

Biographical details of directors are shown below:

CHAN Chun Hoo, Thomas
Chairman and Executive Director

Mr. Chan, age 60, joined the Group in 1967. He has been the principal driving force behind the growth, global expansion and diversification of the Group's business activities into multiple segments and markets. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHENG Bing Kin, Alain
Executive Director

Mr. Cheng, age 48, was appointed a director of the Company in March 2010. He was admitted to practise as solicitor in Hong Kong, England and Wales and has extensive experience in the legal field. He is also a CPA of the Hong Kong Institute of Certified Public Accountants and an ACA of The Institute of Chartered Accountants in England and Wales. Mr. Cheng is also an executive director of Playmates Holdings Limited.

CHOW Yu Chun, Alexander
Independent Non-executive Director

Mr. Chow, age 64, joined the Group in 2007. He is a fellow of The Association of Chartered Certified Accountants of the United Kingdom and a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 33 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow was formerly a director of New World Mobile Holdings Limited, Playmates Holdings Limited and Yu Ming Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited and he resigned from these appointments on 1 February 2007, 28 December 2007 and 23 May 2008 respectively. Mr. Chow is currently a non-executive director of New World China Land Limited and a director of Top Form International Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin
Independent Non-executive Director

Mr. Lee, age 62, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practise in Hong Kong and England and Wales, he now serves as an adviser to a number of private companies and organisations.

TO Shu Sing, Sidney

Executive Director

Mr. To, age 53, 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 was appointed an executive director in May 2008. Mr. To is also an executive director of Playmates Holdings Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada.

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 65, joined the Group in 2007. Mr. Yang holds a Bachelor of Commerce degree and a Juris Doctorate degree from the University of British Columbia, Canada. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong SAR. He has over 37 years experience in legal practice and is a solicitor of the High Court of Hong Kong, a barrister and solicitor in British Columbia, Canada and a solicitor in England and Wales.

Mr. Yang is presently a governor of the Canadian Chamber of Commerce in Hong Kong and an immediate past member of the Major Sports Committee of the Home Affairs Bureau, Hong Kong. He is an independent non-executive director of China Agri-Industries Holdings Limited and Singamas Container Holdings Limited, all of which are companies, shares of which are listed on the Stock Exchange of Hong Kong. He is also a non-executive director of Lei Shing Hong Limited, shares of which were listed on the Stock Exchange up to 17 March 2008 before their withdrawal on that date. Mr. Yang was also a director of Media Chinese International Limited until his resignation on 1 October 2009, shares of which were listed on the Stock Exchange of Hong Kong and Eupa International Corporation, shares of which were listed on the NASDAQ (Over-the-Counter Bulletin Board).

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2010.

Principal Activities and Geographical Analysis of Operation

The Company is an investment holding company with its principal subsidiaries engaged in the design, development, marketing and distribution of toys and family entertainment activity products.

An analysis of the Group's performance for the year by geographical segment is set out in note 5.1 to the financial statements.

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	27%
– five largest suppliers in aggregate	81%
Sales	
– the largest customer	17%
– five largest customers in aggregate	53%

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 30.

The directors do not recommend the payment of a final dividend.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37. Movements in the reserves of the Company during the year are set out in note 25.2 to the financial statements.

The Company has no distributable reserves at 31 December 2009 and 2010 as calculated under the Companies Act 1981 of Bermuda.

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

As at 31 December 2010, the Group has banking facilities amounting to HK$35 million (2009: HK$35 million). None of such banking facilities were utilised at 31 December 2010 and 2009.

Liquidity and financial resources

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is 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 2010, trade receivables were HK$10,642,000 (2009: HK$76,562,000) and inventories were at a seasonal low level of HK$5,404,000 or 3.6% of turnover (2009: HK$10,181,000 or 1.6% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 4.6 at 31 December 2010 compared to 1.4 at 31 December 2009.

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 2010, the Group's cash and bank balances were HK$172,787,000 (2009: HK$113,194,000).

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

Report of the Directors

Employees

As at 31 December 2010, the Group had a total of 48 employees in Hong Kong and the United States of America. This compares to 67 employees as at 31 December 2009.

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.

Contingent Liabilities

Details of the Company's contingent liabilities are set out in note 27 to the financial statements.

Financial Guarantee

Details of the Company's financial guarantee contracts are set out in note 28 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$97,000 (2009: HK$395,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 25.1 to the financial statements.

Investment in an Associated Company

Details of the investment are set out in note 15 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 76.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

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

Mr. CHAN Chun Hoo, Thomas *(Chairman)*
Mr. CHENG Bing Kin, Alain *(Executive Director) (appointed on 26 March 2010)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)*
Mr. NOVAK, Lou Robert *(Executive Director) (retired on 28 May 2010)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. YANG, Victor *(Independent Non-executive Director)*

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Chan Chun Hoo, Thomas and Mr. Chow Yu Chun, Alexander shall retire by rotation and 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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.

Report of the Directors

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Share Options

Share options of the Company are granted to directors, employees and other eligible participants specified under a Share Option Scheme ("Scheme") adopted on 25 January 2008. Details of the Scheme are as follows:

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 25 March 2011	:	35,014,000 ordinary shares, representing 3.36% 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 the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Scheme	:	Remains in force until 31 January 2018.

Share Options (Continued)

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme ("Scheme") adopted on 25 January 2008, 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:

				Number of share options				
Participant	Date of grant	Original exercise price *HK$*	Adjusted exercise price due to Rights Issue *HK$*	Balance at 1 January 2010	Granted during the year *(Note (1))*	Additions due to Rights Issue adjustment	Lapsed during the year	Balance at 31 December 2010
CHENG Bing Kin, Alain	31 March 2008	0.350	0.316	500,000	–	54,000	–	554,000
Director (Note (2))	20 January 2010	0.918	0.828	–	1,500,000	163,000	–	1,663,000
CHOW Yu Chun, Alexander	31 March 2008	0.350	0.316	400,000	–	43,000	–	443,000
Director	20 January 2010	0.918	0.828	–	200,000	22,000	–	222,000
LEE Ching Kwok, Rin	31 March 2008	0.350	0.316	400,000	–	43,000	–	443,000
Director	20 January 2010	0.918	0.828	–	200,000	22,000	–	222,000
NOVAK, Lou Robert	31 March 2008	0.350	0.316	4,950,000	–	538,000	–	5,488,000
Director (Note (3))	20 January 2010	0.918	0.828	–	2,000,000	217,000	–	2,217,000
TO Shu Sing, Sidney	31 March 2008	0.350	0.316	500,000	–	54,000	–	554,000
Director	20 January 2010	0.918	0.828	–	2,000,000	217,000	–	2,217,000
YANG, Victor	31 March 2008	0.350	0.316	400,000	–	43,000	–	443,000
Director	20 January 2010	0.918	0.828	–	200,000	22,000	–	222,000
Continuous Contract	31 March 2008	0.350	0.316	2,562,000	–	202,000	955,000	1,809,000
Employees, excluding Directors	20 January 2010	0.918	0.828	–	11,750,000	1,148,000	1,588,000	11,310,000
Other Participants	31 March 2008	0.350	0.316	450,000	–	49,000	–	499,000
	20 January 2010	0.918	0.828	–	2,150,000	234,000	–	2,384,000
	30 March 2010	0.746	0.673	–	5,500,000	598,000	–	6,098,000

Notes:

(1) The closing prices of the ordinary shares of the Company on 19 January 2010 and 29 March 2010, being the trading days immediately before the dates on which the share options were granted during the year, were HK$0.89 and HK$0.73 respectively (before adjustments due to Rights Issue).

(2) Mr. Cheng Bing Kin, Alain was appointed as a director of the Company on 26 March 2010.

(3) Mr. Novak, Lou Robert ceased to be a director of the Company from 28 May 2010.

The above share options are exercisable in stages in accordance with the terms of the 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, Underlying Shares and Debentures of the Company or Any Associated Corporation

As at 31 December 2010, 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 the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	574,050,000 ordinary shares	55.02%
	Personal	13,905,000 ordinary shares	1.33%
CHENG Bing Kin, Alain *(Note (b))*	Personal	4,000,000 ordinary shares	0.38%
TO Shu Sing, Sidney	Personal	8,000,000 ordinary shares	0.77%

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

Long positions in underlying shares and debentures of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	100,000,000 conversion shares	100,000,000 shares	9.59%
		79,065,350 warrants	79,065,350 shares	7.58%
	Personal	1,807,650 warrants	1,807,650 shares	0.17%
CHENG Bing Kin, Alain *(Note (b))*	Personal	2,217,000 share options	2,217,000 shares	0.21%
		520,000 warrants	520,000 shares	0.05%
CHOW Yu Chun, Alexander	Personal	665,000 share options	665,000 shares	0.06%
LEE Ching Kwok, Rin	Personal	665,000 share options	665,000 shares	0.06%
TO Shu Sing, Sidney	Personal	2,771,000 share options	2,771,000 shares	0.27%
		1,040,000 warrants	1,040,000 shares	0.10%
YANG, Victor	Personal	665,000 share options	665,000 shares	0.06%

Long positions in shares of Playmates Holdings Limited ("PHL")

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	11,900,000 ordinary shares	4.61%
	Corporate *(Note (c))*	91,500,000 ordinary shares	35.47%
	Associate *(Note (d))*	10,000,000 ordinary shares	3.88%
CHENG Bing Kin, Alain *(Note (b))*	Personal	228,000 ordinary shares	0.09%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.78%

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHENG Bing Kin, Alain *(Note (b))*	Personal	159,000 share options	159,000 shares	0.06%
TO Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.12%

Notes:

(a) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC") and is therefore deemed to be interested in the 52,350,000 shares and 11,244,350 warrants of the Company in aggregate which TGC is interested in. Since TGC directly owns approximately 35.47% of the shareholding of PHL and is deemed to be interested in the 521,700,000 shares, up to 100,000,000 conversion shares (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) and 67,821,000 warrants of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 521,700,000 shares, 100,000,000 conversion shares and 67,821,000 warrants of the Company in aggregate which PHL is interested in.

(b) Mr. Cheng Bing Kin, Alain was appointed as a director of the Company on 26 March 2010.

(c) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 91,500,000 shares of PHL in aggregate which TGC is interested in.

(d) 10,000,000 shares of PHL were owned by Mr. Chan's wife and Mr. Chan is therefore deemed to be interested in those shares.

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, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2010.

Details of the share options held by the directors of the Company are disclosed in the above section headed "Share Options".

As at 31 December 2010, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2010, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
TGC	Corporate *(Note (i))*	574,050,000 ordinary shares	55.02%
PHL	Corporate *(Note (ii))*	521,700,000 ordinary shares	50.01%
Playmates International Limited	Corporate *(Note (ii))*	521,700,000 ordinary shares	50.01%
PIL Investments Limited	Corporate *(Note (ii))*	521,700,000 ordinary shares	50.01%
PIL Toys Limited	Corporate	521,700,000 ordinary shares	50.01%

Long positions in underlying shares and debentures of the Company

Name	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
TGC	Corporate *(Note (i))*	100,000,000 conversion shares	100,000,000 shares	9.59%
		79,065,350 warrants	79,065,350 shares	7.58%
PHL	Corporate *(Note (ii))*	100,000,000 conversion shares	100,000,000 shares	9.59%
		67,821,000 warrants	67,821,000 shares	6.50%
Playmates International Limited	Corporate *(Note (ii))*	100,000,000 conversion shares	100,000,000 shares	9.59%
		67,821,000 warrants	67,821,000 shares	6.50%
PIL Investments Limited	Corporate *(Note (ii))*	100,000,000 conversion shares	100,000,000 shares	9.59%
		67,821,000 warrants	67,821,000 shares	6.50%
PIL Toys Limited	Corporate	100,000,000 conversion shares	100,000,000 shares	9.59%
		67,821,000 warrants	67,821,000 shares	6.50%

Notes:

(i) TGC directly owns approximately 35.47% of the shareholding of PHL and is therefore deemed to be interested in the 521,700,000 shares, up to 100,000,000 conversion shares (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) and 67,821,000 warrants of the Company in aggregate which PHL is interested in.

(ii) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 521,700,000 shares, 67,821,000 warrants and 100,000,000 conversion shares of the Company, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the convertible bond pursuant to a subscription agreement dated 29 October 2009, in which PIL Toys Limited is beneficially interested in.

Report of the Directors

Pre-emptive Rights

There are no pre-emptive rights provisions with respect to any issue or transfer of shares of the Company in the Bye-laws of the Company nor are there any such pre-emptive rights provisions generally applicable under Bermuda law.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 2007 and subsequently amended in 2009.

The primary duties of our audit committee are to assist our board to provide an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, to oversee the audit process, and to perform other duties and responsibilities as assigned by the board.

Our audit committee comprises three independent non-executive directors, namely, Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor. The chairman of our audit committee is Mr. Chow Yu Chun, Alexander.

Sufficiency of Public Float

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

Auditors

Moores Rowland have combined their practice with Grant Thornton on 1 June 2007. As a result of this change, Grant Thornton has been appointed as auditors by the shareholders at each annual meeting since 2008.

During the year, JBPB & Co. (formerly known as "Grant Thornton") resigned as auditors of the Company and Grant Thornton Jingdu Tianhua was appointed by the directors to fill the casual vacancy.

The financial statements for the year ended 31 December 2010 have been audited by Grant Thornton Jingdu Tianhua who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Continuing Connected Transaction

On 26 August 2008, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Belmont Limited, an indirect wholly-owned subsidiary of PHL, as landlord entered into a tenancy agreement ("Tenancy Agreement") relating to the leasing of the premises known as 22nd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 September 2008 to 31 August 2011 at the rental of HK$119,991 per month and management charges of HK$19,458 per month (exclusive of rates, government rent, utilities and other outgoings). PHL indirectly owns and controls approximately 50.01% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 27 August 2008, was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

The independent non-executive directors, who are not interested in any connected transaction with the Group, have reviewed the continuing connected transaction and confirmed that the transaction has been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed the continuing connected transaction and confirmed to the board that the transaction has been approved by the board of the Company and has been entered into in accordance with the relevant agreement governing the transaction, and that it has not exceeded the relevant annual cap disclosed in the previous announcement.

Save and except the transactions disclosed above and in note 30.1 to the financial statements, there is no contract of significance between the Group and our controlling shareholder or any of its subsidiaries.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 25 March 2011

Corporate Governance Report

Corporate Governance Practices

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the Code on Corporate Governance Practices ("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 2010 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

The board of directors of the Company comprises:

CHAN Chun Hoo, Thomas *(Chairman)*
CHENG Bing Kin, Alain *(Executive Director)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(Independent Non-executive Director)*
TO Shu Sing, Sidney *(Executive Director)*
YANG, Victor *(Independent Non-executive Director)*

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

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

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

In respect of the roles of the chairman and chief executive officer should be separate, the Chairman focuses on Group strategy and is responsible for ensuring the efficient operation of the board; whereas the executive directors supported by the senior executives are responsible for running the business operations of the Group. The board considers that this structure is effective in facilitating the operations and business development of the Company and maintaining the checks and balances between the board and the management of the business of the Group. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

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 the 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.

All directors are regularly updated on governance and regulatory matters. 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 cover in respect of any potential legal actions that might be taken against its directors.

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 chairing and managing the efficient operation of the board and ensuring that 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.

Corporate Governance Report

Board of Directors (Continued)

The board held four meetings in 2010. Details of directors' attendance at the board meetings and audit committee meetings held in 2010 are set out in the following table.

	No. of meetings attended/held	
Directors	**Board**	**Audit Committee**
CHAN Chun Hoo, Thomas	4/4	N/A
CHENG Bing Kin, Alain*	3/3	N/A
CHOW Yu Chun, Alexander	4/4	2/2
LEE Ching Kwok, Rin	4/4	2/2
NOVAK, Lou Robert*	1/2	N/A
TO Shu Sing, Sidney	4/4	N/A
YANG, Victor	2/4	2/2

* *Mr. Cheng was appointed on 26 March 2010. Three board meetings were held after his appointment. Mr. Novak retired on 28 May 2010. Two board meetings were held before his retirement.*

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2010. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 28 to 29 of this annual report.

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 website of the Company and that of the Stock Exchange on the same date of the meetings.

Board Committees

As an integral part of good corporate governance, the board has established the Audit Committee and Compensation Committee to oversee particular aspects of the Company's affairs. Each of these Committees comprises wholly independent non-executive directors with defined respective written terms of reference.

Audit Committee

The Audit Committee was established in July 2007 and its current members include:

CHOW Yu Chun, Alexander – *Committee Chairman*
LEE Ching Kwok, Rin
YANG, Victor

All of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in December 2007 and subsequently revised in 2009 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

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 terms of reference and keeps under review the independence and objectivity of the external auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 2010.

At the meeting held on 25 March 2011, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2010 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

The Compensation Committee was established in July 2007 and its current members include:

YANG, Victor – *Committee Chairman*
CHOW Yu Chun, Alexander
LEE Ching Kwok, Rin

All 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 terms of reference of the Compensation Committee were adopted in December 2007, a copy of which is posted on the Company's website.

Corporate Governance Report

Board Committees (Continued)

Compensation Committee (Continued)

The Compensation Committee meets to determine the policy for the remuneration of directors and assess the performance of executive directors and members of senior management.

The Compensation Committee held one meeting during the year and was attended by all the current members.

Remuneration Policy for Non-executive Directors 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 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 12.1 to the financial statements.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2010. The Model Code also applies to other specified senior management of the Group.

Directors' Interest

Details of directors' interests in the securities of the Company are set out in pages 15 to 16 of this annual report.

Internal Controls

The board has overall responsibility for maintaining an adequate system of internal controls of the Company and for reviewing its effectiveness. The board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Company's assets. The board has conducted an annual review of the system of internal controls which covered all relevant financial, operational, compliance controls and risk management functions within an established framework. The board's annual review has also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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.

The Group's internal control system is designed in consideration of the nature of business as well as the organisation structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to 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.

Control Effectiveness

The directors are satisfied with the effectiveness of the Group's 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 is currently no internal audit function within 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 cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Auditors' Remuneration

For the year ended 31 December 2010, the auditors of the Company only provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK$700,000. 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.

Independent Auditors' Report

Grant Thornton
京都天华

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 75, which comprise the consolidated and the Company balance sheets as at 31 December 2010, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Grant Thornton
京都天华

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton Jingdu Tianhua
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue, Causeway Bay
Hong Kong

25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Revenue	4	**19,125**	**148,219**	636,440
Cost of sales		**(11,107)**	**(86,080)**	(344,438)
Gross profit		**8,018**	**62,139**	292,002
Marketing expenses		**(7,104)**	**(55,057)**	(181,786)
Selling and distribution expenses		**(948)**	**(7,345)**	(54,535)
Administration expenses		**(11,577)**	**(89,720)**	(88,892)
Impairment of a jointly controlled entity		**–**	**–**	(1,720)
Operating loss	6	**(11,611)**	**(89,983)**	(34,931)
Other income		**26**	**203**	137
Finance costs	7	**(188)**	**(1,458)**	(6,687)
Share of (loss)/profit of an associated company		**(304)**	**(2,360)**	116
Share of loss of a jointly controlled entity		**–**	**–**	(3,950)
Loss before income tax		**(12,077)**	**(93,598)**	(45,315)
Income tax expense	8	**(269)**	**(2,085)**	(41,389)
Loss for the year attributable to equity holders of the Company	9	**(12,346)**	**(95,683)**	(86,704)
		US cents	*HK cents*	*HK cents (Restated)*
Loss per share	10			
Basic		**(1.47)**	**(11.39)**	(17.00)
Diluted		**(1.47)**	**(11.39)**	(17.00)

The notes on pages 38 to 75 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Loss for the year	**(12,346)**	**(95,683)**	(86,704)
Other comprehensive income:			
Release of reserve upon winding up of a subsidiary	(3)	(23)	–
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	(533)
Total comprehensive loss for the year attributable to equity holders of the Company	**(12,349)**	**(95,706)**	(87,237)

The notes on pages 38 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Non-current assets				
Property, plant and equipment	13	376	2,913	4,829
Interest in an associated company	15	2,636	20,429	25,729
Deferred tax assets	23	9	72	332
		3,021	23,414	30,890
Current assets				
Inventories	16	697	5,404	10,181
Trade receivables	17	1,373	10,642	76,562
Other receivables, deposits and prepayments		1,162	9,007	24,929
Taxation recoverable		2	16	5,828
Interest in a jointly controlled entity	18	–	–	3,162
Cash and bank balances	26.2	22,295	172,787	113,194
		25,529	197,856	233,856
Current liabilities				
Trade payables	19	913	7,076	19,683
Other payables and accrued charges		3,330	25,809	59,417
Derivative financial instrument	21	–	–	63,597
Provisions	22	1,213	9,403	24,904
Taxation payable		40	310	198
		5,496	42,598	167,799
Net current assets		20,033	155,258	66,057

	Note	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Total assets less current liabilities		23,054	178,672	96,947
Non-current liabilities				
Convertible bond	*21*	–	–	91,581
Net assets		23,054	178,672	5,366
Equity				
Share capital	*25.1*	1,346	10,433	4,955
Reserves		21,708	168,239	411
Total equity		23,054	178,672	5,366

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 38 to 75 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2010

	Note	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Non-current assets				
Interest in subsidiaries	14	412	3,192	1,340
Current assets				
Other receivables, deposits and prepayments		12	97	125
Amounts due from subsidiaries	20	–	–	19,449
Cash and bank balances		21,247	164,661	108,008
		21,259	164,758	127,582
Current liabilities				
Other payables and accrued charges		246	1,904	2,069
Amounts due to subsidiaries	20	412	3,192	155
Amount due to a fellow subsidiary	20	–	–	231
Derivative financial instrument	21	–	–	63,597
		658	5,096	66,052
Net current assets		20,601	159,662	61,530
Total assets less current liabilities		21,013	162,854	62,870
Non-current liabilities				
Convertible bond	21	–	–	91,581
Net assets/(liabilities)		21,013	162,854	(28,711)
Equity				
Share capital	25.1	1,346	10,433	4,955
Reserves	25.2	19,667	152,421	(33,666)
Total equity		21,013	162,854	(28,711)

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 38 to 75 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 US$'000 (Note 31)	2010 HK$'000	2009 HK$'000
Cash flows from operating activities				
Cash used in operations	26.1	(6,587)	(51,052)	(44,463)
Interest paid		(46)	(356)	(3,069)
Overseas tax refunded		541	4,192	–
Overseas tax paid		(12)	(93)	–
Hong Kong profits tax paid		–	–	(369)
Hong Kong profits tax refunded		–	–	420
Net cash used in operating activities		(6,104)	(47,309)	(47,481)
Cash flows from investing activities				
Purchases of property, plant and equipment		(202)	(1,566)	(1,365)
Proceeds from disposal of property, plant and equipment		2	18	32
Bank interest received		26	203	137
Dividend received from an associated company		379	2,940	–
Repayment from a jointly controlled entity		408	3,162	–
Advances to a jointly controlled entity		–	–	(353)
Net cash generated from/(used in) investing activities		613	4,757	(1,549)
Cash flows from financing activities				
Issue of shares		13,462	104,328	145
Share issuing expenses		(282)	(2,183)	–
Issue of convertible bond		–	–	155,000
Repayment of bank loans		–	–	(41,721)
Net cash generated from financing activities		13,180	102,145	113,424
Net increase in cash and cash equivalents		7,689	59,593	64,394
Cash and cash equivalents at 1 January		14,606	113,194	48,939
Effect of foreign exchange rate changes		–	–	(139)
Cash and cash equivalents at 31 December	26.2	22,295	172,787	113,194

The notes on pages 38 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note 25.2)*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2009	4,950	–	167,613	–	1,341	(81,823)	92,081
Loss for the year	–	–	–	–	–	(86,704)	(86,704)
Other comprehensive income:							
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	(533)	–	–	(533)
Total comprehensive loss for the year	–	–	–	(533)	–	(86,704)	(87,237)
Share option scheme							
– value of services	–	–	–	–	377	–	377
– shares issued	5	204	–	–	(64)	–	145
Transactions with owners	5	204	–	–	313	–	522
Share options lapsed	–	–	–	–	(297)	297	–
At 31 December 2009	4,955	204	167,613	(533)	1,357	(168,230)	5,366

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 25.2)	Exchange reserve HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	4,955	204	167,613	(533)	1,357	(168,230)	5,366
Loss for the year	–	–	–	–	–	(95,683)	(95,683)
Other comprehensive income:							
Release of reserve upon winding up of a subsidiary	–	–	–	(23)	–	–	(23)
Total comprehensive loss for the year	–	–	–	(23)	–	(95,683)	(95,706)
Conversion of convertible bond	2,000	153,000	–	–	–	–	155,000
Issue of shares	3,478	100,850	–	–	–	–	104,328
Shares issuing expenses	–	(2,183)	–	–	–	–	(2,183)
Share option scheme – value of services	–	–	–	–	11,867	–	11,867
Transactions with owners	5,478	251,667	–	–	11,867	–	269,012
Share options lapsed	–	–	–	–	(375)	375	–
At 31 December 2010	10,433	251,871	167,613	(556)	12,849	(263,538)	178,672

The notes on pages 38 to 75 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

1 General Information

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 14 to the financial statements.

The financial statements for the year ended 31 December 2010 were approved by the board of directors on 25 March 2011.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The consolidated financial statements on pages 30 to 75 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"), and the 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 significant accounting policies that have been used in preparation of these 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 consolidated financial statements have been prepared under the historical cost basis except for derivative financial instrument (including conversion options embedded in convertible bond) which is stated at fair value. The measurement basis is fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of these financial statements. Although these estimates are based on management'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 2.6 "Inventories", note 2.10 "Derivative financial instruments" and note 2.11 "Provisions' to the financial statements.

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's balance sheet, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also 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 balance sheet date. 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 and jointly controlled entities

Associated companies are entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights but which are neither subsidiaries nor investment in a joint venture.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

In the consolidated financial statements, an investment in an associated company or a jointly controlled entity 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 or a jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associated company or jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale. The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associated company or jointly controlled entity for the year, including any impairment loss on the investment in the associated company or jointly controlled entity recognised for the year.

Notes to the Financial Statements

For the year ended 31 December 2010

2 Summary of Significant Accounting Policies (Continued)

2.4 Associated companies and jointly controlled entities (Continued)

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

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

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associated company or jointly controlled entity. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associated company or jointly controlled entity 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 to sell) of the associated company or jointly controlled entity and its carrying amount.

2.5 Property, plant and equipment

All property, plant and equipment are 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 is 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:

Leasehold improvements	3-10 years
Machinery, 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 each balance sheet date.

2.6 Inventories

Inventories are stated at the lower of cost or 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 estimated selling expenses.

The Group reviews the condition of inventories at each balance sheet date, 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. At the balance sheet date, the carrying amount of inventories after provision for impairment amounted to HK$5,404,000 (2009: HK$10,181,000).

2.7 Financial assets

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

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses and allowance for customer concession. Amortised cost is taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Trade and other receivables are derecognised when the rights to receive cash flows from the assets expire or are transferred and substantially all the risks and rewards of ownership have been transferred.

At each balance sheet date, trade and other receivables are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- It becomes probable that the debtor will enter bankruptcy or other financial reorganisation.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

2 Summary of Significant Accounting Policies (Continued)

2.7 Financial assets (Continued)

If any such objective evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

2.8 Impairment of non-financial assets

Property, plant and equipment, and interests in subsidiaries, an associated company and a jointly controlled entity 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 to sell and value in use.

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

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

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

2.9 Financial liabilities

The Group's financial liabilities include convertible bond and trade and other payables. They are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest rate method.

Convertible bond

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

2.10 Derivative financial instruments

Derivative financial statements are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Any gains or losses arising from changes in fair value on derivatives are taken directly to profit or loss for the year.

The fair values of the derivative financial instruments are determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The valuation model requires the input of subjective assumptions. Changes in subjective input assumptions can materially affect the fair value estimate.

Notes to the Financial Statements

For the year ended 31 December 2010

2 Summary of Significant Accounting Policies (Continued)

2.11 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. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group continually assesses potential exposures to customer and supplier claims and, where necessary, establishes provisions for any such exposures as described below:

(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.

Most of the Group's retail customers receive a fixed percentage of sales as their allowance. Some of these customers receive a higher percentage rate on certain electronic products. 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 and allows certain customers to take a percentage of sales deduction, which is 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 balance sheet date and, in certain cases, later. The Group reviews the provisions periodically and any unrequired amount will be reversed when determined.

(iii) Cancellation charges

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

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

At each relevant balance sheet date, 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.

All provisions are established for specific exposures. At the balance sheet date, the carrying amount of provisions amounted to HK$9,403,000 (2009: HK$24,904,000).

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best judgment 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.

2.12 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.

2.13 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.

Notes to the Financial Statements

For the year ended 31 December 2010

2 Summary of Significant Accounting Policies (Continued)

2.13 Financial guarantee contracts (Continued)

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.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of toys are recognised upon the transfer of the significant risks and rewards of ownership to customers, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

Interest income is recognised on a time-proportion basis, by reference to the principal outstanding and at the interest rate applicable.

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

2.15.2 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.

2.15.3 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.

2.16 Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

2.17 Employee benefits

2.17.1 Employee leave entitlements

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

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 by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2 Summary of Significant Accounting Policies (Continued)

2.17 Employee benefits (Continued)

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 each balance sheet date, the Group revises the number of options that are expected to become exercisable. 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.

2.18 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 balance sheet date 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 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, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

2.20 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 balance sheet date. 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.

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 balance sheet date, 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 balance sheet date 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 balance sheet date. Income and expenses have been converted into the Hong Kong dollar at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

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

2 Summary of Significant Accounting Policies (Continued)

2.22 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 less bank overdrafts.

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 only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

2.24 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

3 Adoption of New or Amended HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 28 (Amendments)	Investments in Associates

The adoption of the above new HKFRSs had no impact on how the results and financial position for the current and prior period have been prepared and presented.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement but are not expected to have a material impact of the Group's financial statements.

4 Revenue

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products. Turnover of the Group is the revenue from these activities.

Revenue recognised during the year ended 31 December 2010 from sales of toys was HK$148,219,000 (2009: HK$636,440,000).

5 Segment Information

5.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, and 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 property, plant and equipment, and the location of operation in case of interest in an associated company.

	Revenue		Specified non-current assets	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**–**	–	**21,747**	27,759
Americas				
– U.S.A.	**65,109**	423,747	**1,595**	2,799
– Others	**13,296**	35,588	**–**	–
Europe	**62,350**	130,944	**–**	–
Asia Pacific other than Hong Kong	**6,371**	44,556	**–**	–
Others	**1,093**	1,605	**–**	–
	148,219	636,440	**1,595**	2,799
	148,219	636,440	**23,342**	30,558

5.2 Major customers

The Group's customer base is diversified and includes three (2009: 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$25 million, HK$21 million and HK$17 million (2009: HK$144 million, HK$101 million and HK$79 million) respectively.

6 *Operating Loss*

Operating loss is stated after charging/(crediting) the following:

	2010 *HK$'000*	2009 *HK$'000*
Cost of inventories sold	**71,692**	295,238
Write-down of inventories	**297**	4,862
Product development costs	**3,195**	13,927
Royalties paid	**22,512**	94,783
Provision for customer concession	**2,327**	10,824
Reversal of unutilised provision for customer concession	**(639)**	(1,240)
Provision for customer returns, cooperative advertising and cancellation charges *(Note 22)*	**4,595**	26,728
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 22)*	**(6,033)**	(3,039)
Depreciation of property, plant and equipment	**2,367**	3,164
Employee benefit expense, including directors' remuneration *(Note 11)*	**59,152**	69,214
Operating leases expense on office and warehouse facilities	**11,613**	9,492
Loss on disposal of property, plant and equipment	**1,097**	3,415
Net foreign exchange (gain)/loss	**(59)**	374
Auditors' remuneration	**700**	1,000

7 *Finance Costs*

	2010 *HK$'000*	2009 *HK$'000*
Interest on convertible bond	**178**	178
Bank charges	**1,280**	3,440
Interest on bank loans and overdrafts, wholly repayable within five years	**–**	3,069
	1,458	6,687

Notes to the Financial Statements

For the year ended 31 December 2010

8 Income Tax Expense

8.1 Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Overseas, mainly the U.S., taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profits. The tax rate for federal tax is 34% (2009: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2009: 8.84%).

	2010 *HK$'000*	2009 *HK$'000*
Current taxation		
Hong Kong profits tax	148	162
Over provision in prior years – Hong Kong	(36)	(167)
Under/(over) provision in prior years – overseas	1,713	(3,836)
	1,825	(3,841)
Deferred taxation		
Origination and reversal of temporary differences	260	45,230
Income tax expense	2,085	41,389

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

	2010 *HK$'000*	2009 *HK$'000*
Loss before income tax	93,598	45,315
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	(37,026)	(19,400)
Tax effect of:		
Non-taxable income	(37)	(656)
Non-deductible expenses	244	533
Unrecognised temporary differences	(2,018)	1,251
Unrecognised tax losses	39,330	17,786
Utilisation of previously unrecognised tax losses	(223)	–
Reversal of previously recognised tax losses	–	36,147
Reversal of previously recognised temporary differences	119	9,440
Prior years under/(over) provision	1,677	(4,003)
Others	19	291
Income tax expense	2,085	41,389

9 Loss for the Year Attributable to Equity Holders of the Company

The consolidated loss for the year attributable to equity holders of the Company includes a loss of HK$77,447,000 (2009: HK$154,719,000) which has been dealt with in the financial statements of the Company.

10 Loss per Share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$95,683,000 (2009: HK$86,704,000) and on the weighted average number of ordinary shares of 840,026,000 (2009: 509,895,000 (restated)) in issue during the year.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2009 has been adjusted and restated to reflect the rights issue of shares during the year.

Diluted loss per share for the year ended 31 December 2010 equals to the basic loss per share as the potential ordinary shares (share options, warrants and convertible bond) were not included in the calculation of diluted loss per share because they are anti-dilutive.

Diluted loss per share for the year ended 31 December 2009 equals to the basic loss per share as the potential ordinary shares (share options and convertible bond) were not included in the calculation of diluted loss per share because they are anti-dilutive.

11 Employee Benefit Expense

	2010	2009
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**41,939**	63,725
Share-based compensation	**11,318**	377
Employer's contributions to provident fund	**1,367**	1,828
Termination benefits	**4,528**	3,284
	59,152	69,214

Total employee benefit expense include directors' remuneration.

Notes to the Financial Statements

For the year ended 31 December 2010

12 Directors' Remuneration and Senior Management's Emoluments

12.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee 2010 *HK$'000*	Salary 2010 *HK$'000*	Share-based compensation 2010 *HK$'000*	Other benefits 2010 *HK$'000* *(Note 3)*	Employer's contribution to provident fund 2010 *HK$'000*	Total 2010 *HK$'000*
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHENG Bing Kin, Alain *(Note 1)*	8	–	846	–	–	854
CHOW Yu Chun, Alexander	120	–	119	180	–	419
LEE Ching Kwok, Rin	120	–	119	160	–	399
NOVAK, Lou Robert *(Note 2)*	4	1,889	730	109	78	2,810
TO Shu Sing, Sidney	10	–	1,124	–	–	1,134
YANG, Victor	120	–	119	175	–	414
	392	1,889	3,057	624	78	6,040

Name of director	Fee 2009 *HK$'000*	Salary 2009 *HK$'000*	Share-based compensation 2009 *HK$'000*	Other benefits 2009 *HK$'000* *(Note 3)*	Employer's contribution to provident fund 2009 *HK$'000*	Total 2009 *HK$'000*
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHOW Yu Chun, Alexander	120	–	17	190	–	327
LEE Ching Kwok, Rin	120	–	17	165	–	302
NOVAK, Lou Robert	10	3,953	206	285	114	4,568
TO Shu Sing, Sidney	10	–	21	–	–	31
YANG, Victor	120	–	17	190	–	327
	390	3,953	278	830	114	5,565

Notes:

(1) Mr. Cheng Bing Kin, Alain was appointed as director of the Company on 26 March 2010.

(2) Mr. Novak, Lou Robert ceased to be a director of the Company on 28 May 2010.

(3) Other benefits include insurance premium for executive directors and committee work and meeting attendance allowance for non-executive directors.

12.2 Five highest paid individuals

None (2009: one) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the five (2009: the other four) highest paid individuals are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**9,174**	8,591
Share-based compensation	**1,553**	76
Employer's contributions to provident fund	**594**	310
	11,321	8,977

The emoluments of these five (2009: four) individuals are within the following bands:

	Number of individuals	
	2010	2009
HK$		
1,500,001 – 2,000,000	**3**	–
2,000,001 – 2,500,000	**–**	4
2,500,001 – 3,000,000	**2**	–
	5	4

The employees, whose emoluments are disclosed above, include a senior executive who was also a director of certain subsidiaries during the year.

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For the year ended 31 December 2010

13 Property, Plant and Equipment – Group

	Leasehold improvements *HK$'000*	Machinery, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2010	**5,571**	**9,579**	**27,056**	**42,206**
Additions	**576**	**805**	**185**	**1,566**
Disposals	**(3,661)**	**(8,371)**	**(1,081)**	**(13,113)**
At 31 December 2010	**2,486**	**2,013**	**26,160**	**30,659**
Accumulated depreciation				
At 1 January 2010	**4,372**	**8,115**	**24,890**	**37,377**
Charge for the year	**769**	**345**	**1,253**	**2,367**
Disposals	**(3,573)**	**(7,370)**	**(1,055)**	**(11,998)**
At 31 December 2010	**1,568**	**1,090**	**25,088**	**27,746**
Net book value				
At 31 December 2010	**918**	**923**	**1,072**	**2,913**
Cost				
At 1 January 2009	6,898	12,146	28,782	47,826
Exchange fluctuation	(24)	(62)	(162)	(248)
Additions	261	675	429	1,365
Disposals	(1,564)	(3,180)	(1,993)	(6,737)
At 31 December 2009	5,571	9,579	27,056	42,206
Accumulated depreciation				
At 1 January 2009	4,005	8,451	25,259	37,715
Exchange fluctuation	(22)	(42)	(148)	(212)
Charge for the year	1,174	483	1,507	3,164
Disposals	(785)	(777)	(1,728)	(3,290)
At 31 December 2009	4,372	8,115	24,890	37,377
Net book value				
At 31 December 2009	1,199	1,464	2,166	4,829

14 Interest in Subsidiaries – Company

	2010 *HK$'000*	2009 *HK$'000*
Unlisted shares, at cost	**147,380**	147,380
Less: Provision for impairment	**(144,188)**	(146,040)
Interest in subsidiaries	**3,192**	1,340

Details of the principal subsidiaries of the Company as at 31 December 2010 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Shares held indirectly:				
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	100%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	100%	Toy development, marketing and distribution, U.S.A.

The above table includes subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31 December 2010

15 Interest in an Associated Company – Group

	2010 *HK$'000*	2009 *HK$'000*
Share of net assets	**20,429**	25,729

As at 31 December 2010, 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%

The associated company is held indirectly by the Company and it operates in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys, dolls and die cast models.

Summary of financial information of the associated company

	Assets *HK$'000*	**Liabilities** *HK$'000*	**Equity** *HK$'000*	**Revenue** *HK$'000*	**(Loss)/ Profit** *HK$'000*
2010					
100 per cent	**55,883**	**14,190**	**41,693**	**69,284**	**(4,816)**
Group's effective interest	**27,382**	**6,953**	**20,429**	**33,949**	**(2,360)**
2009					
100 per cent	66,553	14,045	52,508	100,557	236
Group's effective interest	32,611	6,882	25,729	49,273	116

16 Inventories – Group

As at 31 December 2010, the carrying amount of inventories that are carried at net realisable value amounted to HK$1,759,000 (2009: HK$2,486,000).

17 Trade Receivables – Group

	2010 *HK$'000*	2009 *HK$'000*
Trade receivables	**11,744**	83,361
Less: Allowance for customer concession	**(1,102)**	(6,799)
	10,642	76,562

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

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. The following is an aging analysis of trade receivables at the balance sheet date:

	2010 *HK$'000*	2009 *HK$'000*
0 – 30 days	**10,186**	74,761
31 – 60 days	**220**	422
Over 60 days	**236**	1,379
	10,642	76,562

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

	2010 *HK$'000*	2009 *HK$'000*
Neither past due nor impaired	**10,406**	74,761
1 – 90 days past due	**236**	1,801
	10,642	76,562

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

Receivables that were past due but not impaired related to a wide range of customers that have a good track record of credit with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances 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.

Notes to the Financial Statements

For the year ended 31 December 2010

18 Interest in a Jointly Controlled Entity – Group

	2010	2009
	HK$'000	*HK$'000*
Share of net assets	–	1,720
Advances to jointly controlled entity	–	3,162
	–	4,882
Less: Impairment	–	(1,720)
	–	3,162

Investment in the jointly controlled entity represented 45% interest held in the issued share capital of Playmates GP, LLC, a company incorporated in U.S. and engaged in the business of marketing, sales and distribution of a line of boys' action figure products.

The amounts advanced to the jointly controlled entity was unsecured, had no fixed term of repayment and, except for the amount of HK$837,000 which was interest-free, was interest bearing at LIBOR.

The Group's interest in the jointly controlled entity was ceased on 1 January 2010. The interest in the jointly controlled entity as at 31 December 2009 has been written down to its recoverable amount and the amount was fully settled in February 2010.

19 Trade Payables – Group

The following is an aging analysis of trade payables at the balance sheet date:

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**6,169**	16,637
31 – 60 days	**512**	1,066
Over 60 days	**395**	1,980
	7,076	19,683

20 Amounts Due from/to Related Companies – Company

The amounts due from/to related companies are unsecured, interest-free and have no fixed term of repayment. The carrying amounts of amount due from/to related companies approximate their fair value.

21 Convertible Bond and Derivative Financial Instrument – Group and Company

The Company issued a US$20 million (equivalent to HK$155 million) 2% per annum convertible bond to its immediate holding company, PIL Toys Limited ("PIL Toys") on 11 December 2009. The bond matures in five years from the issue date at its nominal value of US$20 million or can be converted into shares of the Company at the holder's option at any time from the date of issue and up to the maturity date of the bond at the rate of 1 share per US$0.10.

The carrying values of the liability component and derivative component of the convertible bond as at 31 December 2009 were as follows:

	HK$'000
Liability component – classified as non-current liability	
Net carrying amount on initial recognition	91,403
Interest expense	178
Net carrying amount at 31 December 2009	91,581

The initial carrying amount of the liability component was the residual value after deducting the fair value of the derivative component as at 11 December 2009, and was subsequently carried at amortised cost.

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 3.4% to the liability component.

	HK$'000
Derivative component – classified as current liability	
Net carrying amount on initial recognition and at 31 December 2009	63,597

The conversion option derivative component was stated at fair value at date of initial recognition and at 31 December 2009.

On 22 January 2010, PIL Toys exercised all the conversion rights attached to the convertible bond and on the same day the Company issued 200,000,000 ordinary shares at an aggregate nominal value of HK$2,000,000 to PIL Toys. The carrying amount of the liability and derivative components of the convertible bond are transferred to share capital and share premium as consideration for the shares issued.

Notes to the Financial Statements

For the year ended 31 December 2010

22 Provisions – Group

	Consumer returns *HK$'000*	Cooperative advertising *HK$'000*	Cancellation charges *HK$'000*	Total *HK$'000*
At 1 January 2010	4,786	16,808	3,310	24,904
Additional provisions made	892	3,309	394	4,595
Provisions utilised	(2,369)	(11,135)	(559)	(14,063)
Reversal of unutilised provisions	(2,092)	(2,164)	(1,777)	(6,033)
At 31 December 2010	1,217	6,818	1,368	9,403

The Group cannot reliably estimate the amounts that will eventually be settled after more than 12 months from the balance sheet date. Thus, the whole amount was classified as current.

23 Deferred Taxation – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2009: 16.5%) in Hong Kong, and federal and state tax rates of 34% (2009: 34%) and 8.84% (2009: 8.84%) respectively in the U.S..

The movement in the deferred tax assets during the year is as follows:

	2010 *HK$'000*	2009 *HK$'000*
At 1 January	332	45,856
Exchange fluctuation	–	(294)
Charged to income statement	(260)	(45,230)
At 31 December	72	332

The movement in deferred tax assets and liabilities during the year (prior to offsetting of balances within the same taxation jurisdiction) is as follows:

Deferred tax assets/(liabilities)

	Accelerated tax depreciation	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**332**	(25)
(Charged)/credited to income statement	**(260)**	357
At 31 December	**72**	332

Deferred tax assets

	Tax losses		Employees benefits		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	–	36,380	–	9,501	–	45,881
Exchange fluctuation	–	(233)	–	(61)	–	(294)
Charged to income statement	–	(36,147)	–	(9,440)	–	(45,587)
At 31 December	–	–	–	–	–	–

The Group has unrecognised deferred tax assets of HK$191 million (2009: HK$164 million) in respect of tax losses as it is not probable that future taxable profits against which the losses can be utilised. Of the unrecognised deferred tax assets on unused tax losses, HK$189 million expires at various dates up to and including 2030 (2009: HK$162 million expires at various dates up to and including 2029) and the remaining balance has no expiry date under respective current tax legislation.

Notes to the Financial Statements

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24 Equity Settled Share-based Transactions

A Share Option Scheme of the Company ("Scheme") was adopted on 25 January 2008. A nominal consideration at HK$10 or US$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Scheme within ten years after the date of grant. All share-based compensation will be settled in equity. The number and weighted average exercise price of share options are as follows:

	2010		2009	
	Weighted average exercise price *HK$*	Number of options *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	0.350	10,162	0.346	14,677
Granted *(Note (a))*	0.881	25,500	–	–
Adjustment due to Rights Issue	0.660	3,669	–	–
Exercised *(Note (b))*	–	–	0.290	(500)
Lapsed	0.705	(2,543)	0.343	(4,015)
At 31 December *(Note (c))*	0.660	36,788	0.350	10,162

Notes:

(a) Share options were granted to directors, employees and other participants on 20 January 2010 and 30 March 2010 at the exercise price of HK$0.918 and HK$0.746 per share respectively and expiring on 19 January 2020 and 29 March 2020 respectively. The closing prices of the ordinary share of the Company on 19 January 2010 and 29 March 2010, being the trading days immediately before the dates on which the share options were granted, were HK$0.89 and HK$0.73 respectively. Consideration received was HK$638 in respect of the share options granted during the year.

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

Date of grant	20 January 2010	30 March 2010
Share price at date of grant	HK$0.918	HK$0.746
Exercise price	HK$0.918	HK$0.746
Expected volatility	140%	134%
Expected life of option	5 years	5 years
Risk-free rate	1.93%	1.67%
Expected dividend yield	NIL	NIL
Fair value at date of grant	HK$0.814	HK$0.651

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

(b) These share options were exercised on 30 November 2009 at exercise price of HK$0.29 per share. The closing price per share of the Company immediately before the date on which the options were exercised was HK$0.915.

(c) The terms of the share options outstanding at the end of the year are as follows:

Expiry date	Exercise price	Number of options		Exercisable and vested number of options	
		2010	2009	**2010**	2009
	HK$	***'000***	*'000*	***'000***	*'000*
Directors					
30 March 2018	0.316	**2,437**	6,650	**1,828**	3,325
19 January 2020	0.828	**4,546**	–	**1,136**	–
		6,983	6,650	**2,964**	3,325
Employees					
30 March 2018	0.316	**7,297**	2,562	**5,473**	1,281
19 January 2020	0.828	**13,527**	–	**3,382**	–
		20,824	2,562	**8,855**	1,281
Other participants					
30 March 2018	0.316	**499**	950	**374**	475
19 January 2020	0.828	**2,384**	–	**596**	–
29 March 2020	0.673	**6,098**	–	**416**	–
		8,981	950	**1,386**	475
		36,788	10,162	**13,205**	5,081

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

The share options outstanding at 31 December 2010 had a weighted average remaining contractual life of 8.59 years (2009: 8.25 years).

The exercise prices of the share options granted has been adjusted as a result of the rights issue of shares during the year.

In total, HK$11,867,000 of share-based compensation expense has been included in the consolidated income statement for 2010 (2009: HK$377,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

25 *Equity – Group and Company*

25.1 Share capital

	Authorised Ordinary Shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2009 and 2010	**3,000,000,000**	**30,000**

	Issued and Fully Paid Ordinary Shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2009	495,000,000	4,950
Exercise of share options	500,000	5
At 31 December 2009 and 1 January 2010	**495,500,000**	**4,955**
Conversion of convertible bond *(Note 21)*	**200,000,000**	**2,000**
Issue of shares *(Note (i))*	**347,750,000**	**3,478**
Exercise of warrants *(Note (ii))*	**7,473**	**–**
At 31 December 2010	**1,043,257,473**	**10,433**

Notes:

(i) The Group raised net proceeds of approximately HK$102 million by way of a rights issue of one rights share at HK$0.30 per share for every two existing shares held on 6 July 2010 (the "Rights Issue"). The Rights Issue became unconditional on 23 July 2010 and 347,750,000 shares were issued and allotted accordingly. The share capital and share premium were then increased by HK$3,478,000 and HK$98,664,000 respectively after offsetting issuing expenses of HK$2,183,000.

(ii) On 2 August 2010, 135,622,500 warrants were issued in the proportion of 130 bonus warrants for every 1,000 shares held by the shareholders. These warrants were exercisable from 4 August 2010 to 3 August 2012 at an initial subscription price of HK$0.45 per share (subject to adjustment). As at 31 December 2010, 135,615,027 warrants remained unexercised.

25.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	–	1,341	142,523	(23,328)	120,536
Loss for the year	–	–	–	(154,719)	(154,719)
Share option scheme					
– value of services	–	377	–	–	377
– shares issued	204	(64)	–	–	140
– options lapsed	–	(297)	–	297	–
At 31 December 2009	204	1,357	142,523	(177,750)	(33,666)
At 1 January 2010	204	1,357	142,523	(177,750)	(33,666)
Loss for the year	–	–	–	(77,447)	(77,447)
Conversion of convertible bond	153,000	–	–	–	153,000
Issue of shares	100,850	–	–	–	100,850
Shares issuing expenses	(2,183)	–	–	–	(2,183)
Share option scheme					
– value of services	–	11,867	–	–	11,867
– options lapsed	–	(375)	–	375	–
At 31 December 2010	**251,871**	**12,849**	**142,523**	**(254,822)**	**152,421**

Nature and purpose of reserves

Company

(i) Contributed surplus

The contributed surplus represents the book value of assets contributed by an intermediate holding company pursuant to the reorganisation in 2007. The application of the contributed surplus is governed by the Companies Act 1981 of Bermuda.

Group

(ii) Capital reserve

The capital reserve includes (i) an amount of HK$105,683,000 representing the aggregate amount of the share capital and share premium of the companies comprising the Group; (ii) a contribution of HK$36,840,000 made by an intermediate holding company pursuant to the reorganisation in 2007; and (iii) a reserve on consolidation of HK$25,090,000 arose from the acquisition of an associated company from an intermediate holding company as part of the reorganisation in 2007.

Notes to the Financial Statements

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25 Equity – Group and Company (Continued)

25.3 Capital management

The Group's capital management is primarily to provide a reasonable return for equity holders of the Company and benefits for other stakeholders by pricing products and services commensurately with the level of risk, and to safeguard the Group's ability to continue as a going concern.

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

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity was nil at 31 December 2010 and 2009.

26 Notes to the Consolidated Cash Flow Statement

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

	2010	2009
	HK$'000	*HK$'000*
Loss before income tax	**(93,598)**	(45,315)
Bank interest income	**(203)**	(137)
Interest on bank loans and overdrafts, wholly repayable within five years	**–**	3,069
Interest on convertible bond	**178**	178
Depreciation of property, plant and equipment	**2,367**	3,164
Share-based compensation	**11,867**	377
Loss on disposal of property, plant and equipment	**1,097**	3,415
Gain on winding up of a subsidiary	**(23)**	–
Impairment of a jointly controlled entity	**–**	1,720
Share of loss/(profit) of an associated company	**2,360**	(116)
Share of loss of a jointly controlled entity	**–**	3,950
Operating loss before working capital changes	**(75,955)**	(29,695)
Decrease in inventories	**4,777**	9,288
Decrease in trade receivables, other receivables, deposits and prepayments	**81,842**	53,334
Decrease in trade payables, other payables and accrued charges and provisions	**(61,716)**	(77,390)
Cash used in operations	**(51,052)**	(44,463)

26.2 Analysis of cash and cash equivalents

	2010 HK$'000	2009 HK$'000
Cash and bank balances	**172,787**	113,194

26.3 Significant non-cash transaction

On 22 January 2010, the Company issued 200,000,000 ordinary shares upon the conversion rights attached to the convertible bond being exercised by PIL Toys. The carrying amount of the liability and derivative components of the convertible bond are transferred to share capital and share premium as consideration for the shares issued.

27 Contingent Liabilities – Company

The Company has guaranteed the due performance of Playmates Toys Inc. ("PTI"), an indirect wholly-owned subsidiary of the Company, under a licensing agreement to secure its rights to design, develop, market and distribute certain toys.

28 Financial Guarantee Contracts – Company

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$35 million (2009: HK$35 million). None of such banking facilities were utilised as at 31 December 2010 and 2009 and no provision for the Company's obligation under the financial guarantee contracts has been made accordingly.

29 Commitments – Group

29.1 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:

	2010 HK$'000	2009 HK$'000
Within one year	**16,106**	28,323
In the second to fifth years	**95,519**	78,275
After five years	**23,250**	46,500
	134,875	153,098

Notes to the Financial Statements

For the year ended 31 December 2010

29 Commitments – Group (Continued)

29.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 2010, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2010 HK$'000	2009 HK$'000
Within one year	3,135	6,139
In the second to fifth years	8,245	7,679
	11,380	13,818

The Company did not have any commitment at 31 December 2010 and 2009.

30 Related Party Transactions

30.1 The Group entered into the following significant transactions with related parties:

	2010 HK$'000	2009 HK$'000
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	1,938	1,938
Interest expense paid to the immediate holding company, PIL Toys Limited	178	178
Commission paid to the immediate holding company, PIL Toys Limited	941	–
Commission paid to a related company, TGC Assets Limited	172	–
Compliance services fee and licence fee paid to a fellow subsidiary, PIL Finance Limited	–	867
Service fee received from a jointly controlled entity, Playmates GP, LLC	–	10,509
Interest income received from a jointly controlled entity, Playmates GP, LLC	–	64

30.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 12.1.

30.3 Trademark
A fellow subsidiary had provided the right for the use of certain trademark by PTI at nil consideration during the year.

31 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2010.

32 Financial Risk Management

32.1 Categories of financial instruments

	2010 *HK$'000*	2009 *HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**10,642**	76,562
Other receivables and deposits	**461**	4,037
Cash and bank balances	**172,787**	113,194
	183,890	193,793
Financial liabilities		
At amortised cost:		
Convertible bond	**–**	91,581
Trade payables	**7,076**	19,683
Other payables and accrued charges	**25,809**	59,417
	32,885	170,681
At fair value:		
Derivative financial instrument	**–**	63,597
	32,885	234,278

32 Financial Risk Management (Continued)

32.2 Financial risk factors

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

32.2.1 Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations of certain subsidiaries to which they relate. The currency giving rise to this risk is United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

32.2.2 Credit risk

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

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and receivable agencies. The factoring and receivable processing agent would perform analysis of 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 agent so as to mitigate credit exposure of the Group. Direct shipments to customers who are located either in the United States or outside of the United States are secured by letters of credit or fully prepaid.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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:

	2010	2009
Sales		
– the largest customer	**17%**	23%
– five largest customers in aggregate	**53%**	61%

32.2.3 Liquidity risk

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available. Except for the convertible bond, the Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

32.3 Fair value estimation

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

Financial assets and liabilities measured at fair value are classified into the following three levels based on the relative reliability of significant inputs used in measuring the fair value:

– Level 1 : quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There is no financial assets and financial liabilities measured at fair value at 31 December 2010.

At 31 December 2009, the financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Liabilities:				
Derivative financial instrument	–	63,597	–	63,597

The fair values of the derivative financial instrument is determined by using valuation techniques that maximises the use of observable market inputs such as share price and expected volatility.

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:

	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*
Revenue	**148,219**	636,440	703,596	909,030	1,127,997
(Loss)/profit before income tax	**(93,598)**	(45,315)	(143,698)	(68,136)	27,227
Income tax (expense)/credit	**(2,085)**	(41,389)	(46,818)	34,551	(4,033)
(Loss)/profit for the year attributable to equity holders of the Company	**(95,683)**	(86,704)	(190,516)	(33,585)	23,194
Total assets	**221,270**	264,746	315,602	495,130	640,226
Total liabilities	**(42,598)**	(259,380)	(223,521)	(213,874)	(350,655)
Net assets	**178,672**	5,366	92,081	281,256	289,571

The Company was incorporated in Bermuda on 11 April 2005. The ultimate holding company underwent a reorganisation in May 2007 and all the interests in the companies operating the toy business were transferred to the Company. The Company became the holding company of the subsidiaries now comprising the Group.

The summary of the operating results, assets and liabilities of the Group as at and for the financial year ended 31 December 2006 was prepared as if the current group structure had been in existence throughout this financial year.

PLAYMATES TOYS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 869)

www.playmatestoys.com