PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 635)

2009 Annual Report

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Corporate Information

Directors

CHAN Chun Hoo, Thomas
(Chairman and Executive Director)
CHENG Bing Kin, Alain (Executive Director)
IP Shu Wing, Charles (Non-executive Director)
LEE Peng Fei, Allen
(Independent Non-executive Director)
LO Kai Yiu, Anthony
(Independent Non-executive Director)
TO Shu Sing, Sidney (Executive Director)
TSIM Tak Lung
(Deputy Chairman and Non-executive Director)
YU Hon To, David
(Independent Non-executive Director)

Company Secretary

NG Ka Yan

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

21/F., The Toy House
100 Canton Road
Tsimshatsui
Kowloon, Hong Kong

Auditors

Grant Thornton
Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman
Deacons

Principal Bankers

The Bank of East Asia, Limited
Citigroup
Credit Suisse
Goldman Sachs (Asia) L.L.C.
Hang Seng Bank Limited
UBS AG

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 Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited
(Stock Code: 635)

Website

www.playmates.net

Statement from the Chairman

As expected, 2009 was another year of tough challenges for the toy industry. Early estimates suggested traditional toy sales in the developed markets declined by 3%, reflecting the continued weak consumer sentiments. The economies in the developed markets around the world remain depressed although there are reports of early signs of recovery. Nevertheless, the general expectation is that the recovery will be a slow one. We anticipate the challenging operating environment for the toy industry will persist in 2010.

Playmates Toys sales in 2009 reflected the disappointing performance of the brands tied to major movie events. Our efforts to control and reduce operating costs have resulted in a 20.3% decrease in recurring operating costs of Playmates Toys, which puts us on a strong footing as we navigate our way forward. The cost control and reduction efforts will continue in 2010.

Playmates Toys will maintain a focused strategy to selectively invest in new licenses and brands in categories of its core competence. In addition to the established brands, new products in 2010 includes those tied to the 4th "**Shrek**" movie from DreamWorks; "**Rainbow Brite**", the heritage brand from Hallmark; "**Heros 108**", a new TV series inspired by the Chinese classic literature, Water Margin, and a series of collectible figures created in fond memory of The King of Pop, "**Michael Jackson**".

During 2009, foundations have also been laid for a number of major initiatives that are expected to bear fruits in the coming years. Playmates Toys has renewed its long term master toy license for the "**Teenage Mutant Ninja Turtles**" with the Viacom group, who has acquired the intellectual property from the original owner in October 2009. In partnership with the Viacom group, Playmates Toys has commenced the preparation for a major re-launch of the "**Teenage Mutant Ninja Turtles**" planned for 2012, supported by an all new TV series on Nickelodeon, the number one children's entertainment network, as well as a new movie to be distributed by Paramount. Playmates Toys is also investing into the development of proprietary brands to be launched in late 2010 or 2011. One such proprietary brand of products under development is to be distributed through non-traditional channel to the consumers.

The property investments and associated businesses remained stable as compared to that of last year despite the economic uncertainty following the unprecedented global financial crisis in the second half of 2008. We will continue to pursue our strategy of seeking growth in terms of capital appreciation and recurring income.

Treasury investments reported a net gain from investments compared with a loss reported last year. We will remain vigilant in monitoring and balancing our investment portfolio.

I am grateful to our shareholders, business partners and employees for their support, and I remain confident that we will overcome the challenges and be prosperous again.

CHAN Chun Hoo, Thomas

Chairman of the board

Hong Kong, 26 March 2010

Business Review and Prospects

Group Overview

Group revenue for the year ended 31 December 2009 was HK$741 million (2008: HK$813 million). Operating profit was about HK$301 million (2008: operating loss HK$504 million), and net profit attributable to shareholders was HK$239 million (2008: net loss HK$455 million). Basic earnings per share was HK$1.09 (2008: basic loss per share HK$2.04).

Property Investments and Associated Businesses

The property investments and associated businesses remained stable as compared to that of last year despite the economic uncertainty following the unprecedented global financial crisis in the second half of 2008. Revenue from the property investments and property management businesses before intra-group elimination increased by 9% to approximately HK$89 million (2008: HK$81 million), while revenue from the food and beverage business decreased by 20% to about HK$20 million (2008: HK$25 million). Aggregate turnover before intra-group elimination slightly increased by approximately 3% over that of last year to about HK$109 million (2008: about HK$106 million). Operating profit before intra-group elimination and property revaluation increased by approximately 17% to about HK$67 million (2008: about HK$57 million). The Group's investment properties were revalued by an independent professional surveyor as at the end of the year and reported a fair market value of about HK$1.81 billion (2008: about HK$1.43 billion). The surplus arising from the revaluation of the investment properties of approximately HK$230 million (2008: deficit of approximately HK$118 million) was reported in the consolidated income statement of the Group. After accounting for the effect of the property revaluation surplus, the property investments and associated businesses segment reported an operating profit of approximately HK$298 million for the year under review (2008: operating loss of about HK$60 million after revaluation deficit).

(a) Property Investments

The Group's major investment properties include (i) The Toy House at 100 Canton Road; (ii) a number of properties at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road. Rental income generated from the investment properties before intra-group elimination rose by 10% to HK$76 million (2008: HK$69 million). The increase in rental income was mainly attributable to leases taken up by new tenants and as a result, the overall occupancy rate of the investment properties significantly improved to 98% as at the year end compared to 86% of last year.

(i) The Toy House

Rental income generated by The Toy House before intra-group elimination was about HK$52 million, an increase of 16% over that of last year (2008: about HK$45 million). The increment was primarily driven by rental income generated from new leases entered into during the year. Three new tenants, namely a renowned infant and baby care retail shop as previously reported, a leading photo-shooting and wedding-related retail shop and an upscale Spanish restaurant, commenced business during the year. With the establishment of Canton Road as a luxury shopping landmark on the Kowloon side and the commencement of operation of the Austin MTR station in the second half of 2009, the management expects that the traffic in the area will be further improved and the tenant mix of the building will also be strengthened.

(ii) Hillview

Rental income generated by the residential properties at Hillview remained steady at about HK$14 million (2008: HK$14 million). Although demand for luxury residential properties from expatriates weakened in the first half of 2009, the proactive measures that we took in finding replacement tenants during the year proved to be successful. We achieved the target of full occupancy as at the year end as compared to 85% of last year. As the economic conditions have begun to stabilise, there are signs of improving demand for luxury residential properties from expatriates and the management is optimistic on the luxury and high-end residential market.

(iii) Playmates Factory Building

Rental income generated by Playmates Factory Building before intra-group elimination was about HK$9 million, an increase of 3% over that of last year (2008: about HK$8.7 million). The increment was mainly attributable to the new lettings during the year. A reputable logistic company chose the property as its logistic centre during the year and committed to occupy over 20% of the rentable gross floor area of the property. The property was substantially fully let as at the end of the year.

(b) Property Management

The property management business of the Group is operated through Prestige Property Management Limited, an indirectly wholly owned subsidiary of the Group. It manages The Toy House, Playmates Factory Building and Hillview, providing comprehensive property management services which include attending to repair and maintenances, providing building security and general cleaning for common areas, attending to hand-over and take-over of premises and monitoring the reinstatement and refurbishment works.

Income generated from the property management business segment before intra-group elimination for the year was remained at about HK$12.8 million, the same level as previous year.

(c) Food & Beverage Business

Income generated from the food and beverage business for the year dropped by 20% to about HK$20 million (2008: about HK$25 million). Owing to the adverse impact of the financial crisis, consumers curtailed spending in up-market restaurants. However, as there were signs of the economy stabilising in the second half of 2009, the Group opened a Spanish restaurant in The Toy House with the aim of bringing more variety of specialty restaurants in the building. With the high quality, good reputation established among a growing customer base and the favourable location of the restaurants, the management is optimistic about the prospect of the business.

In 2010, barring any significant risk of economic uncertainty, management expects steady growth in this segment in the medium to long term when consumer sentiment and the retail market improves and further stabilises. We will continue to pursue our strategy of seeking growth in terms of capital appreciation and recurring income.

Playmates Toys

Playmates Toys group worldwide turnover for the year ended 31 December 2009 of US$82 million (HK$636 million) reflects a decrease of 9.6% compared to the prior year's turnover of US$90 million (HK$704 million). Playmates Toys reported an operating loss of HK$35 million (2008: HK$139 million). Gross profit ratio on toy sales was 45.9% (2008: 38.3%). The increase was attributable to: a mix of higher margin product for 2009 compared to 2008 and a decrease in closeout sales, which were partially offset by an increase in development expenses and tooling costs as a percentage of turnover.

Recurring operating expenses were managed to a level below last year with lower advertising and promotional spending (down 16.0%), and a reduction in general and administrative expenses (down 34.7%) due to extensive cost cutting measures in both the US and Asian operations. Playmates Toys recorded higher than usual licensing expenses due to the write off of minimum guarantees associated with non performing licenses.

In 2009 the toy industry experienced another year of challenges and negative growth. Traditional toys sales worldwide declined 3%. Economies in the developed markets remained sluggish throughout most of the year negatively impacting consumer spending in our most significant markets. Retailers remained cautious on inventory replenishment and weak consumer demand necessitated heavy promotional activity during the holiday season, which resulted in unit movement, but adversely affected dollar volume. US retailers continued to pursue a strategy of tight inventory control, brand and SKU reduction, and consolidation of vendor base. In the US overall retail toy sales were down by 1%.

Playmates Toys US turnover decreased by 7.6% compared to 2008 due primarily to disappointing performance of both the "**Star Trek**" and "**Terminator: Salvation**" movie brands, decreased sales of "**Teenage Mutant Ninja Turtle**" products, in a year that did not have new entertainment and the discontinuation of the "**Disney Princess**" license; partially offset by the introduction of the "**iCarly**" brand which performed well. International turnover decreased by 13.1% compared to 2008 for similar reasons.

Playmates Toys enters 2010, recognising the uncertainty of the global economic recovery and facing continued challenges in the operating environment, retailer consolidation of toy shelf space with a preference to support larger established brands and the expanding strength and dominance of its major competitors. To prevail in this difficult environment and to selectively exploit available new opportunities, Playmates Toys continues to pursue a focused operating strategy and diligent risk management. New property acquisitions will be highly selective and focused on Playmates Toys' core competency: the Boy's action and Girl's doll categories. Restructuring, cost reduction initiatives and sustained expenses control are expected to further reduce overall operating costs.

Portfolio Investments

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

As at 31 December 2009, fair market value of the Group's investment portfolio was HK$251 million (2008: HK$185 million). The Group reported a net gain from investments of approximately HK$42 million. In comparison, a net loss from investments of approximately HK$306 million was incurred for the same period in 2008. In 2009, dividend and interest income generated from portfolio investments were HK$6 million (2008: HK$11 million) and has been included in the revenue of the Group.

The Group will remain vigilant in monitoring and balancing the investment portfolio amid continued market uncertainties.

Directors and Senior Management

Biographical details of directors and senior management are shown below:

CHAN Chun Hoo, Thomas

Chairman and Executive Director

Mr. Chan, age 59, 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 spanning consumer products, real properties and other investments. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan was appointed Chairman of the board in 1997. He is also the chairman of the board of Playmates Toys Limited.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 47, was appointed a director of the Company in 2006. He was admitted to practise as solicitor in Hong Kong, England and Wales and has over 15 years of 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 Toys Limited.

IP Shu Wing, Charles

Non-executive Director

Mr. Ip, age 59, was appointed a director of the Company in 1999. Mr. Ip has 36 years of experience in business management and has held a number of key management positions in various multi-national corporations.

LEE Peng Fei, Allen

Independent Non-executive Director

Dr. Lee, age 69, was appointed a director of the Company in 1993. He holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He was a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

LO Kai Yiu, Anthony

Independent Non-executive Director

Mr. Lo, age 61, was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 11 years of professional accounting experience, he has over 30 years of experience in investment banking and other financial services. Mr. Lo serves as a director of a number of public and private companies.

TO Shu Sing, Sidney

Executive Director

Mr. To, age 52, joined the Group in 1986. Prior to joining the Group, he had 9 years 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 joined the board of directors of the Company in 1997. Mr. To is also an executive director of Playmates Toys Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

TSIM Tak Lung

Deputy Chairman and Non-executive Director

Mr. Tsim, age 63, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

YU Hon To, David

Independent Non-executive Director

Mr. Yu, age 62, was appointed a director of the Company in 1995. He is a fellow of The Institute of Chartered Accountants in England and Wales and a CPA of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is a founder and director of MCL Capital Limited, a company which is engaged in direct investment and financial advisory services and also on the boards of a number of listed companies and private companies in Hong Kong.

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2009.

Principal Activities and Geographical Analysis of Operations

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, and in property investments, property management business, securities and other investments.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

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	74%
Sales	
– the largest customer	19%
– five largest customers in aggregate	52%

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 38.

The directors have declared a first interim dividend of HK$0.05 per ordinary share, totalling HK$11,095,000, which was paid on 22 September 2009.

The directors have declared a second interim dividend of HK$0.05 per ordinary share, totalling HK$11,341,000, which is calculated based on the basis of 226,814,751 ordinary shares in issued at the date of board meeting held on 26 March 2010.

The directors have also declared a special interim dividend in specie of the shares of Playmates Toys Limited ("PTL Shares"), a subsidiary of the Company and the holding company of the Group's toy business, in the proportion of one PTL Share for every two shares of Company held by the shareholders of the Company. 113,407,375 PTL Shares will be distributed on the basis of 226,814,751 shares of the Company in issue as at the date of the meeting, and based on the closing price per PTL Share as traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 March 2010 of HK$0.74, the total amount of the distribution is approximately HK$83,921,000, which represents a distribution of approximately HK$0.37 per share.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 46. Movements in the reserves of the Company during the year are set out in note 28.2 to the financial statements.

Distributable reserves of the Company at 31 December 2009, calculated under the Companies Act 1981 of Bermuda, amounted to HK$474,997,000 (2008: HK$344,483,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 23 to the financial statements.

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 2009, trade receivables related to toy operation were HK$76,562,000 (2008: HK$77,240,000) and inventories related to toy operation were at a seasonal low level of HK$10,181,000 or 1.6% of turnover (2008: HK$19,469,000 or 2.8% of turnover).

The property investment and associated business generated a relatively steady income stream throughout the year. Approximately 98% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2009. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2009 was 14.8% compared to 8.7% at 31 December 2008. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.4 at 31 December 2009 compared to 1.7 at 31 December 2008.

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 2009, the Group's cash and bank balances were HK$306,764,000 (2008: HK$303,316,000), and the amount invested in various securities was HK$250,621,000 (2008: HK$185,012,000).

Employees

As at 31 December 2009, the Group had a total of 148 employees in Hong Kong and the United States of America. This compares to 199 employees as at 31 December 2008.

The Group remunerates its employees largely based on industry practice, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme for all management and staff and share option plans for its employees with awards under both programmes determined annually based upon the performance of the Group and the individual employees.

Financial Guarantee

Details of the Company's financial guarantee contracts are set out in note 30 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2009 are set out in note 23 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,509,000 (2008: HK$1,319,000).

Fixed Assets

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

Principal Properties

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

Share Capital

Details of the movements in share capital of the Company are set out in note 28.1 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 104.

Purchase, Sale or Redemption of Shares

During the year, 2,560,000 shares of HK$0.10 each were repurchased by the Company at prices ranging from HK$1.80 to HK$2.37 per share through the Stock Exchange. The particulars of the repurchases are set out in note 28.1 to the financial statements.

Directors

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

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHENG Bing Kin, Alain *(Executive Director)*
Mr. IP Shu Wing, Charles *(Non-executive Director)*
Mr. LEE Peng Fei, Allen *(Independent Non-executive Director)*
Mr. LO Kai Yiu, Anthony *(Independent Non-executive Director)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)*

Directors (Continued)

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Lo Kai Yiu, Anthony, Mr. To Shu Sing, Sidney and Mr. Yu Hon To, David 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 ("Listing Rules") and the Company considers such directors to be independent.

Directors' Service Contracts

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any director of the Company 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

Share options of the Company are granted to directors, employees and other eligible participants specified under a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") approved by shareholders of the Company at the special general meetings held on 4 May 1998 and 28 June 2002 respectively. Details of the Plan and the Scheme are as follows:

Purpose :

Plan
To attract, retain and motivate high calibre employees.

Scheme
(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	:	**Plan** Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary). **Scheme** (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 Plan/Scheme and the percentage of issued share capital that it represents as at 26 March 2010	:	**Plan** 65,000 ordinary shares, representing 0.03% of the issued capital. **Scheme** 5,673,000 ordinary shares, representing 2.50% of the issued capital.
Maximum entitlement of each participant	:	**Plan** Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan. **Scheme** 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.

Share Options (Continued)

Share Options of the Company (Continued)

The amount payable on acceptance of the option	:	**Plan** HK$10.00 **Scheme** 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	:	**Plan** Determined by the directors at their discretion, but will not be less than the higher of: (i) the nominal value of an ordinary share; and (ii) the average (or, in the case of any person who owns ordinary shares possessing more than 10% of the total combined voting power of the ordinary shares of the Company or the shares of its parent or subsidiary corporations, 110% of the average) of the closing prices of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant. **Scheme** Determined by the directors 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 quotations 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 Plan/Scheme : **Plan**
Remained in force until 3 May 2008.

Scheme
Remains in force until 27 June 2012.

The following shows the particulars of the share options of the Company granted to directors of the Company and employees of the Group that were required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules during the year:

			Number of options		
Participant	**Date of grant**	**Exercise price** *HK$*	**Balance at 1 January 2009**	**Lapsed during the year**	**Balance at 31 December 2009**
Plan					
Continuous Contract	27 May 1999	5.06	24,700	24,700	–
Employees,	22 July 2000	6.26	79,600	33,100	46,500
excluding Directors	21 May 2001	2.97	44,340	25,840	18,500
Scheme					
CHENG Bing Kin, Alain	7 January 2004	13.60	59,000	–	59,000
Director	22 September 2005	12.06	62,500	–	62,500
	4 May 2006	9.10	37,500	–	37,500
IP Shu Wing, Charles	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	37,600	–	37,600
LEE Peng Fei, Allen	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
LO Kai Yiu, Anthony	9 August 2002	1.99	25,000	–	25,000
Director	22 September 2005	12.06	100,000	–	100,000
	4 May 2006	9.10	75,000	–	75,000
TO Shu Sing, Sidney	7 January 2004	13.60	120,000	–	120,000
Director	22 September 2005	12.06	150,000	–	150,000
	4 May 2006	9.10	37,500	–	37,500

Share Options (Continued)

Share Options of the Company (Continued)

Participant	Date of grant	Exercise price HK$	Number of options Balance at 1 January 2009	Lapsed during the year	Balance at 31 December 2009
TSIM Tak Lung	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
YU Hon To, David	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
Continuous Contract	9 August 2002	1.99	134,500	102,600	31,900
Employees,	10 March 2003	5.50	211,820	89,200	122,620
excluding Directors	7 January 2004	13.60	893,060	216,700	676,360
	19 March 2004	12.40	1,100,000	–	1,100,000
	22 September 2005	12.06	1,706,720	247,200	1,459,520
	9 January 2006	10.30	50,000	50,000	–
	4 May 2006	9.10	1,124,600	171,100	953,500

The above options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. No options were granted or cancelled during the year.

Share Options of Playmates Toys Limited ("PTL")

Share options of PTL, an indirect non-wholly owned subsidiary of the Company, are granted to directors of PTL, employees of PTL group and other eligible participants specified under a Share Option Scheme of PTL ("PTL 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 PTL and its subsidiaries ("PTL Group"); and

(ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the PTL Group.

Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the PTL Scheme and the percentage of issued share capital of PTL that it represents as at 26 March 2010	:	10,081,000 ordinary shares, representing 1.45% of the issued capital.
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on	:	HK$10.00 (or such other nominal sum in acceptance of the option 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.

Share Options (Continued)

Share Options of PTL (Continued)

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 quotations 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 quotations sheet 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 PTL Scheme : Remains in force until 31 January 2018.

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

			Number of share options			
Participant	**Date of grant**	**Exercise price** *HK$*	**Balance at 1 January 2009**	**Exercised during the year** *(Note (1))*	**Lapsed during the year**	**Balance at 31 December 2009**
CHENG Bing Kin, Alain *Director of the Company and PTL (Note 2)*	31 March 2008	0.35	500,000	–	–	500,000
TO Shu Sing, Sidney *Director of the Company & PTL*	31 March 2008	0.35	500,000	–	–	500,000
Other directors of PTL (Note (3))	31 March 2008	0.35	6,525,000	–	375,000	6,150,000
Continuous Contract Employees of PTL Group, excluding directors of PTL	31 March 2008	0.35	5,702,000	–	3,140,000	2,562,000
	23 June 2008	0.29	1,000,000	500,000	500,000	–
Other Participants	31 March 2008	0.35	450,000	–	–	450,000

Notes:

(1) The closing price of the ordinary shares of PTL immediately before the date on which the share options were exercised by continuous contract employees, excluding directors, during the year was HK$0.87.

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

(3) These include the share options granted to Mr. Soong, Ronnie, a then director of PTL who passed away on 23 April 2008. Share options of Mr. Soong which were exercisable as at the date of his decease were lapsed during the year.

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 granted or cancelled during the year.

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' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

As at 31 December 2009, the interests of each director and chief executive 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 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	Personal	6,892,000 ordinary shares	3.07%
	Corporate *(Note (a))*	89,708,000 ordinary shares	39.94%
CHENG Bing Kin, Alain	Personal	190,000 ordinary shares	0.08%
IP Shu Wing, Charles	Personal	245,400 ordinary shares	0.11%
LEE Peng Fei, Allen	Personal	60,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.13%

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

Long positions in shares of the Company (Continued)

Name of director	Nature of interest	Number of shares held	Percentage interest held
TO Shu Sing, Sidney	Personal	1,860,000 ordinary shares	0.83%
TSIM Tak Lung	Personal	163,680 ordinary shares	0.07%
YU Hon To, David	Personal	110,000 ordinary shares	0.05%
	Corporate *(Note (b))*	456,000 ordinary shares	0.20%

Long positions in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	16,784,400 warrants	16,784,400 shares	7.47%
CHENG Bing Kin, Alain	Personal	38,000 warrants	38,000 shares	0.02%
	Personal	159,000 share options	159,000 shares	0.07%
IP Shu Wing, Charles	Personal	49,080 warrants	49,080 shares	0.02%
	Personal	137,600 share options	137,600 shares	0.06%
LEE Peng Fei, Allen	Personal	12,000 warrants	12,000 shares	0.01%
	Personal	175,000 share options	175,000 shares	0.08%
LO Kai Yiu, Anthony	Personal	57,360 warrants	57,360 shares	0.03%
	Personal	200,000 share options	200,000 shares	0.09%

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
TO Shu Sing, Sidney	Personal	372,000 warrants	372,000 shares	0.17%
	Personal	307,500 share options	307,500 shares	0.14%
TSIM Tak Lung	Personal	32,736 warrants	32,736 shares	0.01%
	Personal	175,000 share options	175,000 shares	0.08%
YU Hon To, David	Personal	22,000 warrants	22,000 shares	0.01%
	Corporate *(Note (b))*	91,200 warrants	91,200 shares	0.04%
	Personal	175,000 share options	175,000 shares	0.08%

Long positions in shares of PTL

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (c))*	347,875,044 ordinary shares	70.21%
CHENG Bing Kin, Alain	Personal	1,274,000 ordinary shares	0.26%
IP Shu Wing, Charles	Personal	245,400 ordinary shares	0.05%
LEE Peng Fei, Allen	Personal	60,000 ordinary shares	0.01%
LO Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.06%

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

Long positions in shares of PTL (Continued)

Name of director	Nature of interest	Number of shares held	Percentage interest held
TO Shu Sing, Sidney	Personal	3,730,000 ordinary shares	0.75%
TSIM Tak Lung	Personal	163,680 ordinary shares	0.03%
YU Hon To, David	Personal	110,000 ordinary shares	0.02%
	Corporate *(Note (d))*	456,000 ordinary shares	0.09%

Long positions in underlying shares and debentures of PTL

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 (c))*	300,000,000 conversion shares	300,000,000 shares	60.54%
CHENG Bing Kin, Alain	Personal	500,000 share options	500,000 shares	0.10%
TO Shu Sing, Sidney	Personal	500,000 share options	500,000 shares	0.10%

Notes:

(a) 89,708,000 ordinary shares and 16,784,400 warrants of the Company were beneficially owned by TGC Assets Limited ("TGC"). All the issued share capital of TGC is wholly-owned by Mr. Chan Chun Hoo, Thomas.

(b) 456,000 ordinary shares and 91,200 warrants of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

(c) Mr. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 76,600,000 shares of PTL in aggregate which TGC is interested in. Since TGC directly owns approximately 39.94% of the shareholding of the Company and is deemed to be interested in the 271,275,044 shares and up to 300,000,000 conversion shares (which would fall to be issued by PTL upon full exercise of the conversion rights attached to the convertible bonds by the Company pursuant to a subscription agreement dated 29 October 2009) of PTL in aggregate which the Company is interested in, Mr. Chan is also deemed to be interested in the 271,275,044 shares and 300,000,000 conversion shares of PTL in aggregate which the Company is interested in.

(d) 456,000 ordinary shares of PTL were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2009.

The warrants are exercisable at any time from 15 April 2009 to 14 October 2010, both days inclusive, at an initial subscription price of HK$0.90 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 9 April 2009.

Details of the share options held by the directors and chief executive of the Company are disclosed in the above section headed “Share Options”.

As at 31 December 2009, none of the directors and chief executive 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 and Underlying Shares of the Company Required to be Recorded under Section 336 of the SFO

As at 31 December 2009, no person (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company’s issued share capital, as recorded in the register required to be kept under section 336 of the SFO.

Pre-emptive Rights

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

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently amended in 2005 and 2009.

The Audit Committee provides an important link between the board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises four non-executive directors, namely Mr. Lo Kai Yiu, Anthony as chairman, Mr. Lee Peng Fei, Allen, Mr. Tsim Tak Lung and Mr. Yu Hon To, David as members.

Sufficiency of Public Float

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

Auditors

Moores Rowland Mazars were appointed as auditors of the Company in 2005.

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

The financial statements for the year ended 31 December 2009 have been audited by Grant Thornton who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Continuing Connected Transactions

(1) On 16 August 2007, EN Dining Limited ("EN Dining") as tenant and Belmont Limited ("Belmont"), an indirect wholly-owned subsidiary of the Company, as landlord entered into a tenancy agreement ("EN Dining Tenancy Agreement") relating to the leasing of the premises known as Unit A, Basement Floor, The Toy House, No.100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 16 August 2007 to 15 August 2010 at the rental of HK$190,445 per month and management charges of HK$49,772.50 per month (exclusive of rates, Government rent, utilities and other outgoings). EN Dining, being an associate of EN Holdings (HK) Limited, a 30% shareholder of Toya Holdings (FNB) Limited, an indirect non-wholly owned subsidiary of the Company, is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the EN Dining Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 17 August 2007, was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(2) On 26 August 2008, Playmates Toys Asia Limited ("PTA"), an indirect wholly-owned subsidiary of PTL, as tenant and Belmont as landlord entered into a tenancy agreement ("PTA 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). Mr. Chan Chun Hoo, Thomas, being a director and the ultimate controlling shareholder (as defined in the Listing Rules) of the Company and hence a connected person of the Company, holds indirectly through TGC Assets an aggregate of approximately 15.46% of PTL, which results in PTL being a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the PTA 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 all the continuing connected transactions and confirmed that the transactions have been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreements governing them 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 transactions and confirmed to the board that the transactions have been approved by the board of the Company and have been entered into in accordance with the relevant agreements governing the transactions, and that they have not exceeded the relevant annual cap disclosed in their respective previous announcements.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 26 March 2010

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 2009, except for the deviation from provision A.2.1 of the Code in respect of segregation of the roles of chairman and chief executive officer, the reason for which is shown on page 27 of this report. 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

As at 31 December 2009, the board of directors of the Company comprises:

CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
CHENG Bing Kin, Alain *(Executive Director)*
IP Shu Wing, Charles *(Non-executive Director)*
LEE Peng Fei, Allen *(Independent Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*
TO Shu Sing, Sidney *(Executive Director)*
TSIM Tak Lung *(Deputy Chairman and Independent Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and five non-executive directors. Of the five non-executive directors, three are independent non-executive directors. In addition, two of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. Biographies of the board of directors of the Company are shown on pages 7 to 8 of this annual report and are also maintained on the Company's website. There is no relationship between members of the board except for the in-law relationship between Mr. Tsim Tak Lung and Mr. To Shu Sing, Sidney.

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

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

The Chairman and chief executive officer of the Company is Mr. Chan Chun Hoo, Thomas. This deviates from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chan Chun Hoo, Thomas 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; whereas responsibilities for running of the business operations of the Group are delegated to different designated senior executives. The board considers that this structure will not impair the balance of power and authority between the board and the management of the business of the Group given that there is a strong and independent non-executive directorship element on the board and a clear division of responsibility in running the business of the Group. The board believes that the structure outlined above is beneficial to the Company and its business.

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

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.

Board of Directors (Continued)

The board held four meetings in 2009. Details of directors' attendance at the board meetings and audit committee meetings held in 2009 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	4/4	N/A
IP Shu Wing, Charles	3/4	N/A
LEE Peng Fei, Allen	3/4	2/2
LO Kai Yiu, Anthony	4/4	2/2
TO Shu Sing, Sidney	4/4	N/A
TSIM Tak Lung	4/4	2/2
YU Hon To, David	4/4	1/2

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2009. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the independent auditors' report on pages 36 to 37 of this annual report.

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 a majority of independent non-executive directors with defined respective written terms of reference.

Audit Committee

The Audit Committee was established in 1999 and its current members include:

LO Kai Yiu, Anthony – *Committee Chairman (Independent)*
LEE Peng Fei, Allen *(Independent)*
TSIM Tak Lung
YU Hon To, David *(Independent)*

The majority of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee exceeds the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently revised in 2005 and 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 2009.

At the meeting held on 26 March 2010, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2009 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

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

TSIM Tak Lung – *Committee Chairman*
LEE Peng Fei, Allen *(Independent)*
LO Kai Yiu, Anthony *(Independent)*

The majority of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The terms of reference of the Compensation Committee were adopted in 2004 and subsequently revised in 2005 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

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.

Remuneration Policy for Non-executive Director and Executive Directors

The Compensation Committee is charged with the duties to advise the board on the Group's overall policy and structure for the remuneration of directors and senior management. The Compensation Committee also makes recommendations to the board from time to time on the remuneration of the non-executive directors. Pursuant to the 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.

Board Committees (Continued)

Compensation Committee (Continued)

Group Compensation Policy

It is the Group's policy to ensure that compensation is appropriate and aligns with the corporate goals, objectives and performance. The current group compensation policy is illustrated below:

Objectives

- to provide an equitable and competitive compensation package so as to attract and retain the best available human resources to serve corporate needs;
- to provide a package of compensation to the employees that is competitive in the industry and takes account of general market condition;
- to reward employees for good individual and corporate performance; and
- to encourage future employee contributions to achieve overall corporate goals.

Components

The compensation package for each employee is structured in a way to attract and retain the best talents available, and will contain a combination or modification of some or all of the following three main components:

I. Base salary

- Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for the person filling the position is determined based on the experience and ability of the individual selected for the position.
- The base salary and wage rate ranges are reviewed periodically with reference to the prevailing market level and similar positions of competitors in the relevant industry. The actual salaries and wage rates of employees are reviewed annually and may be adjusted from time to time based on the cost of living and financial performance of the company.
- Salaries and wages are base compensation and not intended to reward performance, either individually or corporately. Performance is rewarded through the other components of the compensation plan.

II. Incentive bonus

- Incentive bonus is linked to individual and corporate performance. Every year, profitability and other corporate performance targets are set and incentive bonuses will only be paid for that year if the targets are achieved.

- The incentive bonus for each employee is determined with reference to his position and his individual performance during the year.

III. Stock option

- Options to purchase shares in the Company are granted to employees from time to time at the discretion of the board, in order to retain valuable human resources and to motivate future performance of the employees.

- Stock options granted to individual employees are determined with reference to their positions in the corporate structure, their performance and ability to contribute to the overall corporate success.

- The granting of stock options is subject to shareholders' mandates as required and all other applicable laws and regulations of the relevant jurisdictions.

IV. Other benefits

- In addition to the above three main components, the Group offers other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing industry practices in the relevant jurisdictions.

Board Committees (Continued)

Compensation Committee (Continued)

Emoluments of Directors and Top Paid Employees

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 14.1 to the financial statements.

The following table summarises compensation information for the four most highly compensated executive officers, excluding directors, of the Group for the year ended 31 December 2009:

Name of officer	Directors' fee	Salary	Other benefits	Compensation for loss of office	Employer's contribution to provident fund	Share-based compensation	Total
	HK$'000	*HK$'000*	*HK$'000 (Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NOVAK, Lou Robert	10	3,953	214	–	114	277	4,568
JACOBS, Phil	–	1,276	122	893	72	36	2,399
ROSTEN, Arthur Steven	–	921	56	1,356	40	17	2,390
FISH, Paul	–	1,812	204	–	91	–	2,107

Note: Other benefits include car allowance and insurance premium.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company in 2004. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2009. 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 19 to 21 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 organization 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.

During the year, the board engaged an independent consultant to perform a review on the system of internal controls of the Group's operation. The review covered material controls, including financial, operational and compliance controls of the Group's operation.

The Company will continue to engage external independent professionals to review its system of internal controls regularly and independently and to further enhance its internal controls as appropriate.

Control Effectiveness

The independent consultant has submitted to the board an internal control review report in March 2010. No material control failings, weaknesses or significant areas of concern were identified during its review.

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 2009, the auditors of the Company provided audit services to the Group and the remuneration paid by the Group to the auditors for the performance of audit services was HK$1,780,000. The Company also incurred approximately HK$135,000 for non-audit services provided by the auditors in relation to the subscription of convertible bonds issued by Playmates Toys Limited. 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.

Investor Relationship and Communication

The Company endeavours to continue maintaining a high level of transparency in communicating with shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts are conducted regularly. The Company is committed to maintaining an open and effective investor communication policy and to updating investors on relevant information on its business on a timely manner, subject to relevant regulatory requirements.

The Company is aware of its obligations under the Listing Rules that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision. The Company takes extreme precautionary measures in the handling of price-sensitive information and has in place a Memorandum on Disclosure of Price Sensitive Information (which includes the Guide on Disclosure of Price-sensitive Information issued by the Stock Exchange in 2002) for its senior management and other staff member who is in a position to have access to price-sensitive information. Members of the board and other relevant senior management who have access to price-sensitive information are bound by the Model Code for securities transaction of the Company's securities and that of any related companies.

In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the executive directors and designated senior executives according to established practices and procedures of the Company.

The Company has announced its annual and interim results and sent relevant accounts to shareholders in a timely manner during the year under review, which is well before the time limits set out in the Listing Rules. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors.

The annual general meeting may provide an opportunity for communication between the board and the shareholders of the Company. The Company regards the annual general meeting as an important event in which the Chairman and all directors will make an effort to attend.

The Company has also maintained a website at http://www.playmates.net which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis. Financial information and all shareholder corporate communications of the Company are made available on the Company's website and updated regularly.

Shareholders' Rights

Pursuant to the Bye-laws of the Company, shareholders holding at the date of deposit of the requisition not less than 10% of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the board or the secretary of the Company, to require a special general meeting to be called by the board for the transaction of any business specified in such requisition.

In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at annual general meetings and special general meetings were passed by poll since 2004. The poll results will be published in the website of the Company and that of the Stock Exchange on the same date of the meetings.

Business Ethics

The Group is committed to a high standard of business ethics and integrity.

The Code of Business Conduct of the Group sets out specific principles, policies and practices covering key ethics issues and identifies the risk areas that the employees may encounter in performing their duties. The Group expects that its business partners would act ethically and in a manner consistent with this Code of Business Conduct.

The Group has also developed a Code of Business Conduct for its manufacturing vendors and suppliers. All the vendors and suppliers of the Group are required to maintain a safe and healthy workplace, fair and ethical employment practice and ensure that proper environmental protection measures are in place. The Group also closely monitors its operations so that the relevant codes of conduct stipulated by our major licensors and customers are strictly followed by our manufacturing vendors and suppliers.

The Group has a worldwide reputation in the toy industry for product quality and safety. Children's health, safety and well being are our primary concern and the Group is committed to observing all relevant safety and product quality rules.

Social Responsibility

The Group has joined other leading companies in the toy industry to develop a common standard of business conduct for the toy manufacturing community to promote a safe and healthy workplace, fair and ethical employment practice, and proper environmental protection measures.

The Group makes regular contributions in terms of financial and other supports to various charitable organizations. Employees are encouraged to have direct and active involvement in fundraising activities for the needs of the community.

Grant Thornton
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Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Holdings Limited (the "Company") set out on pages 38 to 103, which comprise the consolidated and the Company balance sheets as at 31 December 2009, 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 notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

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 2009 and of the Group's profit 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
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

26 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 *US$'000* *(Note 33)*	2009 *HK$'000*	2008 *HK$'000*
Revenue	*4*	**95,566**	**740,635**	813,207
Cost of sales		**(46,379)**	**(359,435)**	(450,710)
Gross profit		**49,187**	**381,200**	362,497
Marketing expenses		**(23,456)**	**(181,786)**	(216,319)
Selling and distribution expenses		**(7,037)**	**(54,535)**	(55,647)
Administration expenses		**(16,294)**	**(126,276)**	(170,546)
Net gain/(loss) on financial assets at fair value through profit or loss	*6*	**5,482**	**42,484**	(305,806)
Revaluation surplus/(deficit) on investment properties		**29,740**	**230,488**	(117,687)
Gain on disposal of an investment property		**1,250**	**9,686**	–
Operating profit/(loss)	*7*	**38,872**	**301,261**	(503,508)
Other income		**18**	**142**	1,069
Finance costs	*8*	**(1,202)**	**(9,317)**	(11,350)
Share of profit of an associated company		**15**	**116**	523
Share of loss of a jointly controlled entity		**(510)**	**(3,950)**	(1,313)
Profit/(loss) before income tax		**37,193**	**288,252**	(514,579)
Income tax expense	*9*	**(11,359)**	**(88,034)**	(27,480)
Profit/(loss) for the year		**25,834**	**200,218**	(542,059)
Profit/(loss) for the year attributable to:				
Equity holders of the Company	*10*	**30,891**	**239,408**	(454,773)
Minority interests		**(5,057)**	**(39,190)**	(87,286)
		25,834	**200,218**	(542,059)
		US$	***HK$***	*HK$*
Earnings/(loss) per share	*12*			
Basic		**0.14**	**1.09**	(2.04)
Diluted		**0.13**	**1.04**	N/A

The notes on pages 47 to 103 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 **US$'000** *(Note 33)*	**2009** **HK$'000**	2008 *HK$'000*
Profit/(loss) for the year	**25,834**	**200,218**	(542,059)
Other comprehensive income:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**(69)**	**(533)**	–
Total comprehensive income/(loss) for the year	**25,765**	**199,685**	(542,059)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company	**30,853**	**239,116**	(454,773)
Minority interests	**(5,088)**	**(39,431)**	(87,286)
	25,765	**199,685**	(542,059)

The notes on pages 47 to 103 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 US$'000 (Note 33)	2009 HK$'000	2008 HK$'000
Non-current assets				
Fixed assets				
– Investment properties	15	**233,323**	**1,808,250**	1,426,100
– Other property, plant and equipment	15	**7,307**	**56,628**	48,848
– Prepaid premium on leasehold land held for own use under an operating lease	15	**10,806**	**83,751**	64,267
		251,436	**1,948,629**	1,539,215
Goodwill	16	**771**	**5,976**	5,976
Interest in an associated company	18	**3,320**	**25,729**	25,613
Interest in a jointly controlled entity	19	**–**	**–**	8,534
Deferred tax assets	26	**87**	**678**	46,202
		255,614	**1,981,012**	1,625,540
Current assets				
Inventories	20	**1,398**	**10,835**	19,647
Trade receivables	21	**10,060**	**77,964**	78,900
Other receivables, deposits and prepayments		**3,773**	**29,243**	108,808
Taxation recoverable		**816**	**6,320**	4,011
Financial assets at fair value through profit or loss	22	**32,338**	**250,621**	185,012
Interest in a jointly controlled entity	19	**408**	**3,162**	–
Cash and bank balances	29.2	**39,582**	**306,764**	303,316
		88,375	**684,909**	699,694
Current liabilities				
Bank loans	23	**43,226**	**335,000**	201,721
Trade payables	24	**2,895**	**22,434**	97,709
Other payables and accrued charges		**11,353**	**87,991**	84,331
Provisions	25	**3,213**	**24,904**	29,520
Taxation payable		**340**	**2,637**	3,651
		61,027	**472,966**	416,932
Net current assets		**27,348**	**211,943**	282,762
Total assets less current liabilities		**282,962**	**2,192,955**	1,908,302
Non-current liabilities				
Bank loans	23	**7,742**	**60,000**	–
Deferred tax liabilities	26	**21,666**	**167,909**	128,785
		29,408	**227,909**	128,785
Net assets		**253,554**	**1,965,046**	1,779,517

	Note	2009 US$'000 (Note 33)	2009 HK$'000	2008 HK$'000
Equity				
Share capital	*28.1*	**2,898**	**22,462**	21,880
Reserves		**237,955**	**1,844,155**	1,709,400
Declared dividends	*11*	**12,292**	**95,262**	4,376
Equity attributable to the equity holders of the Company		**253,145**	**1,961,879**	1,735,656
Minority interests		**409**	**3,167**	43,861
Total equity		**253,554**	**1,965,046**	1,779,517

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 47 to 103 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Note	2009 US$'000 (Note 33)	2009 HK$'000	2008 HK$'000
Non-current assets				
Interest in subsidiaries	*17*	**231,188**	**1,791,707**	1,662,714
Current assets				
Taxation recoverable		**42**	**324**	750
Cash and bank balances		**118**	**920**	347
		160	**1,244**	1,097
Current liabilities				
Other payables and accrued charges		**1**	**7**	142
Net current assets		**159**	**1,237**	955
Net assets		**231,347**	**1,792,944**	1,663,669
Equity				
Share capital	*28.1*	**2,898**	**22,462**	21,880
Reserves	*28.2*	**216,157**	**1,675,220**	1,637,413
Declared dividends	*11*	**12,292**	**95,262**	4,376
Total equity		**231,347**	**1,792,944**	1,663,669

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 47 to 103 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$'000 (Note 33)	2009 HK$'000	2008 HK$'000
Cash flows from operating activities				
Cash generated from operations	*29.1*	**1,562**	**12,104**	17,870
Interest paid		**(668)**	**(5,174)**	(7,093)
Interest received		**91**	**703**	4,358
Dividends received from financial assets at fair value through profit or loss		**631**	**4,890**	7,110
Hong Kong profits tax paid		**(1,125)**	**(8,716)**	(10,322)
Hong Kong profits tax refunded		**220**	**1,704**	–
Overseas tax refunded		**–**	**–**	253
Net cash generated from operating activities		**711**	**5,511**	12,176
Cash flows from investing activities				
Purchases of investment properties		**(26,717)**	**(207,062)**	(29,987)
Purchases of other property, plant and equipment		**(764)**	**(5,919)**	(9,596)
Proceeds from disposal of an investment property		**4,218**	**32,686**	–
Proceeds from disposal of other property, plant and equipment		**4**	**32**	960
Bank interest received		**18**	**142**	1,069
Investment in a jointly controlled entity		**–**	**–**	(7,020)
Advances to a jointly controlled entity		**(46)**	**(353)**	(2,827)
Net cash used in investing activities		**(23,287)**	**(180,474)**	(47,401)

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$'000 (Note 33)	2009 HK$'000	2008 HK$'000
Cash flows from financing activities				
Issue of shares of the Company		**973**	**7,543**	3,964
Issue of shares of a subsidiary		**19**	**145**	–
Share issuing expenses		**(50)**	**(387)**	–
Repurchase of shares		**(653)**	**(5,059)**	(3,781)
New bank loans		**30,322**	**235,000**	91,952
Repayment of bank loans		**(5,383)**	**(41,721)**	(50,506)
Dividends paid		**(2,190)**	**(16,971)**	(78,303)
Net cash generated from/(used in) financing activities		**23,038**	**178,550**	(36,674)
Net increase/(decrease) in cash and cash equivalents		**462**	**3,587**	(71,899)
Cash and cash equivalents at 1 January		**39,138**	**303,316**	375,215
Effect of foreign exchange rate changes		**(18)**	**(139)**	–
Cash and cash equivalents at 31 December	*29.2*	**39,582**	**306,764**	303,316

The notes on pages 47 to 103 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000* *(Note 28.2)*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2008	222,523	1,069,283	1,116	21,082	28,746	1,052,055	2,394,805	1,970	2,396,775
Loss for the year	–	–	–	–	–	(454,773)	(454,773)	(87,286)	(542,059)
Total comprehensive loss for the year	–	–	–	–	–	(454,773)	(454,773)	(87,286)	(542,059)
Capital reorganisation	(201,353)	201,353	–	–	–	–	–	–	–
Shares repurchased	(492)	(3,289)	492	–	–	(492)	(3,781)	–	(3,781)
2007 final dividend paid	–	–	–	–	–	(55,931)	(55,931)	–	(55,931)
2007 special dividend in specie	–	–	–	–	–	(128,571)	(128,571)	128,571	–
2008 first interim dividend paid	–	–	–	–	–	(22,372)	(22,372)	–	(22,372)
Share option scheme									
– value of services	–	–	–	–	2,315	–	2,315	606	2,921
– shares issued	1,202	3,021	–	–	(259)	–	3,964	–	3,964
Transactions with owners	(200,643)	201,085	492	–	2,056	(207,366)	(204,376)	129,177	(75,199)
Share options lapsed	–	–	–	–	(1,273)	1,273	–	–	–
At 31 December 2008	21,880	1,270,368	1,608	21,082	29,529	391,189	1,735,656	43,861	1,779,517

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000* *(Note 28.2)*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2009	21,880	1,270,368	1,608	21,082	–	29,529	391,189	1,735,656	43,861	1,779,517
Profit/(loss) for the year	–	–	–	–	–	–	239,408	239,408	(39,190)	200,218
Other comprehensive income:										
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	(292)	–	–	(292)	(241)	(533)
Total comprehensive (loss)/income for the year	–	–	–	–	(292)	–	239,408	239,116	(39,431)	199,685
Issue of shares	838	6,705	–	–	–	–	–	7,543	–	7,543
Share issuing expenses	–	(387)	–	–	–	–	–	(387)	–	(387)
Shares repurchased	(256)	(4,803)	256	–	–	–	(256)	(5,059)	–	(5,059)
2008 second interim dividend paid	–	–	–	–	–	–	(4,376)	(4,376)	–	(4,376)
2009 first interim dividend paid	–	–	–	–	–	–	(11,095)	(11,095)	–	(11,095)
Dividend paid	–	–	–	–	–	–	–	–	(1,500)	(1,500)
Share option scheme										
– value of services	–	–	–	–	–	402	–	402	171	573
– shares issued	–	–	–	114	–	(35)	–	79	66	145
Transactions with owners	582	1,515	256	114	–	367	(15,727)	(12,893)	(1,263)	(14,156)
Share options lapsed	–	–	–	–	–	(3,694)	3,694	–	–	–
At 31 December 2009	22,462	1,271,883	1,864	21,196	(292)	26,202	618,564	1,961,879	3,167	1,965,046

The notes on pages 47 to 103 form an integral part of these financial statements.

1 GENERAL INFORMATION

The Company was incorporated in Bermuda on 10 October 1991. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 21/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 17 to the financial statements.

The financial statements for the year ended 31 December 2009 were approved by the board of directors on 26 March 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements on pages 38 to 103 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 investment properties and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on 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 2.7 "Inventories" and note 2.11 "Provisions' to the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

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

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

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

Minority interest represents the portion of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

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. 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 a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic entity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

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.

When the Group's share of losses in an associated company or jointly controlled entity equals or exceeds its interest in the associate 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 associate or jointly controlled entity. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate 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 associate or jointly controlled entity and its carrying amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Fixed assets

Investment properties

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

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

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

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in income statement in the period in which they arise.

Other property, plant and equipment

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

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 expensed in the income statement 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 the income statement.

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

Buildings	40 years
Machinery, vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Prepaid premium on leasehold land held for own use under an operating lease

Upfront payments made to acquire land held under an operating lease are stated at cost less accumulated amortisation and any accumulated impairment losses. Prepaid premium on leasehold land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

2.6 *Goodwill*

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

The cost of business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

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

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary over the cost of the business combination is recognised in profit or loss.

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

2.7 *Inventories*

Inventories are stated at the lower of cost 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.

2.8 *Financial assets*

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Trade and other receivables (Continued)

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; and

– It becoming 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.

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.

Financial assets at fair value through profit or loss

The Group classifies its investments as financial assets at fair value through profit or loss. Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the investments were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

A financial asset is classified as financial assets at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management, which these financial assets are managed according to internal policies and the performance is evaluated periodically on a fair value basis. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

All financial assets are recognised when and only when the Group becomes a contractual party of the investment. Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, and in the case of financial assets not carried at fair value through profit or loss, plus directly attributable transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise. The fair values of quoted investments are based on current bid prices and unlisted managed funds are carried at the fair value of the managed fund's assets as at the balance sheet date. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.14 to these financial statements.

2.9 Impairment of non-financial assets

Other property, plant and equipment, prepaid premium on leasehold land and investments in subsidiaries, associated company and 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 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. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

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

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial liabilities

The Group's financial liabilities include bank loans, trade payables 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.

Bank loans

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

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.

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 provision of services and the use by others of the Group's assets yielding interest, dividends and rental income, 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, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

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

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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 the income statement 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 the income statement on a straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the income statement 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.

2.17.3 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 employee 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 the income statement, 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 investments 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 the income statement, or in other comprehensive income or in equity if they relate to items that are charged or credited directly to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the income statement.

2.21 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (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 dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars 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, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2.22 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash 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 manages its business by operating divisions, which are organised by services, products and investments. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments.

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

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

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

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

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

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

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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties (Continued)

(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 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

Various – Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of these new HKFRSs had no material impact on how the results and financial position for the current and prior period have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and presentation of some items within the primary financial statements. A third balance sheet as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'.

Comparatives have been restated to conform with the revised standard. However, the changes to the comparatives have not affected the consolidated or parent company balance sheet at 1 January 2008 and accordingly the third balance sheet as at 1 January 2008 is not presented.

HKFRS 8 Operating Segments

Upon the adoption of HKFRS 8, reportable segment information is now based on internal management reporting information that is regularly reviewed by the Group's senior executive management. In the previous annual financial statements, according to the predecessor standard, HKAS 14 "Segment Reporting", "business segments" were identified by reference to the nature of the products and services provided by the Group. Comparatives have been restated on a basis consistent with the new standard.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the balance sheet. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of these new requirements.

Annual Improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses of investments in associates and jointly controlled entities accounted for under the equity method. The amendment to HKAS 38 Intangible Assets has changed the Group's accounting policies on advertising and marketing expenses.

(i) Impairment of investment in associate and jointly controlled entity accounted for under equity method

The amendment clarifies that an investment in associate and jointly controlled entity accounted for under the equity method is a single asset for the purposes of impairment testing. Any impairment loss recognised by the investor after applying the equity method is not allocated to individual assets including goodwill included in the investment balance. The new accounting policy has been applied prospectively as permitted by the amendment. The amendment did not have any impact on the current period results and financial position.

3 ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Annual Improvements to HKFRSs 2008 (Continued)

(ii) Advertising and marketing expenses

The adoption of the amendment to HKAS 38 has changed the Group's accounting policies on advertising and marketing expenses. In previous years, production costs of commercials and related programme costs are deferred and expensed in the year the commercial is first aired. Under the amendment, an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services, all the advertising and marketing expenses are therefore expensed as incurred. This amendment has been applied retrospectively but did not have material impact on the results and financial position for any period 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. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors do not expect the standard to have a material effect on the Group's financial statements.

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on 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, property investment, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

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

	2009	2008
	HK$'000	*HK$'000*
Sales of toys	**636,440**	703,596
Rental income from investment properties	**67,587**	62,465
Property management income	**10,856**	11,052
Restaurant income	**20,159**	24,626
Dividend income	**4,890**	7,110
Interest income	**703**	4,358
Total revenue	**740,635**	813,207

5 SEGMENT INFORMATION

5.1 Segment results, assets and liabilities

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

Inter-segment revenue represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2009 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Gross segment revenue	108,945	5,593	636,440	750,978
Inter-segment revenue	(10,343)	–	–	(10,343)
Revenue from external customers	98,602	5,593	636,440	740,635
Segment profit before depreciation and amortisation	301,297	48,077	(31,767)	317,607
Depreciation and amortisation	(3,680)	–	(3,164)	(6,844)
Segment operating profit/(loss)	297,617	48,077	(34,931)	310,763
Other income	5	–	137	142
Finance costs	(2,650)	(102)	(6,509)	(9,261)
Share of profit of an associated company	–	–	116	116
Share of loss of a jointly controlled entity	–	–	(3,950)	(3,950)
	(2,645)	(102)	(10,206)	(12,953)
Segment profit/(loss) before income tax	294,972	47,975	(45,137)	297,810
Unallocated corporate expenses				(9,558)
Profit before income tax				288,252
Bank interest income	5	703	137	
Revaluation surplus on investment properties	230,488	–	–	
Net unrealised gain on financial assets at fair value through profit or loss	–	36,238	–	
Impairment of a jointly controlled entity	–	–	(1,720)	

The segment results for the year ended 31 December 2008 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Gross segment revenue	106,417	11,468	703,596	821,481
Inter-segment revenue	(8,274)	–	–	(8,274)
Revenue from external customers	98,143	11,468	703,596	813,207
Segment loss before depreciation and amortisation	(55,675)	(294,338)	(135,929)	(485,942)
Depreciation and amortisation	(4,773)	–	(2,765)	(7,538)
Segment operating loss	(60,448)	(294,338)	(138,694)	(493,480)
Other income	225	–	844	1,069
Finance costs	(5,026)	(1,209)	(5,058)	(11,293)
Share of profit of an associated company	–	–	523	523
Share of loss of a jointly controlled entity	–	–	(1,313)	(1,313)
	(4,801)	(1,209)	(5,004)	(11,014)
Segment loss before income tax	(65,249)	(295,547)	(143,698)	(504,494)
Unallocated corporate expenses				(10,085)
Loss before income tax				(514,579)
Bank interest income	225	4,358	844	
Revaluation deficit on investment properties	(117,687)	–	–	
Net unrealised loss on financial assets at fair value through profit or loss	–	(79,917)	–	

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2009 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Reportable segment assets	1,961,415	430,491	229,695	2,621,601
Interest in an associated company	–	–	25,729	25,729
Interest in a jointly controlled entity	–	–	3,162	3,162
Total reportable segment assets	1,961,415	430,491	258,586	2,650,492
Inter-segment elimination	–	–	(489)	(489)
Deferred tax assets				678
Taxation recoverable				6,320
Unallocated assets				8,920
Total assets				2,665,921
Reportable segment liabilities	424,095	–	103,773	527,868
Inter-segment elimination	(489)	–	–	(489)
Deferred tax liabilities				167,909
Taxation payable				2,637
Unallocated liabilities				2,950
Total liabilities				700,875
Capital expenditure	211,582	–	1,365	

The segment assets and liabilities as at 31 December 2008 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Reportable segment assets	1,545,312	455,361	233,344	2,234,017
Interest in an associated company	–	–	25,613	25,613
Interest in a jointly controlled entity	–	–	8,534	8,534
Total reportable segment assets	1,545,312	455,361	267,491	2,268,164
Inter-segment elimination	(505)	–	(355)	(860)
Deferred tax assets				46,202
Taxation recoverable				4,011
Unallocated assets				7,717
Total assets				2,325,234
Reportable segment liabilities	189,586	–	222,012	411,598
Inter-segment elimination	(355)	–	(505)	(860)
Deferred tax liabilities				128,785
Taxation payable				3,651
Unallocated liabilities				2,543
Total liabilities				545,717
Capital expenditure	30,187	–	7,295	

5 SEGMENT INFORMATION (Continued)

5.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, goodwill and interests in an associated company and a jointly controlled entity ("specified non-current assets"). The geographical location of customers is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of fixed assets, the location of operation to which they are allocated in case of goodwill, and the location of operation in case of interests in an associated company and a jointly controlled entity.

	Revenue from external customers		Specified non-current assets	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**101,584**	106,348	**1,977,535**	1,564,671
Americas				
– U.S.A.	**425,278**	460,203	**2,799**	14,515
– Others	**35,588**	50,641	**–**	–
Europe	**131,894**	166,199	**–**	–
Asia Pacific other than Hong Kong	**44,686**	17,867	**–**	152
Others	**1,605**	11,949	**–**	–
	639,051	706,859	**2,799**	14,667
	740,635	813,207	**1,980,334**	1,579,338

5.3 Major customer

The Group's customer base is diversified and includes three (2008: two) customers of the toy business with each of whom transactions have exceeded 10% of the Group's total revenue. Aggregate revenue from sales to these customers amounted to approximately HK$324 million (2008: HK$239 million).

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

	2009	2008
	HK$'000	*HK$'000*
Net realised gain/(loss) on financial assets at fair value through profit or loss	**6,246**	(225,889)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	**36,238**	(79,917)
	42,484	(305,806)

7 *OPERATING PROFIT/(LOSS)*

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

	2009	2008
	HK$'000	*HK$'000*
Cost of inventories sold	**302,019**	382,747
Write-down of inventories	**4,862**	3,803
Product development costs	**13,927**	15,798
Royalties paid	**94,783**	74,204
Direct operating expenses arising from investment properties that generate rental income	**3,142**	1,944
Direct operating expenses arising from investment properties that did not generate rental income	**1,727**	1,404
Provision for customer concession	**10,824**	5,380
Reversal of unutilised provision for customer concession	**(1,240)**	(1,761)
Provision for customer returns, cooperative advertising and cancellation charges *(Note 25)*	**26,728**	28,346
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 25)*	**(3,039)**	(6,328)
Depreciation and amortisation of fixed assets	**7,571**	8,212
Employee benefit expense, including directors' remuneration *(Note 13)*	**88,819**	107,432
Operating leases expense on office and warehouse facilities	**7,764**	8,562
Loss on disposal of other property, plant and equipment	**3,416**	55
Auditors' remuneration	**1,780**	2,150

8 FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts, wholly repayable within five years	**5,174**	7,093
Bank charges	**4,143**	4,257
	9,317	11,350

9 INCOME TAX EXPENSE

9.1 Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	2009	2008
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**7,546**	7,018
(Over)/under provision in prior years	**(3,866)**	12
	3,680	7,030
Deferred taxation		
Origination and reversal of temporary differences	**84,354**	29,217
Decrease in tax rate	**–**	(8,767)
	84,354	20,450
Income tax expense	**88,034**	27,480

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

	2009 *HK$'000*	2008 *HK$'000*
Profit/(loss) before income tax	**288,252**	(514,579)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**35,639**	(121,811)
Tax effect of:		
Non-taxable income	**(8,332)**	(3,134)
Non-deductible expenses	**3,224**	32,774
Unrecognised temporary differences	**(717)**	(541)
Utilisation of previously unrecognised tax losses	**(1,940)**	(345)
Unrecognised tax losses	**18,162**	82,899
Reversal of previously recognised tax losses	**36,147**	46,356
Reversal of previously recognised temporary differences	**9,440**	–
Decrease in tax rate	**–**	(8,767)
Prior years (over)/under provision	**(3,866)**	12
Others	**277**	37
Income tax expense	**88,034**	27,480

10 *PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY*

The consolidated profit/(loss) for the year attributable to equity holders of the Company includes a profit of HK$142,453,000 (2008: HK$336,834,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

11.1 Dividends attributable to the year

	2009	2008
	HK$'000	*HK$'000*
First interim dividend of HK$0.05 (2008: HK$0.10) per share	**11,095**	22,372
Second interim dividend of HK$0.05 (2008: HK$0.02) per share	**11,341**	4,376
Special interim dividend in specie of HK$0.37 (2008: HK$nil) per share	**83,921**	–
	106,357	26,748

At a meeting held on 21 August 2009, the directors declared a first interim dividend of HK$0.05 per share, which was paid on 22 September 2009.

At a meeting held on 26 March 2010, the directors declared:

(i) a second interim dividend of HK$0.05 per share on the basis of 226,814,751 shares in issue as at the date of the meeting; and

(ii) a special interim dividend in specie of the shares of Playmates Toys Limited ("PTL Shares"), a subsidiary of the Company and the holding company of the Group's toy business, in the proportion of one PTL Share for every two shares of Company held by the shareholders of the Company. 113,407,375 PTL Shares will be distributed on the basis of 226,814,751 shares of the Company in issue as at the date of the meeting, and based on the closing price per PTL Share as traded on the Stock Exchange on 25 March 2010 of HK$0.74, the total amount of the distribution is approximately HK$83,921,000, which represents a distribution of approximately HK$0.37 per share.

The second and special interim dividends declared after the balance sheet date have not been recognised as liabilities in the financial statements, but reflected as an appropriation of retained profits for the year ended 31 December 2009.

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

	2009 *HK$'000*	2008 *HK$'000*
Final dividend of HK$nil (2008: HK$0.25) per share	–	55,931
Special dividend in specie of HK$nil (2008: HK$0.57) per share	–	128,571
Second interim dividend of HK$0.02 (2008: HK$nil) per share	**4,376**	–
	4,376	184,502

12 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK$239,408,000 (2008: loss of HK$454,773,000) and on the weighted average number of ordinary shares of 220,557,000 (2008: 223,239,000) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of HK$239,408,000 and the weighted average number of ordinary shares of 229,865,000 shares in issue during the year, adjusted for the effects of 9,308,000 dilutive potential shares.

Diluted loss per share for the year ended 31 December 2008 was not presented because the impact of the exercise of the share options was anti-dilutive.

13 EMPLOYEE BENEFIT EXPENSE

	2009 *HK$'000*	2008 *HK$'000*
Wages, salaries and other benefits	**82,597**	99,403
Share-based compensation	**573**	2,921
Employer's contributions to provident fund	**2,365**	2,986
Termination benefits	**3,284**	2,122
	88,819	107,432

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	**Fee 2009** *HK$'000*	**Salary 2009** *HK$'000*	**Share-based compen-sation 2009** *HK$'000*	**Other benefits 2009** *HK$'000* *(Note)*	**Employer's contribution to provident fund 2009** *HK$'000*	**Total 2009** *HK$'000*
CHAN Chun Hoo, Thomas	**20**	**120**	**–**	**156**	**7**	**303**
CHENG Bing Kin, Alain	**10**	**1,644**	**28**	**365**	**12**	**2,059**
IP Shu Wing, Charles	**120**	**–**	**8**	**25**	**–**	**153**
LEE Peng Fei, Allen	**120**	**–**	**8**	**160**	**–**	**288**
LO Kai Yiu, Anthony	**120**	**–**	**8**	**190**	**–**	**318**
TO Shu Sing, Sidney	**20**	**2,040**	**28**	**69**	**12**	**2,169**
TSIM Tak Lung	**120**	**–**	**8**	**185**	**–**	**313**
YU Hon To, David	**120**	**–**	**8**	**115**	**–**	**243**
	650	**3,804**	**96**	**1,265**	**31**	**5,846**

Name of director	Fee 2008 *HK$'000*	Salary 2008 *HK$'000*	Share-based compen-sation 2008 *HK$'000*	Other benefits 2008 *HK$'000* *(Note)*	Employer's contribution to provident fund 2008 *HK$'000*	Total 2008 *HK$'000*
CHAN Chun Hoo, Thomas	15	120	–	203	7	345
CHENG Bing Kin, Alain	5	1,644	103	398	12	2,162
IP Shu Wing, Charles	110	–	65	25	–	200
LEE Peng Fei, Allen	110	–	65	173	–	348
LO Kai Yiu, Anthony	110	–	65	188	–	363
TO Shu Sing, Sidney	11	2,040	126	62	12	2,251
TSIM Tak Lung	110	–	65	203	–	378
YU Hon To, David	110	–	65	128	–	303
	581	3,804	554	1,380	31	6,350

Note: Other benefits include medical allowance (2008: insurance premium), club membership and housing allowance for executive directors, and committee work and meeting attendance allowance for non-executive directors.

14.2 Five highest paid individuals

Two (2008: two) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (2008: three) highest paid individuals are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**8,801**	9,197
Share-based compensation	**330**	1,391
Employer's contribution to provident fund	**226**	324
	9,357	10,912

The emoluments of these three (2008: three) individuals are within the following bands:

	Number of individuals	
	2009	2008
HK$		
2,000,001 – 2,500,000	**2**	1
2,500,001 – 3,000,000	**–**	1
4,500,001 – 5,000,000	**1**	–
5,500,001 – 6,000,000	**–**	1
	3	3

The employees, whose emoluments are disclosed above, include senior executives who were also directors of subsidiaries during the year.

15 FIXED ASSETS – GROUP

	Buildings *HK$'000*	Machinery, vehicle, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Prepaid premium on leasehold land held for own use under an operating lease *HK$'000*	Total *HK$'000*
Cost or valuation							
At 1 January 2008	27,077	31,351	30,733	89,161	1,539,800	50,974	1,679,935
Additions	–	7,545	2,051	9,596	29,987	–	39,583
Revaluation deficit	–	–	–	–	(117,687)	–	(117,687)
Reclassification	9,020	–	–	9,020	(26,000)	16,980	–
Disposals	–	(1,681)	(64)	(1,745)	–	–	(1,745)
At 31 December 2008	36,097	37,215	32,720	106,032	1,426,100	67,954	1,600,086
At 1 January 2009	36,097	37,215	32,720	106,032	1,426,100	67,954	**1,600,086**
Exchange fluctuation	–	(86)	(162)	(248)	–	–	**(248)**
Additions	–	5,323	596	5,919	207,062	–	**212,981**
Revaluation surplus	–	–	–	–	230,488	–	**230,488**
Reclassification	11,240	–	–	11,240	(32,400)	21,160	**–**
Disposals	–	(4,744)	(1,993)	(6,737)	(23,000)	–	**(29,737)**
At 31 December 2009	**47,337**	**37,708**	**31,161**	**116,206**	**1,808,250**	**89,114**	**2,013,570**
Accumulated amortisation and depreciation							
At 1 January 2008	1,953	21,756	27,303	51,012	–	2,377	53,389
Charge for the year	1,085	4,024	1,793	6,902	–	1,310	8,212
Disposals	–	(667)	(63)	(730)	–	–	(730)
At 31 December 2008	3,038	25,113	29,033	57,184	–	3,687	60,871
At 1 January 2009	3,038	25,113	29,033	57,184	–	3,687	**60,871**
Exchange fluctuation	–	(64)	(148)	(212)	–	–	**(212)**
Charge for the year	1,399	2,882	1,614	5,895	–	1,676	**7,571**
Disposals	–	(1,561)	(1,728)	(3,289)	–	–	**(3,289)**
At 31 December 2009	**4,437**	**26,370**	**28,771**	**59,578**	**–**	**5,363**	**64,941**
Net book value							
At 31 December 2009	**42,900**	**11,338**	**2,390**	**56,628**	**1,808,250**	**83,751**	**1,948,629**
At 31 December 2008	33,059	12,102	3,687	48,848	1,426,100	64,267	1,539,215

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

	2009		2008	
	Land and buildings	**Investment properties**	Land and buildings	Investment properties
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
In Hong Kong, held under:				
Leases of over 50 years	**–**	**361,000**	–	315,000
Leases of between 10 and 50 years	**126,651**	**1,251,000**	97,326	1,111,100
Outside Hong Kong:				
Freehold	**–**	**196,250**	–	–
	126,651	**1,808,250**	97,326	1,426,100

The investment properties in Hong Kong were revalued as at 31 December 2009 on the market value basis. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar properties in the same location and condition.

The investment properties in United Kingdom were revalued as at 31 December 2009 on the market value basis. The valuations were carried out by an independent firm of surveyors, Adrian Cole & Company Limited, who have among their staff members of the United Kingdom Royal Institute of Chartered Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar in the same location and condition.

At 31 December 2009, certain of the Group's investment properties and land and buildings with a net book value of approximately HK$1,526 million and HK$127 million (2008: HK$1,088 million and HK$97 million) respectively were pledged to secure certain banking facilities granted to the Group (note 23).

15 FIXED ASSETS – GROUP (Continued)

Details of the principal properties of the Group as at 31 December 2009 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui, Hong Kong	Commercial	2049	107,400 sq. ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun, Hong Kong	Industrial	2047	317,100 sq. ft.	100%
A number of residential flats situated at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel, Hong Kong	Residential	2895	42,240 sq. ft.	100%
Great Westwood Bucks Hill, Kings Langley Hertfordshire United Kingdom	Residential	Freehold	44 acres	100%
Pophleys Ranage, Buckinghamshire United Kingdom	Residential	Freehold	13 acres	100%

16 GOODWILL – GROUP

	HK$'000
Gross and net carrying amount	
At 1 January 2008, 31 December 2008 and 31 December 2009	**5,976**

17 INTEREST IN SUBSIDIARIES – COMPANY

	2009	2008
	HK$'000	*HK$'000*
Amounts due from subsidiaries, net of provisions	**1,791,707**	1,662,714

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK$786,662,000 (2008: HK$821,480,000) which are interest free, are interest bearing at 0.25% (2008: 0.5%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2009 are as follows:

Name of company	**Place of incorporation**	**Total issued and fully paid shares**	**Effective percentage holding**	**Principal activities, place of operation**
Shares held indirectly:				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK$10 each	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Property investment, Hong Kong
Great Westwood Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
Okura FNB Limited	Hong Kong	1 ordinary share of HK$1	70%	Restaurant operation, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Investment holding, Hong Kong
PIL Investments Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	54.8%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	54.8%	Toy development, marketing and distribution, U.S.A.

17 INTEREST IN SUBSIDIARIES – COMPANY (Continued)

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 Limited	Bermuda	495,500,000 ordinary shares of HK$0.01 each	54.8%	Investment holding, Hong Kong
Pophleys Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	1 ordinary share of HK$1	70%	Restaurant operation, Hong Kong

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. All of the above subsidiaries are limited liability companies.

18 INTEREST IN AN ASSOCIATED COMPANY – GROUP

	2009 *HK$'000*	2008 *HK$'000*
Share of net assets	**25,729**	25,613

As at 31 December 2009, 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	**Liabilities**	**Equity**	**Revenue**	**Profit**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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**
2008					
100 per cent	71,593	19,321	52,272	111,296	1,067
Group's effective interest	35,080	9,467	25,613	54,535	523

19 INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2009	2008
	HK$'000	*HK$'000*
Share of net assets	**1,720**	5,707
Advances to jointly controlled entity	**3,162**	2,827
	4,882	8,534
Less: Impairment *(Note)*	**(1,720)**	–
	3,162	8,534

Note: 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 recoverable amount, which was fully settled in February 2010.

19 INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP (Continued)

As at 31 December 2009, the Group held interests in the following jointly controlled entity:

Name of company	**Place of incorporation**	**Percentage of interest held**
Playmates GP, LLC ("LLC")	U.S.A.	45%

The jointly controlled entity is held indirectly by the Company and it operates in U.S.A..

LLC is principally 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 is unsecured, has no fixed term of repayment and except for the amount of HK$837,000 (2008: HK$487,000) which are interest free, is interest bearing at LIBOR.

Summary of financial information of the jointly controlled entity – Group's effective interest

	2009 ***HK$'000***	2008 *HK$'000*
Current assets	**23,234**	17,381
Current liabilities	**(14,539)**	(4,654)
Non-current liabilities	**(6,975)**	(7,020)
Net assets	**1,720**	5,707
Income	**24,808**	1,637
Expenses	**(28,758)**	(2,950)
Loss for the year	**(3,950)**	(1,313)

20 INVENTORIES – GROUP

As at 31 December 2009, the carrying amount of inventories that are carried at net realisable value amounted to HK$2,486,000 (2008: HK$8,328,000).

21 TRADE RECEIVABLES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**84,763**	84,700
Less: Allowance for customer concession	**(6,799)**	(5,800)
	77,964	78,900

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 toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables at the balance sheet date:

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**75,937**	71,659
31 – 60 days	**632**	1,986
Over 60 days	**1,395**	5,255
	77,964	78,900

21 TRADE RECEIVABLES – GROUP (Continued)

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

	2009 HK$'000	2008 HK$'000
Neither past due nor impaired	**74,944**	74,085
1 – 90 days past due	**3,005**	3,453
91 – 180 days past due	**7**	772
Over 180 days past due	**8**	590
	77,964	78,900

Receivables that were neither past due nor impaired related to a wide range of customers that have a good track record 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.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2009 HK$'000	2008 HK$'000
Listed equity investment in Hong Kong	**123,743**	61,930
Listed equity investment outside Hong Kong	**115,402**	89,225
Unlisted managed funds	**11,476**	33,857
	250,621	185,012

23 BANK LOANS – GROUP

	2009	2008
	HK$'000	*HK$'000*
Secured bank loans repayable		
Within one year	**335,000**	160,000
In the second year	**15,000**	–
In the third to fifth year	**45,000**	–
	395,000	160,000
Unsecured bank loans repayable within one year	**–**	41,721
	395,000	201,721
Current portion included in current liabilities	**(335,000)**	(201,721)
Non-current portion	**60,000**	–

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was 1.06% p.a. (2008: 1.41% p.a.).

The fair value of non-current bank loans with a carrying amount of HK$60,000,000 was HK$58,443,000 at the balance sheet date. The fair value has been calculated by discounting the expected future cash flow at prevailing interest rate.

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

As at 31 December 2009, the Group has banking facilities amounting to HK$715 million (2008: HK$615 million), of which HK$395 million (2008: HK$201 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK$1,526 million and HK$127 million (2008: HK$1,088 million and HK$97 million) respectively of the Group at 31 December 2009.

24 TRADE PAYABLES – GROUP

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

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**18,334**	74,527
31 – 60 days	**2,083**	20,385
Over 60 days	**2,017**	2,797
	22,434	97,709

25 PROVISIONS – GROUP

The summary of changes in provisions during the year is as follows:

	Consumer returns HK$'000	Cooperative advertising HK$'000	Cancellation charges HK$'000	Total HK$'000
At 1 January 2009	6,376	18,571	4,573	29,520
Exchange fluctuation	(41)	(119)	(29)	(189)
Additional provisions made	5,480	18,408	2,840	26,728
Provisions utilised	(6,043)	(17,999)	(4,074)	(28,116)
Reversal of unutilised provisions	(986)	(2,053)	–	(3,039)
At 31 December 2009	4,786	16,808	3,310	24,904

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.

26 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2008: 16.5%) in Hong Kong, and federal and state tax rates of 34% (2008: 34%) and 8.84% (2008: 8.84%) respectively in the U.S..

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

	2009 HK$'000	2008 HK$'000
At 1 January	82,583	62,133
Exchange fluctuation	294	–
Charged to income statement	84,354	20,450
At 31 December	167,231	82,583

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 liabilities	Accelerated tax depreciation		Revaluation of properties		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
At 1 January	24,636	21,318	104,477	134,025	129,113	155,343
Charged/(credited) to income statement	431	3,318	37,887	(29,548)	38,318	(26,230)
At 31 December	25,067	24,636	142,364	104,477	167,431	129,113

Deferred tax assets	Tax losses		Employees benefits		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**(37,029)**	(84,296)	**(9,501)**	(8,914)	**(46,530)**	(93,210)
Exchange fluctuation	**233**	–	**61**	–	**294**	–
Charged/(credited) to income statement	**36,596**	47,267	**9,440**	(587)	**46,036**	46,680
At 31 December	**(200)**	(37,029)	**–**	(9,501)	**(200)**	(46,530)

Notes: As at 31 December 2009, deferred tax assets of HK$nil (2008: HK$45,881,000) in relation to unused tax losses and temporary differences in respect of employee benefits relating to share-based compensation for U.S. subsidiaries of the Group has been recognised in the balance sheet. The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The management evaluates at each balance sheet date whether the operations of the subsequent fiscal years are expected to produce profitable results or whether losses should be anticipated. The management, having considered the trends of the toys industry, current market condition and global economy, concluded that it is uncertain that future taxable profits will be available against which the unused tax losses and temporary differences in respect of employee benefits can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2009	2008
	HK$'000	*HK$'000*
Deferred tax assets	**(678)**	(46,202)
Deferred tax liabilities	**167,909**	128,785
	167,231	82,583

Deferred tax liabilities shown in the consolidated balance sheet are expected to be settled after more than 12 months.

The Group has unrecognised deferred tax assets of HK$181 million (2008: HK$129 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$162 million (2008: HK$108 million) expires at various dates up to and including 2029 and the remaining balance has no expiry dates under respective current tax legislation.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

At the special general meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") respectively were approved and adopted. 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 Plan and the Scheme within ten years after the date of grant. The number and weighted average exercise price of share option are as follows:

	2009		2008	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$	***'000***	*HK$*	*'000*
At the beginning of the year	**11.07**	**6,698**	9.91	8,324
Exercised	**–**	**–**	3.30	(1,202)
Lapsed	**9.36**	**(960)**	10.43	(424)
At the end of the year *(Note)*	**11.33**	**5,738**	11.07	6,698

Note: 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**	
		2009	2008	**2009**	2008
	HK$	***'000***	*'000*	***'000***	*'000*
Directors					
8 August 2012	1.99	**25**	25	**25**	25
6 January 2014	13.60	**179**	179	**179**	179
21 September 2015	12.06	**712**	712	**712**	712
3 May 2016	9.10	**413**	413	**413**	281
		1,329	1,329	**1,329**	1,197
Other employees					
26 May 2009	5.06	**–**	25	**–**	25
21 July 2010	6.26	**47**	80	**47**	80
20 May 2011	2.97	**18**	44	**18**	44
8 August 2012	1.99	**32**	135	**32**	135
9 March 2013	5.50	**123**	212	**123**	212
6 January 2014	13.60	**676**	893	**676**	893
18 March 2014	12.40	**1,100**	1,100	**1,100**	1,100
21 September 2015	12.06	**1,459**	1,706	**1,459**	1,706
8 January 2016	10.30	**–**	50	**–**	37
3 May 2016	9.10	**954**	1,124	**954**	836
		4,409	5,369	**4,409**	5,068
		5,738	6,698	**5,738**	6,265

Subject to the waiver or variation by the Board from time to time at its sole discretion, 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 2009 had a weighted average remaining contractual life of 5.19 years (2008: 6.08 years).

In total, HK$196,000 of share-based compensation expense has been included in the consolidated income statement for 2009 (2008: HK$1,580,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

Equity settled share-based transactions of Playmates Toys Limited ("PTL")

At the special general meeting of the Company held on 25 January 2008, the shareholders of the Company approved the share option scheme of PTL, an indirectly non-wholly owned subsidiary of the Company (the "PTL Scheme"). Certain directors, employees and other participants of PTL were granted options at a nominal consideration of HK$10 or US$1.5 on acceptance of the option offered. Details of the PTL Scheme and movements in the number of share options outstanding during the year are set out in the Report of the Directors.

Subject to the waiver or variation by the Board of PTL from time to time at its sole discretion, 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 2009 had a weighted average remaining contractual life of 8.25 years (2008: 9.26 years).

In total, HK$377,000 of share-based compensation expense has been included in the consolidated income statement of PTL for 2009 (2008: HK$1,341,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

28 EQUITY – GROUP AND COMPANY

28.1 Share capital

	Authorised Ordinary Shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 31 December 2008 and 2009	**3,000,000,000**	**300,000**

	Issued and Fully Paid Ordinary Shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 1 January 2008	2,225,232,569	222,523
Exercise of share options	12,017,000	1,202
Capital reorganisation	(2,013,524,613)	(201,353)
Repurchase of shares	(4,924,956)	(492)
At 1 January 2009	**218,800,000**	**21,880**
Exercise of warrants 2010 *(Note (i))*	**8,381,637**	**838**
Repurchase of shares *(Note (ii))*	**(2,560,000)**	**(256)**
At 31 December 2009	**224,621,637**	**22,462**

Notes:

(i) On 9 April 2009, 43,760,000 warrants were issued pursuant to the board resolution passed at the board meeting of the Company held on 13 March 2009 on the basis of a bonus issue of one warrant for every five shares held by the shareholders. These warrants are exercisable from 15 April 2009 to 14 October 2010 at an initial subscription price of HK$0.9 per share (subject to adjustment). As at 31 December 2009, 35,378,363 warrants issued on 9 April 2009 remained unexercised.

(ii) During the year, 2,560,000 shares were repurchased by the Company on the Stock Exchange at prices ranging from HK$1.80 to HK$2.37 each as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate price paid** *HK$'000*
June 2009	1,126,000	1.96	1.80	2,087
July 2009	418,000	1.85	1.80	771
September 2009	1,016,000	2.37	2.01	2,201

1,544,000 shares, 596,000 shares and 420,000 shares were redeemed and cancelled on 29 July 2009, 22 September 2009 and 12 October 2009 respectively and accordingly the issued capital of the Company diminished by the nominal value of those shares. The premium paid on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve (note 28.2).

28 EQUITY – GROUP AND COMPANY (Continued)

28.2 Reserves

Company

	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2008	1,067,427	1,116	28,746	150,216	1,247,505
Profit for the year	–	–	–	336,834	336,834
2007 final dividend paid	–	–	–	(55,931)	(55,931)
2007 special dividend in specie	–	–	–	(66,653)	(66,653)
2008 first interim dividend paid	–	–	–	(22,372)	(22,372)
Capital reorganisation	201,353	–	–	–	201,353
Repurchase of shares	(3,289)	492	–	(492)	(3,289)
Share option scheme					
– value of services	–	–	1,580	–	1,580
– shares issued	3,021	–	(259)	–	2,762
– options lapsed	–	–	(1,273)	1,273	–
At 31 December 2008	1,268,512	1,608	28,794	342,875	1,641,789
At 1 January 2009	1,268,512	1,608	28,794	342,875	**1,641,789**
Profit for the year	–	–	–	142,453	**142,453**
2008 second interim dividend paid	–	–	–	(4,376)	**(4,376)**
2009 first interim dividend paid	–	–	–	(11,095)	**(11,095)**
Issue of shares	6,705	–	–	–	**6,705**
Share issuing expenses	(387)	–	–	–	**(387)**
Repurchase of shares	(4,803)	256	–	(256)	**(4,803)**
Share option scheme					
– value of services	–	–	196	–	**196**
– options lapsed	–	–	(3,532)	3,532	**–**
At 31 December 2009	**1,270,027**	**1,864**	**25,458**	**473,133**	**1,770,482**

Nature and purpose of reserves

Company

(i) Share premium and capital redemption reserve

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

(ii) Share-based compensation reserve

Share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees recognised in accordance with the accounting policy adopted for share-based compensation in note 2.17.3.

Group

(iii) Reserve on consolidation

Reserve on consolidation arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993 which also created an amount of HK$1,856,000 included in the share premium of the Group of HK$1,271,883,000 as at 31 December 2009.

28.3 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 the light of changes in economic conditions. The Group may maintain or adjust the capital structure by taking necessary measures including issuing new shares.

The net debt to equity ratio defined and calculated by the Group as total bank borrowings less cash and cash equivalents expressed as a percentage of total equity, at 31 December 2009 was 4.5% compared to nil at 31 December 2008.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

29.1 Reconciliation of profit/(loss) before income tax to cash generated from operations

	2009 HK$'000	2008 HK$'000
Profit/(loss) before income tax	**288,252**	(514,579)
Bank interest income	**(845)**	(5,427)
Interest on bank loans and overdrafts, wholly repayable within five years	**5,174**	7,093
Dividend income from financial assets at fair value through profit or loss	**(4,890)**	(7,110)
Depreciation and amortisation of fixed assets	**7,571**	8,212
Share-based compensation	**573**	2,921
Revaluation (surplus)/deficit on investment properties	**(230,488)**	117,687
Loss on disposal of other property, plant and equipment	**3,416**	55
Unrealised (gain)/loss on financial assets at fair value through profit or loss	**(36,238)**	79,917
Gain on disposal of an investment property	**(9,686)**	–
Impairment in a jointly controlled entity	**1,720**	–
Share of profit of an associated company	**(116)**	(523)
Share of loss of a jointly controlled entity	**3,950**	1,313
Operating profit/(loss) before working capital changes	**28,393**	(310,441)
Decrease in inventories	**8,812**	13,721
Decrease in trade receivables, other receivables, deposits and prepayments	**80,501**	72,256
Increase/(decrease) in financial assets at fair value through profit or loss	**(29,371)**	303,014
Decrease in trade payables, other payables and accrued charges and provisions	**(76,231)**	(60,680)
Cash generated from operations	**12,104**	17,870

29.2 Analysis of cash and cash equivalents

	2009 HK$'000	2008 HK$'000
Cash and bank balances	**306,764**	303,316

30 FINANCIAL GUARANTEE CONTRACTS – COMPANY

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$680 million (2008: HK$520 million), of which HK$395 million (2008: HK$160 million) of such banking facilities were utilised as at 31 December 2009. This represents the Company's maximum exposure under the financial guarantee contract. Under the guarantee contract, the Company would be liable to pay the bank if the bank is unable to recover the loan. No provision for the Company's obligation under the financial guarantee contract has been made as it was not probable that the repayment of loan would be in default. According to the terms of the bank loans, the earliest repayment date of the bank loans would be in year 2010.

31 COMMITMENTS – GROUP

31.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop and 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:

	2009 ***HK$'000***	2008 *HK$'000*
Within one year	**28,323**	16,414
In the second to fifth years	**78,275**	16,731
After five years	**46,500**	–
	153,098	33,145

31 COMMITMENTS – GROUP (Continued)

31.2 Operating lease commitments

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

31.2.1 As lessee

At 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**4,699**	9,761
In the second to fifth years inclusive	**6,719**	13,748
	11,418	23,509

31.2.2 As lessor

At 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**65,334**	58,023
In the second to fifth years inclusive	**39,721**	50,939
	105,055	108,962

The Company did not have any commitment at 31 December 2009 and 2008.

32 *RELATED PARTY TRANSACTIONS*

32.1 Apart from those balances with related parties disclosed elsewhere in this financial statements, the Group entered into the following significant transactions with related parties:

	2009	2008
	HK$'000	*HK$'000*
Service fee received from a jointly controlled entity, Playmates GP, LLC	**10,509**	1,014
Interest income received from a jointly controlled entity, Playmates GP, LLC	**64**	6

32.2 Compensation for key management personnel of the Group

Remuneration for key management personnel, including amounts paid to the Company's executive directors and the highest paid employees as disclosed in note 14, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**4,444**	10,979
Employer's contributions to provident fund	**31**	143
Share-based compensation	**56**	1,396
	4,531	12,518

Total remuneration is included in "employee benefit expense" (note 13).

33 *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 2009.

34 *COMPARATIVE FIGURES*

As a result of the application of HKAS 1 (Revised 2007) "Presentation of Financial Statements" and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

35 FINANCIAL RISK MANAGEMENT

35.1 Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	**77,964**	78,900
Other receivables, deposits and prepayments	**6,017**	32,836
Cash and bank balances	**306,764**	303,316
Financial assets at fair value through profit or loss	**250,621**	185,012
	641,366	600,064
Financial liabilities at amortised cost		
Bank loans	**395,000**	201,721
Trade payables	**22,434**	97,709
Other payables and accrued charges	**87,991**	84,331
	505,425	383,761

35.2 Financial risk factors

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

35.2.1 Market risk

(i) 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 dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

(ii) Interest rate risk

The Group's bank loans at floating rates are principally exposed to interest rate risk. The Group maintains revolving credit facility with commercial banks that is used as the primary source of financing for the short term seasonal working capital requirement. As such, risk of changes in interest rate is not significant.

At 31 December 2009, it is estimated that a sensitivity to a reasonable general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year by approximately HK$1,975,000 (2008: increase/decrease the Group's loss by approximately HK$1,009,000).

(iii) Price risk

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

At 31 December 2009, it is estimated that a sensitivity to a reasonable general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and net assets by approximately HK$12,531,000 (2008: decrease/increase the Group's loss and increase/decrease net assets by approximately HK$9,251,000).

35.2.2 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 receivables 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.

35 FINANCIAL RISK MANAGEMENT (Continued)

35.2 Financial risk factors (Continued)

35.2.2 Credit risk (Continued)

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 amount of credit exposure to any one financial institution.

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:

Sales	
– the largest customer	19%
– five largest customers in aggregate	52%

35.2.3 Liquidity risk

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

Analysed below is the Group's remaining contractual maturities for its non-derivative and derivative financial liabilities as at 31 December 2009. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	2009				
	Within 1 year or on demand *HK$'000*	**Over 1 year but within 2 years** *HK$'000*	**Over 2 years but within 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Bank loans	335,865	15,583	45,784	397,232	395,000
Trade payables	22,434	–	–	22,434	22,434
Other payables and accrued charges	87,991	–	–	87,991	87,991
	446,290	15,583	45,784	507,657	505,425

The Group's financial liabilities at 31 December 2008 were settled within 3 months.

35.3 Fair value estimation

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

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 form prices); and

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

The financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	123,743	–	–	123,743
Listed equity investment outside Hong Kong	115,402	–	–	115,402
Unlisted managed funds	–	11,476	–	11,476
	239,145	11,476	–	250,621

The fair values of the listed equity investments and unlisted managed funds have been determined by reference to the market prices at the balance sheet date.

36 EVENTS AFTER THE BALANCE SHEET DATE

Disposal of interest in a jointly controlled entity

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

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:

	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**740,635**	813,207	1,006,866	1,204,601	1,324,852
Profit/(loss) before income tax	**288,252**	(514,579)	346,626	314,722	198,831
Income tax expense	**(88,034)**	(27,480)	(30,340)	(54,353)	(2,841)
Profit/(loss) for the year	**200,218**	(542,059)	316,286	260,369	195,990
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**239,408**	(454,773)	315,853	260,369	195,990
Minority interests	**(39,190)**	(87,286)	433	–	–
	200,218	(542,059)	316,286	260,369	195,990
Total assets	**2,665,921**	2,325,234	2,989,255	2,377,086	2,119,664
Total liabilities	**(700,875)**	(545,717)	(592,480)	(508,976)	(439,571)
Net assets	**1,965,046**	1,779,517	2,396,775	1,868,110	1,680,093

PLAYMATES HOLDINGS LIMITED
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