2009 Annual Report

Playmates TOYS

Corporate Information

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

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
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
Chong Hing Bank Limited
Hang Seng Bank Limited
HSBC

Principal Share Registrars
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

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

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

Website
www.playmatestoys.com

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Statement from the Chairman

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 will persist in 2010.

Our sales in 2009 reflected the disappointing performance of the brands tied to major movie events. The movies did not generate a strong following in the younger kid's audience that would have been necessary to drive a significant level of toy sales. On the other hand, the iCarly brand based on the top-rated Nickelodeon show has performed well. Our efforts to control and reduce operating costs have resulted in a 20.3% decrease in recurring operating costs, which puts us on a strong footing as we navigate our way forward. The cost control and reduction efforts will continue in 2010.

We will maintain our focused strategy to selectively invest in new licenses and brands in categories of our core competence. In addition to the established brands, new products we are launching 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. We have renewed our 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, we have 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. We are 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.

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

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). The group reported an operating loss of HK$35 million (2008: HK$139 million) and net loss attributable to shareholders of HK$87 million (2008: HK$191 million). Basic loss per share was HK cents 17.51 (2008: HK cents 38.49).

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. The group recorded higher than usual licensing expenses due to the write off of minimum guarantees associated with non performing licenses. The reported net loss attributable to shareholders reflected non-recurring items including HK$2 million in loss on the group's investment in the **Gormiti JV**, and charges of HK$10 million in unused bartered advertising credits and HK$36 million in unrealised prior years tax losses.

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.

Brand Overview

Turnover of Boys brands increased by 31% compared to 2008, primarily due to shipments of the **Star Trek** and **Terminator: Salvation** products coupled with the launch of the **Dino King** brand in international markets.

Girls' brands turnover decreased by 25% compared to 2008, primarily due to discontinuation of the **Strawberry Shortcake**, **Disney Princess**, and **My Life** product lines, partially offset by the increased sales of the **Disney Fairies** brand and the introduction of the **iCarly** brand.

Star Trek and **Terminator: Salvation** feature film properties were major contributors to toy sales for the first half of 2009, but the Fall DVD releases failed to drive any significant sales during the holiday season. Both brands finished the year below expectations and will not continue into 2010. Without new entertainment support other than the **TMNT** 25th Anniversary promotional programs, **Teenage Mutant Ninja Turtles** sales were below 2008. In 2010 we will manage a limited distribution in selected markets of **TMNT** products to optimise a clean transition to the planned brand re-launch in 2012. The **Dinosaur King** and **Yu-Gi-OH!** brands performed well in international markets and will continue into 2010 in markets supported by TV broadcast.

In Fall 2009, Playmates Toys introduced a line of tween directed gadgets, figures and playsets based on the popular **iCarly** TV Show, Nickelodeon's top rated live action tween franchise. The gadgets and playsets have performed well and the sales base for the brand expands in 2010 as **iCarly** is introduced to new international markets. **H2O, Just Add Water**, a line of fashion dolls and accessories based on a live action TV series performed well in selective international markets that were supported by TV programming. The line will continue in 2010 in those markets. The **Disney Fairies** line will not be carried forward into 2010 as the license expires.

The **Gormiti** launch in the US market did not achieve expected results and Playmates Toys no longer participates in this venture.

In 2010, new brands will include **Michael Jackson**, King of Pop, "The most popular artist in the history of show business". Playmates Toys will introduce a line of highly detailed collectable line of figures depicting Michael in his iconic concert and video poses, to coincide with planned promotional activities and events in 2010. **Hero 108**, a Cartoon Network and Moonscoop Entertainment property with animation developed for episodic TV, scheduled to air on Cartoon Network in early 2010, supported by a multi-platform promotional campaign and a robust MMOG will launch in Fall 2010. Playmates Toys will introduce a line of collectable figures with game cards and playsets. In addition, Playmates Toys recently acquired the license for **The World of Shrek**, a highly popular franchise of DreamWorks Animation SKG that includes "**Shrek Forever After**", the fourth theatrical release scheduled for May 2010 worldwide premier. Playmates Toys plans to launch a product line that will capture the humor and fun of the **Shrek** experience. Playmates Toys will also launch in limited distribution two new girl's product lines: **Rainbow Brite**, a line of dolls and horses based on a heritage girls brand from Hallmark, and **My Pixies** line of toddler dolls and role play toys.

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. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 47, was appointed a director of the Company in March 2010. He was admitted to practise as solicitor in Hong Kong, England and Wales and has 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 Holdings Limited.

CHOW Yu Chun, Alexander

Independent Non-executive Director

Mr. Chow, age 63, joined the Group in 2007. He is a fellow of The Association of Chartered Certified Accountants of the United Kingdom and a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 32 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow was formerly a director of New World Mobile Holdings Limited, Playmates Holdings Limited and Yu Ming Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited and he resigned from these appointments on 1 February 2007, 28 December 2007 and 23 May 2008 respectively. Mr. Chow is currently a director of New World China Land Limited and Top Form International Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin

Independent Non-executive Director

Mr. Lee, age 61, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practise in Hong Kong and England and Wales, he now serves as an adviser to a number of private companies and organizations.

NOVAK, Lou Robert

Executive Director and President

Mr. Novak, age 62, joined the Group in 2001. Prior to joining the Group, he held a number of senior management positions at major toy companies including Mattel, Hasbro, Galoob and Coleco. As a veteran of the toy industry and with broad senior executive management experience in a number of leading companies, he brings with him a wealth of diverse business experience, outstanding management skills and a comprehensive understanding of the consumer products, and the entertainment and retail industries.

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

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 64, joined the Group in 2007. Mr. Yang holds a Bachelor of Commerce degree and a Juris Doctorate degree from the University of British Columbia, Canada. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong SAR. He has over 36 years experience in legal practice and is a solicitor of the High Court of Hong Kong, a barrister and solicitor in British Columbia, Canada and a solicitor in England and Wales.

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

Report of the Directors

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

Principal Activities and Geographical Analysis of Operation

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

An analysis of the Group's performance for the year by geographical segments is set out in note 5.1 of 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	29%
– five largest suppliers in aggregate	76%
Sales	
– the largest customer	23%
– five largest customers in aggregate	61%

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 do not recommend the payment of a final dividend.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 45. Movements in the reserves of the Company during the year are set out in note 25.2 to the financial statements.

Distributable reserves of the Company at 31 December 2009, calculated under the Companies Act 1981 of Bermuda, amounted to HK$nil (2008: HK$119,195,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 20.1 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 were HK$76,562,000 (2008: HK$77,240,000) and inventories 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 Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2009 was 0% compared to 13.2% 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 1.0 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$113,194,000 (2008: HK$48,939,000).

The Group is exposed to foreign currency risk primarily through sales that are denominated in 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.

Employees

As at 31 December 2009, the Group had a total of 67 employees in Hong Kong and the United States of America. This compares to 116 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.

Contingent Liabilities

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

Financial Guarantee

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

Bank Loans

Details of the Group's bank loans as at 31 December 2009 are set out in note 20.1 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$395,000 (2008: HK$370,000).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

Share Capital

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

Investment in an Associated Company

Details of the investment are set out in note 15 to the financial statements.

Investment in a Jointly Controlled Company

Details of the investment are set out in note 16 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 100.

Purchase, Sale or Redemption of Shares

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

Directors

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

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

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Cheng Bing Kin, Alain shall retire and offer himself for re-election at the forthcoming annual general meeting.

Directors (Continued)

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Novak, Lou Robert and Mr. Yang, Victor retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company considers such directors to be independent.

Directors' Service Contracts

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

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

Purpose	:	(i)	To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and
		(ii)	To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.

Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 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 the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).

Share Options (Continued)

Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily 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 Scheme	:	Remains in force until 31 January 2018.

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme ("Scheme") adopted on 25 January 2008, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules:

Participant	Date of grant	Exercise price *HK$*	Number of share options: 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 (Note (2))*	31 March 2008	0.35	500,000	–	–	500,000
CHOW Yu Chun, Alexander *Director*	31 March 2008	0.35	400,000	–	–	400,000
LEE Ching Kwok, Rin *Director*	31 March 2008	0.35	400,000	–	–	400,000
NOVAK, Lou Robert *Director*	31 March 2008	0.35	4,950,000	–	–	4,950,000
SOONG, Ronnie *Director (Note (3))*	31 March 2008	0.35	375,000	–	375,000	–
TO Shu Sing, Sidney *Director*	31 March 2008	0.35	500,000	–	–	500,000
YANG, Victor *Director*	31 March 2008	0.35	400,000	–	–	400,000
Continuous Contract Employees, excluding Directors	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 the Company 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 the Company on 26 March 2010.

(3) Mr. Soong, Ronnie 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.

Share Options (Continued)

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.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2009, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	347,875,044 ordinary shares	70.21%
CHENG Bing Kin, Alain	Personal	1,274,000 ordinary shares	0.26%
NOVAK, Lou Robert	Personal	5,303,388 ordinary shares	1.07%
TO Shu Sing, Sidney	Personal	3,730,000 ordinary shares	0.75%

Long positions in underlying shares and debentures of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	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%
CHOW Yu Chun, Alexander	Personal	400,000 share options	400,000 shares	0.08%
LEE Ching Kwok, Rin	Personal	400,000 share options	400,000 shares	0.08%
NOVAK, Lou Robert	Personal	4,950,000 share options	4,950,000 shares	1.00%
TO Shu Sing, Sidney	Personal	500,000 share options	500,000 shares	0.10%
YANG, Victor	Personal	400,000 share options	400,000 shares	0.08%

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

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	6,892,000 ordinary shares	3.07%
	Corporate *(Note (b))*	89,708,000 ordinary shares	39.94%
CHENG Bing Kin, Alain	Personal	190,000 ordinary shares	0.08%
NOVAK, Lou Robert	Personal	1,303,388 ordinary shares	0.58%
TO Shu Sing, Sidney	Personal	1,860,000 ordinary shares	0.83%

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

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (b))*	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%
NOVAK, Lou Robert	Personal	260,677 warrants	260,677 shares	0.12%
	Personal	3,300,000 share options	3,300,000 shares	1.47%
TO Shu Sing, Sidney	Personal	372,000 warrants	372,000 shares	0.17%
	Personal	307,500 share options	307,500 shares	0.14%

Notes:

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

(b) 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 89,708,000 shares and 16,784,400 warrants of PHL in aggregate which TGC is interested in.

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

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

As at 31 December 2009, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2009, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
TGC	Corporate *(Note (i))*	347,875,044 ordinary shares	70.21%
PHL	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.75%
Playmates International Limited	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.75%
PIL Investments Limited	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.75%
PIL Toys Limited	Corporate	271,275,044 ordinary shares	54.75%

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

Long positions in underlying shares and debentures of the Company

Name	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
TGC	Corporate *(Note (i))*	300,000,000 conversion shares	300,000,000 shares	60.54%
PHL	Corporate *(Note (ii))*	300,000,000 conversion shares	300,000,000 shares	60.54%
Playmates International Limited	Corporate *(Note (ii))*	300,000,000 conversion shares	300,000,000 shares	60.54%
PIL Investments Limited	Corporate *(Note (ii))*	300,000,000 conversion shares	300,000,000 shares	60.54%
PIL Toys Limited	Corporate	300,000,000 conversion shares	300,000,000 shares	60.54%

Notes:

(i) TGC directly owns approximately 39.94% of the shareholding of PHL and is therefore 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 the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) of the Company in aggregate which PHL is interested in.

(ii) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 271,275,044 shares of the Company and 300,000,000 conversion shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the convertible bonds pursuant to a subscription agreement dated 29 October 2009, in which PIL Toys Limited is beneficially interested in.

Pre-emptive Rights

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

Audit Committee

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

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

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

Sufficiency of Public Float

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

Auditors

Moores Rowland were appointed as auditors of the Company on 17 December 2007.

Moores Rowland, formerly known as Moores Rowland Mazars, changed their name 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 Transaction

On 26 August 2008, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Belmont Limited, an indirect wholly-owned subsidiary of PHL, as landlord entered into a tenancy agreement ("Tenancy Agreement") relating to the leasing of the premises known as 22nd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 September 2008 to 31 August 2011 at the rental of HK$119,991 per month and management charges of HK$19,458 per month (exclusive of rates, Government rent, utilities and other outgoings). PHL indirectly owns and controls approximately 54.75% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 27 August 2008, was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

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

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

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

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 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. 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)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(Independent Non-executive Director)*
NOVAK, Lou Robert *(Executive Director)*
TO Shu Sing, Sidney *(Executive Director)*
YANG, Victor *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and three non-executive directors. All the non-executive directors are independent representing half of the board. One independent non-executive director possess appropriate professional accounting qualifications and financial management expertise. Biographies of the board of directors of the Company are shown on pages 6 to 7 of this annual report and are also maintained on the Company's website.

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 role of the Chairman is separate from that of the President of the Group with clear division of responsibilities. Mr. Chan Chun Hoo, Thomas, the Chairman of the Group, 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. Mr. Novak, Lou Robert, the President of the Group, supported by the senior management, is responsible for running of the business operations of the Group.

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

All directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance cover in respect of any potential legal actions that might be taken against its directors.

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

Board of Directors (Continued)

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

The board held 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
CHOW Yu Chun, Alexander	4/4	2/2
LEE Ching Kwok, Rin	4/4	2/2
NOVAK, Lou Robert	1/4	N/A
TO Shu Sing, Sidney	4/4	N/A
YANG, Victor	4/4	2/2

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

Audit Committee

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

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

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

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 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 July 2007 and its current members include:

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

Board Committees (Continued)

Compensation Committee (Continued)

All of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The terms of reference of the Compensation Committee were adopted in December 2007, a copy of which is posted on the Company's website.

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

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

Remuneration policy for non-executive 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.

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.

Board Committees (Continued)

Compensation Committee (Continued)

Group Compensation Policy *(Continued)*

Components

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.

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 12.1 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	Salary *HK$'000*	Other benefits *HK$'000* *(Note)*	Compensation for loss of office *HK$'000*	Employer's contribution to provident fund *HK$'000*	Share-based compensation *HK$'000*	Total *HK$'000*
JACOBS, Phil	1,276	127	893	72	31	2,399
ROSTEN, Arthur Steven	921	59	1,356	40	14	2,390
FISH, Paul	1,812	204	–	91	–	2,107
CHANDA, Ed	1,787	156	–	107	31	2,081

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. 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 16 to 17 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 only provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK$1,000,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

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 update 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.

Investor Relationship and Communication (Continued)

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.playmatestoys.com 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 general meetings were passed by poll. 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 Toys Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") set out on pages 38 to 99, 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 loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
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$'000 (Note 31)	2009 HK$'000	2008 HK$'000
Revenue	4	82,121	636,440	703,596
Cost of sales		(44,444)	(344,438)	(434,123)
Gross profit		37,677	292,002	269,473
Marketing expenses		(23,456)	(181,786)	(216,319)
Selling and distribution expenses		(7,037)	(54,535)	(55,647)
Administration expenses		(11,469)	(88,892)	(136,201)
Impairment of a jointly controlled entity		(222)	(1,720)	–
Operating loss	6	(4,507)	(34,931)	(138,694)
Other income		18	137	844
Finance costs	7	(863)	(6,687)	(5,058)
Share of profit of an associated company		15	116	523
Share of loss of a jointly controlled entity		(510)	(3,950)	(1,313)
Loss before income tax		(5,847)	(45,315)	(143,698)
Income tax expense	8	(5,341)	(41,389)	(46,818)
Loss for the year attributable to equity holders of the Company	9	(11,188)	(86,704)	(190,516)
		US cents	HK cents	HK cents
Loss per share	10			
Basic		(2.26)	(17.51)	(38.49)
Diluted		N/A	N/A	N/A

The notes on pages 46 to 99 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 *US$'000* *(Note 31)*	2009 *HK$'000*	2008 *HK$'000*
Loss for the year	**(11,188)**	**(86,704)**	(190,516)
Other comprehensive income:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**(69)**	**(533)**	–
Total comprehensive loss for the year attributable to equity holders of the Company	**(11,257)**	**(87,237)**	(190,516)

The notes on pages 46 to 99 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 US$'000 (Note 31)	2009 HK$'000	2008 HK$'000
Non-current assets				
Property, plant and equipment	13	623	4,829	10,111
Interest in an associated company	15	3,320	25,729	25,613
Interest in a jointly controlled entity	16	–	–	8,534
Deferred tax assets	23	43	332	45,856
		3,986	30,890	90,114
Current assets				
Inventories	17	1,313	10,181	19,469
Trade receivables	18	9,879	76,562	77,240
Other receivables, deposits and prepayments		3,216	24,929	77,585
Taxation recoverable		752	5,828	2,255
Interest in a jointly controlled entity	16	408	3,162	–
Cash and bank balances	26.2	14,606	113,194	48,939
		30,174	233,856	225,488
Current liabilities				
Borrowings	20.1	–	–	41,721
Trade payables	21	2,539	19,683	95,842
Other payables and accrued charges		7,637	59,186	54,929
Amount due to a fellow subsidiary	19	30	231	1,103
Derivative financial instrument	20.2	8,206	63,597	–
Provisions	22	3,213	24,904	29,520
Taxation payable		26	198	406
		21,651	167,799	223,521
Net current assets		8,523	66,057	1,967

	Note	2009 US$'000 (Note 31)	2009 HK$'000	2008 HK$'000
Total assets less current liabilities		**12,509**	**96,947**	92,081
Non-current liabilities				
Borrowings	*20.2*	**11,817**	**91,581**	–
Net assets		**692**	**5,366**	92,081
Equity				
Share capital	*25.1*	**639**	**4,955**	4,950
Reserves		**53**	**411**	87,131
Total equity		**692**	**5,366**	92,081

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 46 to 99 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Note	2009 US$'000 (Note 31)	2009 HK$'000	2008 HK$'000
Non-current assets				
Interest in subsidiaries	14	173	1,340	147,380
Current assets				
Other receivables, deposits and prepayments		16	125	177
Amounts due from subsidiaries	19	2,509	19,449	2,282
Cash and bank balances		13,937	108,008	–
		16,462	127,582	2,459
Current liabilities				
Other payables and accrued charges		267	2,069	2,223
Amounts due to subsidiaries	19	20	155	20,913
Amount due to a fellow subsidiary	19	30	231	1,217
Derivative financial instrument	20.2	8,206	63,597	–
		8,523	66,052	24,353
Net current assets/(liabilities)		7,939	61,530	(21,894)
Total assets less current liabilities		8,112	62,870	125,486
Non-current liabilities				
Borrowings	20.2	11,817	91,581	–
Net (liabilities)/assets		(3,705)	(28,711)	125,486
Equity				
Share capital	25.1	639	4,955	4,950
Reserves	25.2	(4,344)	(33,666)	120,536
Total equity		(3,705)	(28,711)	125,486

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 46 to 99 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$'000 (Note 31)	2009 HK$'000	2008 HK$'000
Cash flows from operating activities				
Cash used in operations	26.1	(5,737)	(44,463)	(53,997)
Interest paid		(396)	(3,069)	(1,999)
Hong Kong profits tax paid		(48)	(369)	(2,736)
Hong Kong profits tax refunded		54	420	–
Overseas tax refunded		–	–	253
Net cash used in operating activities		(6,127)	(47,481)	(58,479)
Cash flows from investing activities				
Purchases of property, plant and equipment		(176)	(1,365)	(7,295)
Proceeds from disposal of property, plant and equipment		4	32	–
Bank interest received		18	137	844
Investment in a jointly controlled entity		–	–	(7,020)
Advances to a jointly controlled entity		(46)	(353)	(2,827)
Net cash used in investing activities		(200)	(1,549)	(16,298)
Cash flows from financing activities				
Issue of shares		19	145	–
Issue of convertible bond		20,000	155,000	–
New bank loans		–	–	91,952
Repayment of bank loans		(5,383)	(41,721)	(50,231)
Net cash generated from financing activities		14,636	113,424	41,721
Net increase/(decrease) in cash and cash equivalents		8,309	64,394	(33,056)
Cash and cash equivalents at 1 January		6,315	48,939	81,995
Effect of foreign exchange rate changes		(18)	(139)	–
Cash and cash equivalents at 31 December	26.2	14,606	113,194	48,939

The notes on pages 46 to 99 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital *HK$'000*	Capital reserve *HK$'000* *(Note 25.2)*	Share-based compensation reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2008	4,950	167,613	–	108,693	281,256
Loss for the year	–	–	–	(190,516)	(190,516)
Total comprehensive loss for the year	–	–	–	(190,516)	(190,516)
Share option scheme – value of services	–	–	1,341	–	1,341
Transactions with owners	–	–	1,341	–	1,341
At 31 December 2008	4,950	167,613	1,341	(81,823)	92,081

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

The notes on pages 46 to 99 form an integral part of these financial statements.

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 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"). In the opinion of the directors, the ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

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

The financial statements for the year ended 31 December 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 99 have been prepared in accordance with all applicable 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 on the historical cost basis except for derivative financial instrument (including conversion options embedded in convertible bonds) which is stated at fair value. The measurement basis is fully described in the accounting policies below.

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

2.2 *Basis of consolidation*

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

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

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

2.3 *Subsidiaries*

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

In the Company's balance sheet, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. 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 Summary of Significant Accounting Policies (Continued)

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.

2.5 *Property, plant and equipment*

All 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 the cost less their residual values over their estimated useful lives, as follows:

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

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

2 Summary of Significant Accounting Policies (Continued)

2.6 Inventories

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

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

2.7 Financial assets

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.

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.

2.8 Impairment of non-financial assets

Property, plant and equipment, 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 as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

2 *Summary of Significant Accounting Policies (Continued)*

2.8 *Impairment of non-financial assets (Continued)*

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.

2.9 *Financial liabilities*

The Group's financial liabilities include bank loans, convertible bonds, trade payables, other payables and amount due to a fellow subsidiary. 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.

Convertible bonds

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

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

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

2.10 Derivative financial instruments

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

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

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.

2 *Summary of Significant Accounting Policies (Continued)*

2.11 Provisions (Continued)

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 the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

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

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

2 Summary of Significant Accounting Policies (Continued)

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

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.

2.17 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 *Summary of Significant Accounting Policies (Continued)*

2.18 Borrowing costs

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

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

2.19 Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the 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 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.

2.20 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 Summary of Significant Accounting Policies (Continued)

2.22 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash 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 divisions, which are organised by services and products. 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, no reportable segment analysis is presented as there is only a single business division focusing on design, development, marketing and distribution of toys and family entertainment activity products.

2.24 Related parties

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

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

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

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

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

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

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

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

3 *Adoption of New or Amended HKFRSs*

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

3 Adoption of New or Amended HKFRSs (Continued)

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. The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group.

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.

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.

(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.

3 Adoption of New or Amended HKFRSs (Continued)

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.

4 Revenue

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

Revenue recognised during the year ended 31 December 2009 from sales of toys was HK$636,440,000 (2008: HK$703,596,000).

5 Segment Information

5.1 Geographical information

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

	Revenue		Specified non-current assets	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**–**	–	**27,759**	29,591
Americas				
– U.S.A.	**423,747**	458,776	**2,799**	14,515
– Others	**35,588**	50,021	**–**	–
Europe	**130,944**	165,603	**–**	–
Asia Pacific other than Hong Kong	**44,556**	17,254	**–**	152
Others	**1,605**	11,942	**–**	–
	636,440	703,596	**2,799**	14,667
	636,440	703,596	**30,558**	44,258

5 Segment Information (Continued)

5.2 Major customer

The Group's customer base is diversified and includes three (2008: three) customers 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$314 million).

6 Operating Loss

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

	2009 *HK$'000*	2008 *HK$'000*
Cost of inventories sold	**295,238**	374,659
Write-down of inventories	**4,862**	3,803
Product development costs	**13,927**	15,798
Royalties paid	**94,783**	74,204
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 22)*	**26,728**	28,346
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 22)*	**(3,039)**	(6,328)
Depreciation of property, plant and equipment	**3,164**	2,765
Employee benefit expense, including directors' remuneration *(Note 11)*	**69,214**	87,699
Operating leases expense on office and warehouse facilities	**9,492**	9,301
Loss on disposal of property, plant and equipment	**3,415**	61
Auditors' remuneration	**1,000**	1,600

7 *Finance Costs*

	2009 HK$'000	2008 HK$'000
Interest on bank loans and overdrafts, wholly repayable within five years	3,069	1,999
Interest on convertible bond	178	–
Bank charges	3,440	3,059
	6,687	5,058

8 *Income Tax Expense*

8.1 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, mainly the U.S., 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. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profit. The tax rate for federal tax is 34% (2008: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2008: 8.84%).

	2009 HK$'000	2008 HK$'000
Current taxation		
Hong Kong profits tax	162	1,446
Over provision in prior years – Hong Kong	(167)	(71)
Over provision in prior years – overseas	(3,836)	(208)
	(3,841)	1,167
Deferred taxation		
Origination and reversal of temporary differences	45,230	45,659
Decrease in tax rate	–	(8)
	45,230	45,651
Income tax expense	41,389	46,818

8 *Income Tax Expense (Continued)*

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

	2009 *HK$'000*	2008 *HK$'000*
Loss before income tax	**45,315**	143,698
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(19,400)**	(60,464)
Tax effect of:		
Non-taxable income	**(656)**	(1,551)
Non-deductible expenses	**533**	799
Unrecognised temporary differences	**1,251**	(763)
Unrecognised tax losses	**17,786**	63,174
Reversal of previously recognised tax losses	**36,147**	46,356
Reversal of previously recognised temporary differences	**9,440**	–
Decrease in tax rate	**–**	(8)
Prior years over provision	**(4,003)**	(279)
Others	**291**	(446)
Income tax expense	**41,389**	46,818

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

The consolidated loss for the year attributable to equity holders of the Company includes a loss of HK$154,719,000 (2008: HK$6,803,000) which has been dealt with in the financial statements of the Company.

10 Loss Per Share

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of HK$86,704,000 (2008: HK$190,516,000) and on the weighted average number of ordinary shares of 495,044,000 (2008: 495,000,000) in issue during the year.

Diluted loss per share for the year ended 31 December 2009 was not presented because the impacts of the exercise of the share options and conversion of convertible bond were anti-dilutive.

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.

11 Employee Benefit Expense

	2009 *HK$'000*	2008 *HK$'000*
Wages, salaries and other benefits	63,725	81,818
Share-based compensation	377	1,341
Employer's contributions to provident fund	1,828	2,418
Termination benefits	3,284	2,122
	69,214	87,699

Total employee benefit expenses include directors' remuneration.

12 Directors' Remuneration and Senior Management's Emoluments

12.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee 2009 HK$'000	Salary 2009 HK$'000	Share-based compen-sation 2009 HK$'000	Other benefits 2009 HK$'000 (Note(1))	Employer's contribution to provident fund 2009 HK$'000	Total 2009 HK$'000
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHOW Yu Chun, Alexander	120	–	17	190	–	327
LEE Ching Kwok, Rin	120	–	17	165	–	302
NOVAK, Lou Robert	10	3,953	206	285	114	4,568
TO Shu Sing, Sidney	10	–	21	–	–	31
YANG, Victor	120	–	17	190	–	327
	390	3,953	278	830	114	5,565

Name of director	Fee 2008 HK$'000	Salary 2008 HK$'000	Share-based compen-sation 2008 HK$'000	Other benefits 2008 HK$'000 (Note(1))	Employer's contribution to provident fund 2008 HK$'000	Total 2008 HK$'000
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHOW Yu Chun, Alexander	120	–	37	200	–	357
LEE Ching Kwok, Rin	120	–	37	165	–	322
NOVAK, Lou Robert	10	3,949	454	866	108	5,387
SOONG, Ronnie *(Note (2))*	3	926	58	37	4	1,028
TO Shu Sing, Sidney	6	–	46	–	–	52
YANG, Victor	120	–	37	195	–	352
	389	4,875	669	1,463	112	7,508

Notes:

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

(2) Mr. Soong, Ronnie passed away on 23 April 2008.

12.2 *Five highest paid individuals*

One (2008: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2008: four) highest paid individuals are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Salaries, other allowances and benefits in kind	8,591	8,439
Share-based compensation	76	443
Employer's contribution to provident fund	310	322
	8,977	9,204

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

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

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

13 Property, Plant and Equipment – Group

	Leasehold improvements HK$'000	Machinery, equipment, furniture and fixtures HK$'000	Computers HK$'000	Total HK$'000
Cost				
At 1 January 2008	4,176	9,736	26,818	40,730
Additions	2,790	2,477	2,028	7,295
Disposals	(68)	(67)	(64)	(199)
At 31 December 2008	6,898	12,146	28,782	47,826
At 1 January 2009	6,898	12,146	28,782	**47,826**
Exchange fluctuation	(24)	(62)	(162)	**(248)**
Additions	261	675	429	**1,365**
Disposals	(1,564)	(3,180)	(1,993)	**(6,737)**
At 31 December 2009	**5,571**	**9,579**	**27,056**	**42,206**
Accumulated depreciation				
At 1 January 2008	3,416	8,016	23,656	35,088
Charge for the year	603	496	1,666	2,765
Disposals	(14)	(61)	(63)	(138)
At 31 December 2008	4,005	8,451	25,259	37,715
At 1 January 2009	4,005	8,451	25,259	**37,715**
Exchange fluctuation	(22)	(42)	(148)	**(212)**
Charge for the year	1,174	483	1,507	**3,164**
Disposals	(785)	(777)	(1,728)	**(3,290)**
At 31 December 2009	**4,372**	**8,115**	**24,890**	**37,377**
Net book value				
At 31 December 2009	**1,199**	**1,464**	**2,166**	**4,829**
At 31 December 2008	2,893	3,695	3,523	10,111

14 *Interest in Subsidiaries – Company*

	2009 *HK$'000*	2008 *HK$'000*
Unlisted shares, at cost	147,380	147,380
Less: Provision for impairment	(146,040)	–
Interest in subsidiaries	1,340	147,380

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:				
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	100%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	100%	Toy development, marketing and distribution, U.S.A.

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

15 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 HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit 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

16 *Interest in a Jointly Controlled Entity – Group*

	2009 *HK$'000*	2008 *HK$'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.

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 is interest free, is interest bearing at LIBOR.

16 *Interest in a Jointly Controlled Entity – Group (Continued)*

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

	2009	2008
	HK$'000	*HK$'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)

17 *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).

18 *Trade Receivables – Group*

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**83,361**	83,040
Less: Allowance for customer concession	**(6,799)**	(5,800)
	76,562	77,240

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

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**74,761**	70,257
31 – 60 days	**422**	1,738
Over 60 days	**1,379**	5,245
	76,562	77,240

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

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**74,761**	73,912
1 – 90 days past due	**1,801**	1,975
91 – 180 days past due	**–**	771
Over 180 days past due	**–**	582
	76,562	77,240

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.

19 *Amounts due from/to Related Companies – Group and Company*

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

20 *Borrowings – Group and Company*

20.1 *Bank loans*

	2009 *HK$'000*	2008 *HK$'000*
Unsecured bank loan repayable within one year	–	41,721

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was nil (2008: 2.64% p.a.).

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$35 million (2008: HK$95 million), of which HK$nil (2008: HK$41 million) were utilised.

20.2 *Convertible bond*

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

The carrying values of the liability component and derivative component of the convertible bond are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Liability component – classified as non-current liability		
Net carrying amount on initial recognition	**91,403**	–
Interest expense	**178**	–
Net carrying amount at 31 December	**91,581**	–

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

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

	2009 *HK$'000*	2008 *HK$'000*
Derivative component – classified as current liability		
Net carrying amount on initial recognition and at 31 December	**63,597**	–

The conversion option derivative component is stated at fair value at date of initial recognition and at balance sheet date.

21 Trade Payables – Group

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

	2009 HK$'000	2008 HK$'000
0 – 30 days	16,637	73,051
31 – 60 days	1,066	19,994
Over 60 days	1,980	2,797
	19,683	95,842

22 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.

23 *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 assets/(liabilities) account during the year is as follows:

	2009 ***HK$'000***	2008 *HK$'000*
At 1 January	**45,856**	91,507
Exchange fluctuation	**(294)**	–
Charged to income statement	**(45,230)**	(45,651)
At 31 December	**332**	45,856

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**	
	2009 ***HK$'000***	2008 *HK$'000*
At 1 January	**(25)**	(143)
Credited to income statement	**357**	118
At 31 December	**332**	(25)

23 Deferred Taxation – Group (Continued)

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	**36,380**	82,736	**9,501**	8,914	**45,881**	91,650
Exchange fluctuation	**(233)**	–	**(61)**	–	**(294)**	–
(Charged)/credited to income statement	**(36,147)**	(46,356)	**(9,440)**	587	**(45,587)**	(45,769)
At 31 December	**–**	36,380	**–**	9,501	**–**	45,881

Note: 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	**332**	45,856
Deferred tax liabilities	**–**	–
	332	45,856

The Group has unrecognised deferred tax assets of HK$164 million (2008: HK$110 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.

24 *Equity Settled Share-based Transactions*

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

	2009		2008	
	Weighted average exercise price *HK$*	Number of options *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At the beginning of the year	0.346	14,677	–	–
Granted	–	–	0.346	16,322
Exercised *(Note (a))*	0.290	(500)	–	–
Lapsed	0.343	(4,015)	0.350	(1,645)
At the end of the year *(Note (b))*	0.350	10,162	0.346	14,677

24 Equity Settled Share-based Transactions (Continued)

Notes:

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

(b) 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					
30 March 2018	0.35	6,650	7,025	3,325	2,038
		6,650	7,025	3,325	2,038
Employees					
30 March 2018	0.35	2,562	5,702	1,281	1,425
22 June 2018	0.29	–	1,000	–	250
		2,562	6,702	1,281	1,675
Other participants					
30 March 2018	0.35	950	950	475	238
		950	950	475	238
		10,162	14,677	5,081	3,951

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 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 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.

25 Equity – Group and Company

25.1 Share capital

	Authorised Ordinary Shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2008 and 2009	3,000,000,000	30,000

	Issued and Fully Paid Ordinary Shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2008, 31 December 2008 and 1 January 2009	495,000,000	4,950
Exercise of share options *(Note 24)*	500,000	5
At 31 December 2009	**495,500,000**	**4,955**

25 Equity – Group and Company (Continued)

25.2 Reserves

Company

	Share premium HK$'000	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	–	142,523	–	(16,525)	125,998
Loss for the year	–	–	–	(6,803)	(6,803)
Share option scheme					
– value of services	–	–	1,341	–	1,341
At 31 December 2008	–	142,523	1,341	(23,328)	120,536
At 1 January 2009	–	142,523	1,341	(23,328)	120,536
Loss for the year	–	–	–	(154,719)	(154,719)
Share option scheme					
– value of services	–	–	377	–	377
– shares issued	204	–	(64)	–	140
– options lapsed	–	–	(297)	297	–
At 31 December 2009	**204**	**142,523**	**1,357**	**(177,750)**	**(33,666)**

Nature and purpose of reserves

Company

(i) *Contributed surplus*

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

(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, employees and other participants recognised in accordance with the accounting policy adopted for share-based compensation in note 2.17.3.

Group

(iii) Capital reserve

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

25.3 *Capital management*

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

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

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

26 Notes to the Consolidated Cash Flow Statement

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

	2009 HK$'000	2008 HK$'000
Loss before income tax	(45,315)	(143,698)
Bank interest income	(137)	(844)
Interest on bank loans and overdrafts, wholly repayable with five years	3,069	1,999
Interest on convertible bond	178	–
Depreciation of property, plant and equipment	3,164	2,765
Share-based compensation	377	1,341
Loss on disposal of property, plant and equipment	3,415	61
Impairment of 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 loss before working capital changes	(29,695)	(137,586)
Decrease in inventories	9,288	13,805
Decrease in trade receivables, other receivables, deposits and prepayments	53,334	98,003
Decrease in trade payables, other payables and accrued charges and provisions	(76,518)	(20,277)
Decrease in due from/to related companies	(872)	(7,942)
Cash used in operations	(44,463)	(53,997)

26.2 Analysis of cash and cash equivalents

	2009 HK$'000	2008 HK$'000
Cash and bank balances	113,194	48,939

27 *Contingent Liabilities – Company*

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

28 *Financial Guarantee Contracts – Company*

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$35 million (2008: HK$95 million), of which HK$nil (2008: HK$41 million) of such banking facilities were utilised as at 31 December 2009.

29 *Commitments – Group*

29.1 Licensing commitments

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

29 Commitments – Group (Continued)

29.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 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	**6,139**	11,201
In the second to fifth years inclusive	**7,679**	16,148
	13,818	27,349

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

30 Related Party Transactions

30.1 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 *HK$'000*	2008 *HK$'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
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	**1,938**	889
Compliance services fee and licence fee paid to a fellow subsidiary, PIL Finance Limited	**867**	1,272
Interest expense paid to the immediate holding company, PIL Toys Limited	**178**	–

30 Related Party Transactions (Continued)

30.2 Compensation of 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 12, is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Director's fee	**30**	29
Salaries and other short-term employee benefits	**4,238**	11,571
Employer's contributions to provident fund	**114**	328
Share-based compensation	**227**	828
	4,609	12,756

Total remuneration is included in "employee benefit expense" (note 11).

30.3 Trademark

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

31 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2009.

32 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.

33 Financial Risk Management

33.1 Categories of financial instruments

	2009 *HK$'000*	2008 *HK$'000*
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	76,562	77,240
Other receivables, deposits and prepayments	4,037	4,023
Cash and bank balances	113,194	48,939
	193,793	130,202
Financial liabilities		
At amortised cost:		
Bank loans	–	41,721
Convertible bond	91,581	–
Trade payables	19,683	95,842
Other payables and accrued charges	59,186	54,929
Amount due to a fellow subsidiary	231	1,103
	170,681	193,595
At fair value:		
Derivative financial instrument	63,597	–
	234,278	193,595

33 Financial Risk Management (Continued)

33.2 Financial risk factors

Exposure to market (including currency and interest rate 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:

33.2.1 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 increase/decrease the Group's loss for year by approximately HK$nil (2008: HK$209,000).

33.2.2 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.

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	23%
– five largest customers in aggregate	61%

33.2.3 Liquidity risk

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available. The convertible bond which is to be matured on 10 December 2014 have been fully converted into equity shares subsequent to the balance sheet date (note 34.1). Except for the convertible bond, the Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

33 Financial Risk Management (Continued)

33.3 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*
Liabilities:				
Derivative financial instrument	–	63,597	–	63,597

There is no financial assets and financial liabilities measured at fair value at 31 December 2008.

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

34 Events After the Balance Sheet Date

34.1 Conversion of convertible bond

On 22 January 2010, PIL Toys exercised all the conversion rights attached to the convertible bond and on the same day the Company issued 200,000,000 ordinary shares with an aggregate nominal value of HK$2,000,000 to PIL Toys.

34.2 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.

34.3 Granting of share options

On 20 January 2010, the Company granted 20,300,000 share options at an exercise price of HK$0.918 per share to certain eligible participants of the Group under the share option scheme adopted by the Company on 25 January 2008.

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 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Revenue	**636,440**	703,596	909,030	1,127,997	1,277,607
(Loss)/profit before income tax	**(45,315)**	(143,698)	(68,136)	27,227	88,180
Income tax expense	**(41,389)**	(46,818)	34,551	(4,033)	14,674
(Loss)/profit for the year attributable to equity holders of the Company	**(86,704)**	(190,516)	(33,585)	23,194	102,854
Total assets	**264,746**	315,602	495,130	640,226	650,200
Total liabilities	**(259,380)**	(223,521)	(213,874)	(350,655)	(381,373)
Net assets	**5,366**	92,081	281,256	289,571	268,827

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

The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2006 and 2005 was prepared as if the current group structure had been in existence throughout these financial years.

Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
www.playmatestoys.com