Playmates TOYS

2011 Annual Report

Corporate Information

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

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditors
Grant Thornton Jingdu Tianhua
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

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

Principal Share Registrars
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

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

Website
www.playmatestoys.com

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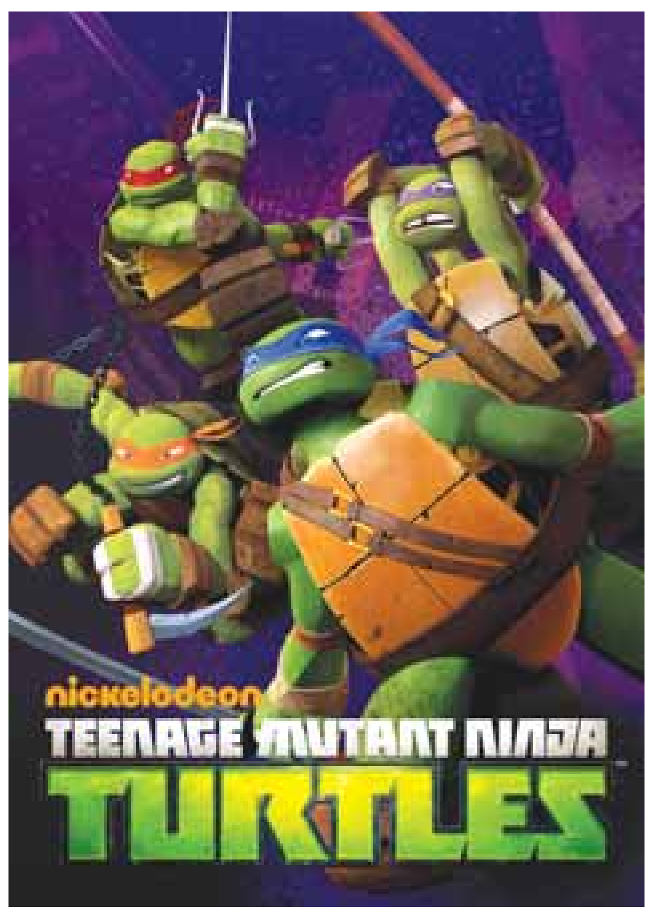


Statement from the Chairman

2011 could be remembered as a year of devastating natural and manmade disasters in Japan, widespread political turmoil in key oil producing region, and crippling sovereign debt crisis in Europe, all negatively impacted on the fragile global economic recovery. Against this background, the toy industry reported a decline of 2% in retail sales in the US, our single biggest market, with larger drop reported in unit volume.

In the beginning months of 2012, US consumer confidence recovered some grounds from its recent worst level amidst reports of improving job availability. Nevertheless, rising oil prices and the yet unresolved Euro zone debt crisis continued to threaten the tenuous economic recovery in the developed economies.

During 2011 Playmates Toys completed the realignment of its product portfolio and focused on rebuilding the business by selective investments in quality opportunities reflecting its core competence. I am pleased to report that the all new line of ***Teenage Mutant Ninja Turtles*** toys unveiled in major toy fairs held earlier this year were met with enthusiastic and unanimous trade support. The girls' brands featured in Playmates' toy fair presentations, including ***Build-A-Bear Workshop, Waterbabies*** and an expanded line of ***Hearts For Hearts Girls***, were also well received by the trade.

While significant challenges and uncertainties remain in our operating environment, I expect with cautious optimism that new product launches starting in the second half of 2012 will begin to make noticeable and positive impacts on the performance of the Group.

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

CHAN Chun Hoo, Thomas
Chairman of the board

Hong Kong, 23 March 2012

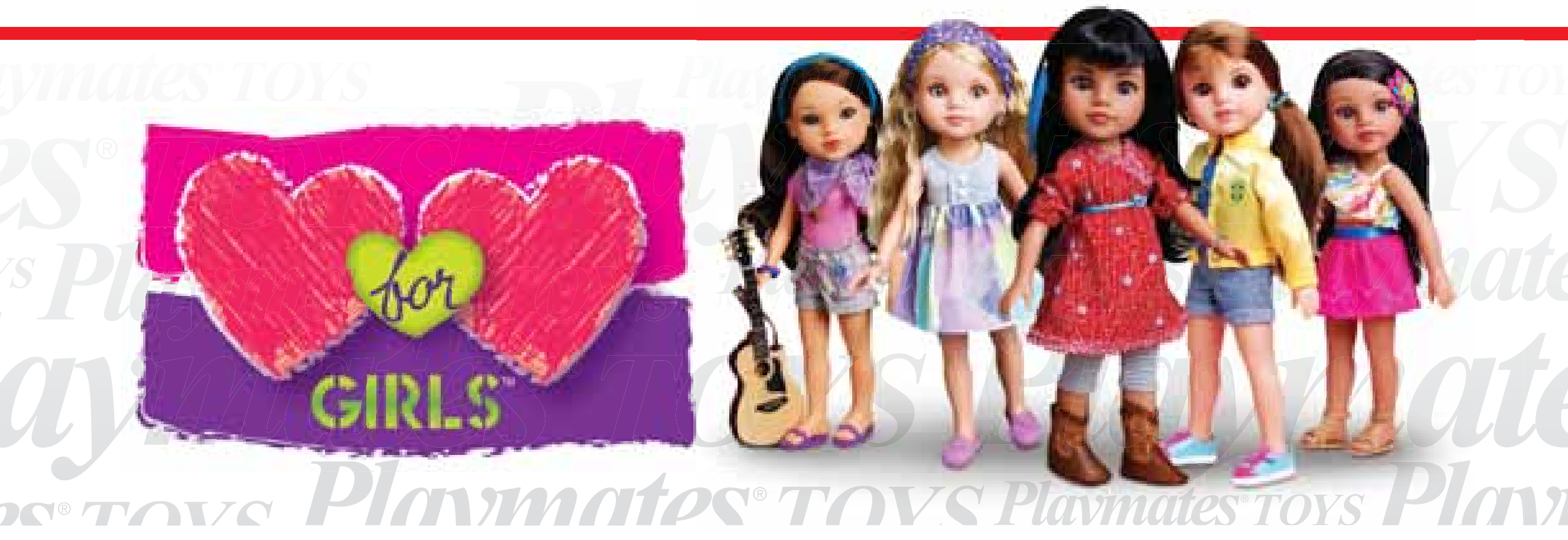
Business Review and Prospects

Playmates Toys group worldwide turnover for the year ended 31 December 2011 was HK$45 million (2010: HK$148 million); reflected a decrease of 69.7% compared to the prior year. The group reported an operating loss of HK$86 million (2010: HK$90 million) and net loss attributable to shareholders of HK$91 million (2010: HK$96 million). Basic loss per share was HK cents 8.67 (2010: HK cents 11.39).

Gross profit ratio on toy sales was 28.6% (2010: 41.9%). The decrease was attributable to significant upfront expenses on product design and development for new products to be launched in 2012.

Operating expenses were managed to 34.8% less than last year with decrease in advertising and promotional spending, as well as decrease in sales and distribution expenses. The reported net loss attributable to shareholders also included write off of minimum guarantees associated with non-performing licenses.

In 2011, the toy industry as a whole reported a 2% decrease in US retail dollar sales compared to 2010. In the fourth quarter, historically representing about half of the total for the year, US retail dollar sales decreased by 3% while unit sales decreased by 7%. In Europe, the 3 top markets, the UK, France and Germany reported better toy sales than in 2010 while Italy and Spain recorded declines.

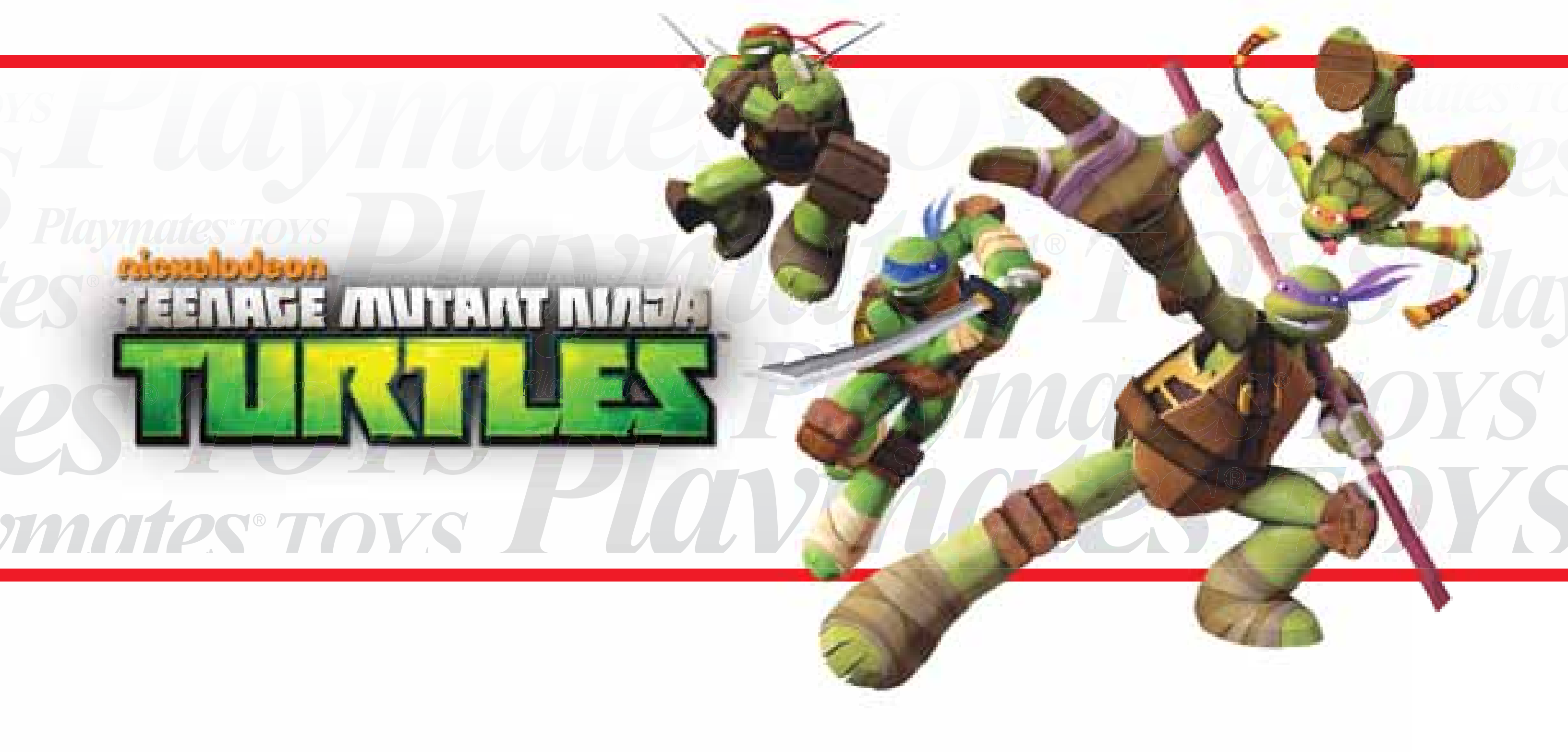


We expect our operating environment to remain challenging in 2012, as profit margins continue to come under pressure between customer pricing resistance and input costs inflation, especially attributable to OEM suppliers operating in the PRC, and the lingering Euro zone debt crisis threatens the fragile economic recovery in the developed economies. During 2011 Playmates Toys completed the realignment of our product portfolio and focused on rebuilding the business by selective investments in quality opportunities reflecting our core competence. While significant challenges and uncertainties remain, we are cautiously optimistic that new product launches starting in the second half of 2012 will begin to make noticeable and positive impacts on the performance of the Group.

Playmates Toys will continue to pursue a focused operating strategy, diligent risk management and sustained costs and expenses controls.

Brand Overview

After more than two years of meticulous preparation and joint development with Nickelodeon, the all new line of ***Teenage Mutant Ninja Turtles*** (**"*TMNT*"**) toys were unveiled in major toy fairs held earlier this year and were met with enthusiastic and unanimous trade support. The production of the CGI animated TV show currently underway in Nickelodeon's studio is on schedule and the series is expected to premiere as planned in the US in Fall 2012, followed by a major feature film from Paramount Pictures

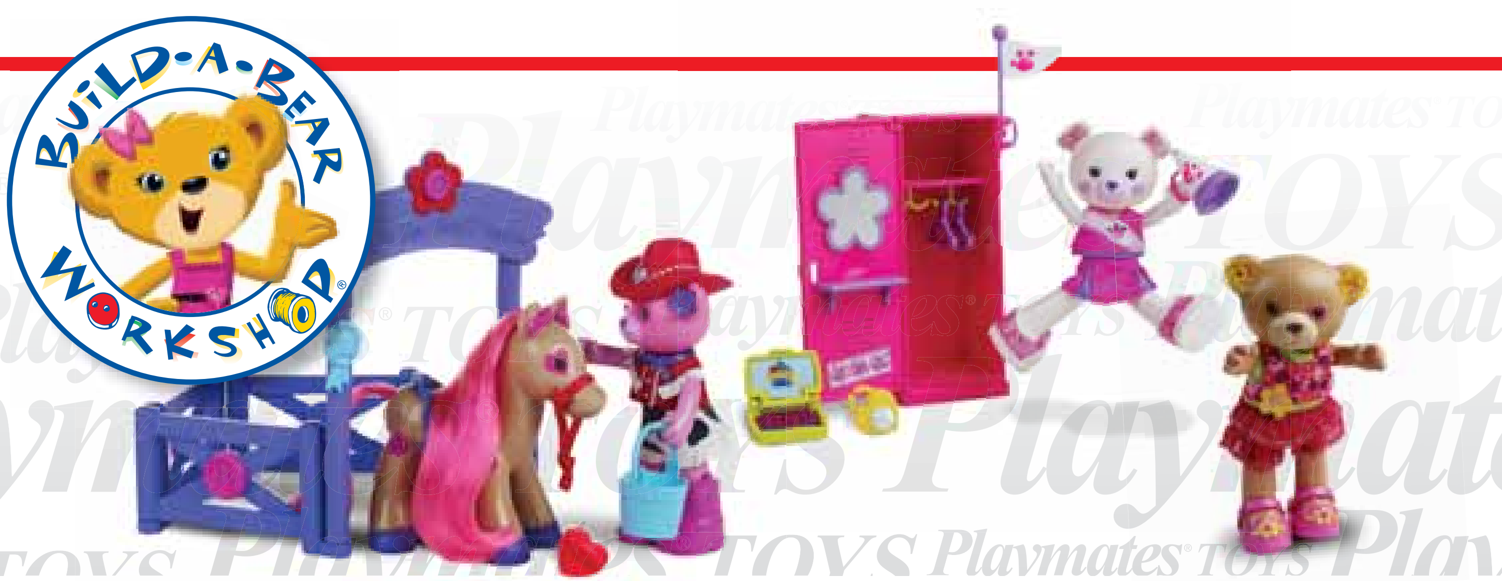


produced by Michael Bay. Playmates' core ***TMNT*** toy line will launch in tandem with Nickelodeon's multimedia, multi-platform marketing and promotion campaign to augment TV programming and movie events. Distribution partners have been appointed for major markets around the world and each market will have its individual launch plan in sync with the global rollout of the TV show. The next waves of ***TMNT*** product line extensions for 2013 and beyond are already under active development.

During 2011, the Boys collector brands made limited contributions as stagnant economic conditions negatively impacted collector purchases. The line of ***Michael Jackson*** figures was discontinued after two series were released. The line of ***Family Guy*** figures and playsets modeled after the TV show did not perform to expectation and will not be offered in 2012. ***Lucha Libre USA: Masked Warriors***, a line of figures and role play accessories based on traditional Mexican wrestling, recorded limited initial sales and further distribution is contingent on the future broadcast plans of the Lucha Libre USA televised matches.

The continuing Girls brands, including the line of gadgets and dolls inspired by the ***iCarly*** TV show, performed at a lower level in 2011 compared to 2010. Those brands will not continue into 2012.

Hearts For Hearts Girls ("***H4HG***"), the multiple award-winning line of beautiful dolls, matching fashions and accessories with a philanthropic theme, rolled out nationwide in the US in 2011 supported by all major traditional as well as online retailers. The launch collection consists



of 6 multicultural dolls representing girls from different parts of the world. Each doll comes with a booklet which tells her story and how she strives to make a difference and to "change the world one heart at a time". The ***H4HG*** message of empathy empowers girls to become advocates of change to help others who are in less fortunate conditions. A portion of sales proceeds goes to World Vision, a leading global humanitarian organisation that helps people in over 100 countries. The brand is supported by an interactive website (www.Hearts4HeartsGirls.com) that features games and activities along with real stories inspired by real girls. Consumers responded to the brand message with strong approval, and positive endorsements are spreading among online bloggers and social media groups with gathering momentum. More ***H4HG*** dolls are planned for 2012 together with new fashions and accessories.

Playmates Toys created a line of mini-dolls and playsets inspired by ***Build-A-Bear Workshop***, "*the leading and only global company that offers an interactive make-your-own stuffed animal retail-entertainment experience [sic]*". This top plush brand in the US claims a 96% brand awareness factor among girls and their website (www.Bearville.com) has nearly 50 million registered users and over 2 million unique visitors each month. Playmates' collectible character line, set to launch in June 2012, brings the friends from Bearville to life with figures, fashions and play environments. Playmates Toys is also bringing back in 2012 ***Waterbabies***, the classic water-filled baby doll line with over 15 million dolls sold, featuring a fresh new look.

Directors and Senior Management

Biographical details of directors are shown below:

CHAN Chun Hoo, Thomas
Chairman and Executive Director

Mr. Chan, age 61, 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 49, was appointed a director of the Company in March 2010. He is the Group Legal Counsel and also an executive director of Playmates Holdings Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and in England and Wales in 1997. He was awarded a master degree in Chinese and Comparative Laws from the City University of Hong Kong in 1998. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

CHOW Yu Chun, Alexander
Independent Non-executive Director

Mr. Chow, age 64, joined the Group in 2007. He is a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 34 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is currently a non-executive director of New World China Land Limited and a director of Top Form International Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin
Independent Non-executive Director

Mr. Lee, age 63, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practise in Hong Kong and England and Wales, he now serves as an adviser to a number of private companies and organisations.

TO Shu Sing, Sidney
Executive Director

Mr. To, age 54, joined the Group in 1986. Prior to joining the Group, he had 9 years working experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He was appointed an executive director in May 2008. Mr. To is also an executive director of Playmates Holdings Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada.

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 66, 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 38 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).

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2011.

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 to the financial statements.

Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	64%
– five largest suppliers in aggregate	99%
Sales	
– the largest customer	19%
– five largest customers in aggregate	65%

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 27.

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 34. Movements in the reserves of the Company during the year are set out in note 24.2 to the financial statements.

The Company has no distributable reserves at 31 December 2011 and 2010 as calculated under the Companies Act 1981 of Bermuda.

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

As at 31 December 2011, the Group has banking facilities amounting to HK$45 million (2010: HK$35 million). None of such banking facilities were utilised at 31 December 2011 and 2010.

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 2011, trade receivables were HK$7,144,000 (2010: HK$10,642,000) and inventories were at a seasonal low level of HK$2,127,000 or 4.7% of turnover (2010: HK$5,404,000 or 3.6% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 3.0 at 31 December 2011 compared to 4.6 at 31 December 2010.

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 2011, the Group's cash and bank balances were HK$208,766,000 (2010: HK$172,787,000).

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

Employees

As at 31 December 2011, the Group had a total of 46 employees in Hong Kong and the United States of America. This compares to 48 employees as at 31 December 2010.

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

Financial Guarantee

Details of the Company's financial guarantee contracts are set out in note 26 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,596,000 which includes mainly committed donations as part of the promotional program for a doll product. Charitable and other donations made in 2010 was HK$97,000.

Property, Plant and Equipment

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

Investment in an Associated Company

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

Share Capital

Details of the movements in share capital of the Company are set out in note 24.1 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 75.

Purchase, Sale or Redemption of Shares

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

Directors

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

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

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Lee Ching Kwok, Rin and Mr. To Shu Sing, Sidney shall retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

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

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 23 March 2012	:	38,549,000 ordinary shares, representing 3.45% 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.

Share Options (Continued)

The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotation sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Scheme	:	Remains in force until 31 January 2018.

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 that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules during the year:

			Number of share options				
Participant	**Date of grant**	**Exercise price** *HK$*	**Balance at 1 January 2011**	**Granted during the year** *(Note)*	**Exercised during the year**	**Lapsed during the year**	**Balance at 31 December 2011**
CHENG Bing Kin, Alain	31 March 2008	0.316	554,000	–	–	–	554,000
Director	20 January 2010	0.828	1,663,000	–	–	–	1,663,000
	18 April 2011	0.315	–	1,000,000	–	–	1,000,000
CHOW Yu Chun,	31 March 2008	0.316	443,000	–	–	–	443,000
Alexander	20 January 2010	0.828	222,000	–	–	–	222,000
Director							
LEE Ching Kwok, Rin	31 March 2008	0.316	443,000	–	–	–	443,000
Director	20 January 2010	0.828	222,000	–	–	–	222,000
TO Shu Sing, Sidney	31 March 2008	0.316	554,000	–	–	–	554,000
Director	20 January 2010	0.828	2,217,000	–	–	–	2,217,000
	18 April 2011	0.315	–	1,200,000	–	–	1,200,000
YANG, Victor	31 March 2008	0.316	443,000	–	–	–	443,000
Director	20 January 2010	0.828	222,000	–	–	–	222,000
Continuous Contract	31 March 2008	0.316	7,297,000	–	–	222,000	7,075,000
Employees, excluding	20 January 2010	0.828	13,527,000	–	–	1,109,000	12,418,000
Directors	18 April 2011	0.315	–	7,640,000	140,000	500,000	7,000,000
	24 May 2011	0.428	–	400,000	–	–	400,000
Other participants	31 March 2008	0.316	499,000	–	–	–	499,000
	20 January 2010	0.828	2,384,000	–	–	–	2,384,000
	30 March 2010	0.673	6,098,000	–	–	2,772,000	3,326,000
	18 April 2011	0.315	–	4,140,000	–	–	4,140,000

Note: The closing prices of the ordinary shares of the Company on 15 April 2011 and 23 May 2011, being the trading days immediately before the dates on which the share options were granted during the year, were HK$0.30 and HK$0.41 respectively.

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

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

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

As at 31 December 2011, 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 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))*	575,821,000 ordinary shares	55.04%
	Personal	4,635,000 ordinary shares	0.44%
CHENG Bing Kin, Alain	Personal	5,500,000 ordinary shares	0.53%
TO Shu Sing, Sidney	Personal	10,400,000 ordinary shares	0.99%

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))*	114,285,714 conversion shares	114,285,714 shares	10.92%
		76,244,350 warrants	76,244,350 shares	7.29%
	Personal	1,807,650 warrants	1,807,650 shares	0.17%
CHENG Bing Kin, Alain	Personal	3,217,000 share options	3,217,000 shares	0.31%
		520,000 warrants	520,000 shares	0.05%
CHOW Yu Chun, Alexander	Personal	665,000 share options	665,000 shares	0.06%
LEE Ching Kwok, Rin	Personal	665,000 share options	665,000 shares	0.06%
TO Shu Sing, Sidney	Personal	3,971,000 share options	3,971,000 shares	0.38%
		1,040,000 warrants	1,040,000 shares	0.10%
YANG, Victor	Personal	665,000 share options	665,000 shares	0.06%

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

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	4.85%
	Corporate *(Note (b))*	91,500,000 ordinary shares	37.00%
	Associate *(Note (c))*	10,000,000 ordinary shares	4.04%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.09%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.81%

Long positions in underlying shares of PHL

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

Notes:

(a) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC") and is therefore deemed to be interested in the 51,300,000 shares and 11,244,350 warrants of the Company in aggregate which TGC is interested in. Since TGC directly owns approximately 37% of the shareholding of PHL and is deemed to be interested in the 524,521,000 shares, 114,285,714 conversion shares (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) and 65,000,000 warrants of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 524,521,000 shares, 114,285,714 conversion shares and 65,000,000 warrants of the Company in aggregate which PHL is interested in.

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

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

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2011.

The warrants are exercisable at any time from 4 August 2010 to 3 August 2012, both days inclusive, at an initial subscription price of HK$0.45 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 27 July 2010.

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

As at 31 December 2011, 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 2011, 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))*	575,821,000 ordinary shares	55.04%
PHL	Corporate *(Note (ii))*	524,521,000 ordinary shares	50.13%
Playmates International Limited	Corporate *(Note (ii))*	524,521,000 ordinary shares	50.13%
PIL Investments Limited	Corporate *(Note (ii))*	524,521,000 ordinary shares	50.13%
PIL Toys Limited	Corporate	524,521,000 ordinary shares	50.13%

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))*	114,285,714 conversion shares	114,285,714 shares	10.92%
		76,244,350 warrants	76,244,350 shares	7.29%
PHL	Corporate *(Note (ii))*	114,285,714 conversion shares	114,285,714 shares	10.92%
		65,000,000 warrants	65,000,000 shares	6.21%
Playmates International Limited	Corporate *(Note (ii))*	114,285,714 conversion shares	114,285,714 shares	10.92%
		65,000,000 warrants	65,000,000 shares	6.21%
PIL Investments Limited	Corporate *(Note (ii))*	114,285,714 conversion shares	114,285,714 shares	10.92%
		65,000,000 warrants	65,000,000 shares	6.21%
PIL Toys Limited	Corporate	114,285,714 conversion shares	114,285,714 shares	10.92%
		65,000,000 warrants	65,000,000 shares	6.21%

Notes:

(i) TGC directly owns approximately 37% of the shareholding of PHL and is therefore deemed to be interested in the 524,521,000 shares, 114,285,714 conversion shares (which would fall to be issued by the Company upon full exercise of the conversion rights attached to the convertible bonds by PHL pursuant to a subscription agreement dated 29 October 2009) and 65,000,000 warrants of the Company in aggregate which PHL is interested in.

(ii) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 524,521,000 shares, 65,000,000 warrants and 114,285,714 conversion shares of the Company, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the convertible bond pursuant to a subscription agreement dated 29 October 2009, in which PIL Toys Limited is beneficially interested in.

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 and 2012.

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

During the year ended 31 December 2010, JBPB & Co. (formerly known as "Grant Thornton") resigned as auditors of the Company and Grant Thornton Jingdu Tianhua was appointed by the directors to fill the casual vacancy.

The financial statements for the year ended 31 December 2011 and 2010 have been audited by Grant Thornton Jingdu Tianhua.

Grant Thornton Jingdu Tianhua has incorporated its practice and therefore will practise in name of Grant Thornton Hong Kong Limited. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Grant Thornton Hong Kong Limited as the auditors of the Company.

Continuing Connected Transaction

On 1 September 2011, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Prestige Property Management Limited, an indirect wholly-owned subsidiary of PHL, as agent for landlord, Belmont Limited entered into a tenancy agreement ("Tenancy Agreement") to renew the lease expired on 31 August 2011 in respect 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 2011 to 31 August 2014 at the rental of HK$119,991 per month (exclusive of rates, government rent, utilities and other outgoings) and management charges of HK$19,458 per month (the management charges are subject to review by the landlord). PHL indirectly owns and controls approximately 50.13% 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 2 September 2011, 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 28.1 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, 23 March 2012

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 2011 except in respect of one code provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals. The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Board of Directors

The board of directors of the Company comprises:

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

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

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

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

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

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

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

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

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

The board held four meetings in 2011. Details of directors' attendance at the board meetings, annual general meeting and audit committee meetings held in 2011 are set out in the following table.

	No. of meetings attended/held		
Directors	**Board**	**Annual General Meeting**	**Audit Committee**
CHAN Chun Hoo, Thomas	4/4	1/1	N/A
CHENG Bing Kin, Alain	4/4	1/1	N/A
CHOW Yu Chun, Alexander	4/4	1/1	2/2
LEE Ching Kwok, Rin	4/4	0/1	2/2
TO Shu Sing, Sidney	4/4	1/1	N/A
YANG, Victor	4/4	1/1	2/2

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2011. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 25 to 26 of this annual report.

The Company regards the annual general meeting as an important event in which the Chairman and all directors will make an effort to attend. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at general meetings were passed by poll. The poll results will be published in the website of the Company and that of the Stock Exchange on the same date of the meetings.

Board Committees

As an integral part of good corporate governance, the board has established the Audit Committee, Compensation Committee and Nomination Committee to oversee particular aspects of the Company's affairs. Each of these Committees comprises a majority of independent non-executive directors with defined 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 and 2012 to conform to the provisions of the Code and its amendments, a copy of which is posted on the websites of the Company and the Stock Exchange.

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

The Audit Committee has 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 2011.

At the meeting held on 23 March 2012, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2011 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

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

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

All of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The written terms of reference of the Compensation Committee were adopted in December 2007 and subsequently revised in 2012 to conform to the provisions of the Code and its amendments, a copy of which is posted on the websites of the Company and the Stock Exchange.

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 two meetings during the year and were attended by all the current members.

Remuneration Policy for Non-executive Directors and Executive Directors

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

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 12.1 to the financial statements.

Nomination Committee

The Nomination Committee was established on 29 February 2012 and its current members include:

CHAN Chun Hoo, Thomas – *Committee Chairman*
CHOW Yu Chun, Alexander
LEE Ching Kwok, Rin

The majority of the Nomination Committee members are independent non-executive directors. The principal responsibility of the Nomination Committee is to review the size, structure and composition of the board, identify individuals suitably qualified to become board members, and assess the independence of independent non-executive directors. The written terms of reference of the Nomination Committee were adopted on 29 February 2012, a copy of which is posted on the websites of the Company and the Stock Exchange.

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 2011. The Model Code also applies to other specified senior management of the Group.

Directors' Interests

Details of directors' interests in the securities of the Company are set out in pages 14 to 15 of this annual report.

Internal Controls

The board has overall responsibility for maintaining an adequate system of internal controls of the Company and 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 the relevant financial, operational, compliance controls and risk management functions within an established framework. The board's annual review has also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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

The Group's internal control system is designed in consideration of the nature of business as well as the organisation structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

Control Effectiveness

The directors are satisfied with the effectiveness of the Group's internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Auditors' Remuneration

For the year ended 31 December 2011, the auditors of the Company only provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK$700,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

Independent Auditors' Report

Grant Thornton
京都天华

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 74, which comprise the consolidated and the Company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Grant Thornton
京都天华

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

23 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Revenue	4	5,762	44,947	148,219
Cost of sales		(4,115)	(32,095)	(86,080)
Gross profit		1,647	12,852	62,139
Marketing expenses		(3,210)	(25,040)	(55,057)
Selling and distribution expenses		(261)	(2,034)	(7,345)
Administration expenses		(9,245)	(72,112)	(89,720)
Operating loss	6	(11,069)	(86,334)	(89,983)
Other income		193	1,503	203
Finance costs	7	(289)	(2,256)	(1,458)
Change in fair value of derivative financial instrument	20	1	10	–
Share of loss of an associated company		(414)	(3,231)	(2,360)
Loss before income tax		(11,578)	(90,308)	(93,598)
Income tax expense	8	(27)	(213)	(2,085)
Loss for the year attributable to equity holders of the Company	9	(11,605)	(90,521)	(95,683)
		US cents	*HK cents*	*HK cents*
Loss per share	10			
Basic		(1.11)	(8.67)	(11.39)
Diluted		(1.11)	(8.67)	(11.39)

The notes on pages 35 to 74 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Loss for the year	**(11,605)**	**(90,521)**	(95,683)
Other comprehensive income:			
Release of reserve upon winding up of a subsidiary	–	–	(23)
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(42)	(328)	–
Total comprehensive income for the year attributable to equity holders of the Company	**(11,647)**	**(90,849)**	(95,706)

The notes on pages 35 to 74 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Non-current assets				
Property, plant and equipment	13	226	1,767	2,913
Interest in an associated company	15	2,205	17,198	20,429
Deferred tax assets	22	16	125	72
		2,447	19,090	23,414
Current assets				
Inventories	16	273	2,127	5,404
Trade receivables	17	916	7,144	10,642
Deposits paid, other receivables and prepayments		906	7,065	9,007
Taxation recoverable		27	216	16
Cash and bank balances	25.2	26,765	208,766	172,787
		28,887	225,318	197,856
Current liabilities				
Trade payables	18	405	3,160	7,076
Deposits received, other payables and accrued charges		8,196	63,933	25,809
Derivative financial instrument	20	441	3,437	–
Provisions	21	660	5,147	9,403
Taxation payable		–	–	310
		9,702	75,677	42,598
Net current assets		19,185	149,641	155,258

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Total assets less current liabilities		**21,632**	**168,731**	178,672
Non-current liabilities				
Convertible bond	*20*	**9,545**	**74,447**	–
Net assets		**12,087**	**94,284**	178,672
Equity				
Share capital	*24.1*	**1,341**	**10,463**	10,433
Reserves		**10,746**	**83,821**	168,239
Total equity		**12,087**	**94,284**	178,672

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 35 to 74 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2011

	Note	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Non-current assets				
Interest in subsidiaries	14	409	3,192	3,192
Current assets				
Other receivables and prepayments		55	426	97
Cash and bank balances		25,720	200,618	164,661
		25,775	201,044	164,758
Current liabilities				
Other payables and accrued charges		202	1,576	1,904
Amount due to a subsidiary	19	408	3,187	3,192
Derivative financial instrument	20	441	3,437	–
		1,051	8,200	5,096
Net current assets		24,724	192,844	159,662
Total assets less current liabilities		25,133	196,036	162,854
Non-current liabilities				
Convertible bond	20	9,545	74,447	–
Net assets		15,588	121,589	162,854
Equity				
Share capital	24.1	1,341	10,463	10,433
Reserves	24.2	14,247	111,126	152,421
Total equity		15,588	121,589	162,854

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 35 to 74 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 US$'000 (Note 29)	2011 HK$'000	2010 HK$'000
Cash flows from operating activities				
Cash used in operations	25.1	(5,469)	(42,660)	(51,052)
Interest paid		(100)	(778)	(356)
Overseas tax refunded		2	17	4,192
Overseas tax paid		–	–	(93)
Hong Kong profits tax paid		(102)	(793)	–
Net cash used in operating activities		(5,669)	(44,214)	(47,309)
Cash flows from investing activities				
Purchases of property, plant and equipment		(51)	(398)	(1,566)
Proceeds from disposal of property, plant and equipment		1	4	18
Bank interest received		193	1,503	203
Dividend received from an associated company		–	–	2,940
Repayment from a jointly controlled entity		–	–	3,162
Net cash generated from investing activities		143	1,109	4,757
Cash flows from financing activities				
Issue of shares		171	1,332	104,328
Share issuing expenses		–	–	(2,183)
Issue of convertible bond		9,936	77,500	–
Net cash generated from financing activities		10,107	78,832	102,145
Net increase in cash and cash equivalents		4,581	35,727	59,593
Cash and cash equivalents at 1 January		22,152	172,787	113,194
Effect of foreign exchange rate changes		32	252	–
Cash and cash equivalents at 31 December	25.2	26,765	208,766	172,787

The notes on pages 35 to 74 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note 24.2)*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2010	4,955	204	167,613	(533)	1,357	(168,230)	5,366
Loss for the year	–	–	–	–	–	(95,683)	(95,683)
Other comprehensive income:							
Release of reserve upon winding up of a subsidiary	–	–	–	(23)	–	–	(23)
Total comprehensive income for the year	–	–	–	(23)	–	(95,683)	(95,706)
Conversion of convertible bond	2,000	153,000	–	–	–	–	155,000
Issue of shares	3,478	100,850	–	–	–	–	104,328
Shares issuing expenses	–	(2,183)	–	–	–	–	(2,183)
Share option scheme – value of services	–	–	–	–	11,867	–	11,867
Transactions with owners	5,478	251,667	–	–	11,867	–	269,012
Share options lapsed	–	–	–	–	(375)	375	–
At 31 December 2010	10,433	251,871	167,613	(556)	12,849	(263,538)	178,672

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note 24.2)*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2011	10,433	251,871	167,613	(556)	12,849	(263,538)	178,672
Loss for the year	–	–	–	–	–	(90,521)	(90,521)
Other comprehensive income:							
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	(328)	–	–	(328)
Total comprehensive income for the year	–	–	–	(328)	–	(90,521)	(90,849)
Issue of shares	29	1,259	–	–	–	–	1,288
Share option scheme							
– value of services	–	–	–	–	5,129	–	5,129
– shares issued	1	78	–	–	(35)	–	44
Transactions with owners	30	1,337	–	–	5,094	–	6,461
Share options lapsed	–	–	–	–	(726)	726	–
At 31 December 2011	10,463	253,208	167,613	(884)	17,217	(353,333)	94,284

The notes on pages 35 to 74 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 23/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors, the ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

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

The financial statements for the year ended 31 December 2011 were approved by the board of directors on 23 March 2012.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements on pages 27 to 74 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The significant accounting policies that have been used in preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3 to the financial statements.

The financial statements have been prepared under the historical cost basis except for derivative financial instrument (including conversion options embedded in convertible bond) which is stated at fair value. The measurement basis is fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of 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 Summary of Significant Accounting Policies (Continued)

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

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

In the Company's balance sheet, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Associated companies and jointly controlled entities

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

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

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

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

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

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

2.5 *Property, plant and equipment*

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in profit or loss.

Depreciation is calculated using the straight-line method to write off cost less the residual values over the 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 and net realisable value. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

The Group reviews the condition of inventories at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. At the balance sheet date, the carrying amount of inventories after provision for impairment amounted to HK$2,127,000 (2010: HK$5,404,000).

2.7 Financial assets

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

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

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

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

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

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

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

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 a 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.

Impairment losses on financial assets other than trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.8 Impairment of non-financial assets

Property, plant and equipment, interests in subsidiaries and an associated company are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.9 Financial liabilities

The Group's financial liabilities include trade and other payables and convertible bond. They are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables

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

Convertible bond

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

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

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

2.10 Derivative financial instruments

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

The fair values of the derivative financial instruments are determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the transaction date and each balance sheet date with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers. 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. 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.

(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.

2 Summary of Significant Accounting Policies (Continued)

2.11 Provisions (Continued)

(iii) Cancellation charges

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

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

At each relevant balance sheet date, the Group will analyse the potential cancellation charge exposure for order cancellations due to commitments for finished goods, work in process items and material authorisations. The Group will also review if any items can be carried over to be produced and sold in the subsequent year. Once any adjustment is made, the remaining exposure is adjusted by a factor representing the historical negotiated discount agreed with the suppliers.

All provisions are established for specific exposures. At the balance sheet date, the carrying amount of provisions amounted to HK$5,147,000 (2010: HK$9,403,000).

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best judgement to estimate the amount of provision necessary and sufficient for each potential exposure.

Over- or under-provision for the above exposures, arising from subsequent events and the eventual settlement, are adjusted in that subsequent period where appropriate.

2.12 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 customers, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

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

2 Summary of Significant Accounting Policies (Continued)

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

2.15.3 Product development costs are recognised as intangible assets when the following criteria are met:

(i) demonstration of technical feasibility of completing the product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

All other product development costs are charged to profit or loss as incurred.

2.16 Operating leases

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

2.17 Employee benefits

2.17.1 Employee leave entitlements

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

2.17.2 Pension obligations

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to profit or loss as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2.17.3 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the Group revises the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 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.

2 Summary of Significant Accounting Policies (Continued)

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, including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Current taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense/credit in profit or loss.

Current tax assets and current tax liabilities are presented in net if, and only if,

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.21 Foreign currency translation

The financial statements are presented in Hong Kong dollar (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollar. Assets and liabilities have been translated into Hong Kong dollar at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollar at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

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

2.22 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value less bank overdrafts.

2 Summary of Significant Accounting Policies (Continued)

2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's senior executive management for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. Based on the internal reports reviewed by the senior executive management of the Group that are used to make strategic decision, the only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

2.24 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3 *Adoption of New or Amended HKFRSs*

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 2011:

HKAS 24 (Revised)	Related Party Disclosures
Various	Improvements to HKFRSs 2010

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

At the date of authorisation of these financial statements, certain new or 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 or amended HKFRSs that are expected to have impact on the Group's financial statements is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact on the Group's financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

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 2011 from sales of toys was HK$44,947,000 (2010: HK$148,219,000).

5 Segment Information

5.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, and interest in an associated company ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of property, plant and equipment, and the location of operation in case of interest in an associated company.

	Revenue		Specified non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**–**	–	**17,836**	21,747
Americas				
– U.S.A.	**36,170**	65,109	**1,129**	1,595
– Others	**127**	13,296	**–**	–
Europe	**7,104**	62,350	**–**	–
Asia Pacific other than Hong Kong	**655**	6,371	**–**	–
Others	**891**	1,093	**–**	–
	44,947	148,219	**1,129**	1,595
	44,947	148,219	**18,965**	23,342

5.2 Major customers

The Group's customer base is diversified and includes three (2010: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK$8.4 million, HK$8.3 million and HK$7.5 million (2010: HK$25 million, HK$21 million and HK$17 million) respectively.

6 *Operating Loss*

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

	2011 *HK$'000*	2010 *HK$'000*
Cost of inventories sold	**20,092**	71,692
(Reversal of provision)/Write-down of inventories	**(31)**	297
Product development costs	**7,843**	3,195
Royalties paid	**11,517**	22,512
Provision for customer concession	**390**	2,327
Reversal of unutilised provision for customer concession	**(185)**	(639)
Provision for customer returns, cooperative advertising and cancellation charges *(Note 21)*	**1,776**	4,595
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 21)*	**(3,867)**	(6,033)
Depreciation of property, plant and equipment	**1,484**	2,367
Employee benefit expense, including directors' remuneration *(Note 11)*	**44,362**	59,152
Operating leases expense on office and warehouse facilities	**5,113**	11,613
Loss on disposal of property, plant and equipment	**65**	1,097
Net foreign exchange gain	**(520)**	(59)
Auditors' remuneration	**700**	700

7 *Finance Costs*

	2011 *HK$'000*	2010 *HK$'000*
Interest on convertible bond	**1,172**	178
Bank charges	**1,084**	1,280
	2,256	1,458

8 *Income Tax Expense*

8.1 Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Overseas, mainly the U.S., taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profits. The tax rate for federal tax is 34% (2010: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2010: 8.84%).

	2011 ***HK$'000***	2010 *HK$'000*
Current taxation		
Hong Kong profits tax	**291**	148
Over provision in prior years – Hong Kong	**(25)**	(36)
Under provision in prior years – overseas	**–**	1,713
	266	1,825
Deferred taxation		
Origination and reversal of temporary differences	**(53)**	260
Income tax expense	**213**	2,085

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

	2011 ***HK$'000***	2010 *HK$'000*
Loss before income tax	**90,308**	93,598
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(34,074)**	(37,026)
Tax effect of:		
Non-taxable income	**(400)**	(37)
Non-deductible expenses	**845**	244
Unrecognised temporary differences	**1,031**	(2,018)
Unrecognised tax losses	**32,799**	39,330
Utilisation of previously unrecognised tax losses	**–**	(223)
Reversal of previously recognised temporary differences	**37**	119
Prior years (over)/under provision	**(25)**	1,677
Others	**–**	19
Income tax expense	**213**	2,085

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$47,726,000 (2010: HK$77,447,000) which has been dealt with in the financial statements of the Company.

10 *Loss per Share*

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$90,521,000 (2010: HK$95,683,000) and on the weighted average number of ordinary shares of 1,044,487,000 (2010: 840,026,000) in issue during the year.

Diluted loss per share for the year ended 31 December 2011 and 2010 equals to the basic loss per share as the potential ordinary shares (share options, warrants and convertible bond) were not included in the calculation of diluted loss per share because they are anti-dilutive.

11 *Employee Benefit Expense*

	2011 ***HK$'000***	2010 *HK$'000*
Wages, salaries and other benefits	**39,526**	41,939
Share-based compensation	**3,735**	11,318
Employer's contributions to provident fund	**1,101**	1,367
Termination benefits	**–**	4,528
	44,362	59,152

Total employee benefit expense 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 2011 *HK$'000*	Salary 2011 *HK$'000*	Share-based compensation 2011 *HK$'000*	Other benefits 2011 *HK$'000* *(Note 1)*	Employer's contribution to provident fund 2011 *HK$'000*	Total 2011 *HK$'000*
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHENG Bing Kin, Alain	10	–	415	–	–	425
CHOW Yu Chun, Alexander	120	–	37	190	–	347
LEE Ching Kwok, Rin	120	–	37	160	–	317
TO Shu Sing, Sidney	10	–	534	–	–	544
YANG, Victor	120	–	37	190	–	347
	390	–	1,060	540	–	1,990

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

Notes:

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

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

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

12.2 Five highest paid individuals

None of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the five highest paid individuals for the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**11,429**	9,174
Share-based compensation	**998**	1,553
Employer's contributions to provident fund	**465**	594
	12,892	11,321

The emoluments of these five individuals are within the following bands:

	Number of individuals	
	2011	2010
HK$		
1,500,001 – 2,000,000	**2**	3
2,000,001 – 2,500,000	**2**	–
2,500,001 – 3,000,000	**–**	2
4,500,001 – 5,000,000	**1**	–
	5	5

The employees, whose emoluments are disclosed above, include a senior executive who was also a director of certain 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 2011	**2,486**	**2,013**	**26,160**	**30,659**
Exchange fluctuation	**4**	**7**	**159**	**170**
Additions	**16**	**–**	**382**	**398**
Disposals	**(1,910)**	**(181)**	**(1,865)**	**(3,956)**
At 31 December 2011	**596**	**1,839**	**24,836**	**27,271**
Accumulated depreciation				
At 1 January 2011	**1,568**	**1,090**	**25,088**	**27,746**
Exchange fluctuation	**1**	**5**	**155**	**161**
Charge for the year	**538**	**187**	**759**	**1,484**
Disposals	**(1,910)**	**(181)**	**(1,796)**	**(3,887)**
At 31 December 2011	**197**	**1,101**	**24,206**	**25,504**
Net book value				
At 31 December 2011	**399**	**738**	**630**	**1,767**
Cost				
At 1 January 2010	5,571	9,579	27,056	42,206
Additions	576	805	185	1,566
Disposals	(3,661)	(8,371)	(1,081)	(13,113)
At 31 December 2010	2,486	2,013	26,160	30,659
Accumulated depreciation				
At 1 January 2010	4,372	8,115	24,890	37,377
Charge for the year	769	345	1,253	2,367
Disposals	(3,573)	(7,370)	(1,055)	(11,998)
At 31 December 2010	1,568	1,090	25,088	27,746
Net book value				
At 31 December 2010	918	923	1,072	2,913

14 Interest in Subsidiaries – Company

	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	147,380	147,380
Less: Provision for impairment	(144,188)	(144,188)
Interest in subsidiaries	3,192	3,192

Details of the principal subsidiaries of the Company as at 31 December 2011 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.

15 Interest in an Associated Company – Group

	2011 HK$'000	2010 HK$'000
Cost of investment	18,077	18,077
Share of post-acquisition (loss)/profit, other comprehensive income, net of dividends received	(879)	2,352
	17,198	20,429

As at 31 December 2011, the Group held interests in the following associated company:

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

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

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

Summary of financial information of the associated company

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Loss HK$'000
2011					
100 per cent	43,794	8,695	35,099	56,655	6,594
Group's effective interest	21,459	4,261	17,198	27,761	3,231
2010					
100 per cent	55,883	14,190	41,693	69,284	4,816
Group's effective interest	27,382	6,953	20,429	33,949	2,360

16 Inventories – Group

As at 31 December 2011, the carrying amount of inventories that are carried at net realisable value amounted to HK$nil (2010: HK$1,759,000).

17 Trade Receivables – Group

	2011 **HK$'000**	2010 HK$'000
Trade receivables	**7,204**	11,744
Less: Allowance for customer concession	**(60)**	(1,102)
	7,144	10,642

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

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

	2011 **HK$'000**	2010 HK$'000
0 – 30 days	**7,087**	10,186
31 – 60 days	**52**	220
Over 60 days	**5**	236
	7,144	10,642

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

	2011 **HK$'000**	2010 HK$'000
Neither past due nor impaired	**7,087**	10,406
1 – 90 days past due	**52**	236
Over 180 days past due	**5**	–
	57	236
	7,144	10,642

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

Receivables that were past due but not impaired related to customers that have a good track record of credit with the Group. Based on past experience, 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.

18 Trade Payables – Group

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

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**2,531**	6,169
31 – 60 days	**247**	512
Over 60 days	**382**	395
	3,160	7,076

19 Amount Due to a Subsidiary – Company

The amount due is unsecured, interest-free and has no fixed term of repayment. The carrying amount of amount due approximates its fair value.

20 Convertible Bond and Derivative Financial Instrument – Group and Company

The Company issued a US$10 million (equivalent to HK$77.5 million) 2% per annum convertible bond to its immediate holding company, PIL Toys Limited ("PIL Toys") on 31 March 2011. The bond matures in five years from the issue date at its nominal value of US$10 million or can be converted into shares of the Company at the holder's option at any time from the date of issue and up to the maturity date of the bond at the rate of 1 share per US$0.0875.

The carrying values of the liability component and derivative component of the convertible bond as at 31 December 2011 were as follows:

	HK$'000
Liability component – classified as non-current liability	
Net carrying amount on initial recognition	**74,053**
Interest expense	**394**
Net carrying amount at 31 December 2011	**74,447**

The initial carrying amount of the liability component was the residual value after deducting the fair value of the derivative component as at 31 March 2011, and was subsequently carried at amortised cost.

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 2.09% to the liability component.

	HK$'000
Derivative component – classified as current liability	
Net carrying amount on initial recognition	**3,447**
Change in fair value recognised in profit or loss	**(10)**
Net carrying amount at 31 December 2011	**3,437**

The conversion option derivative component was stated at fair value at date of initial recognition and at 31 December 2011.

21 *Provisions – Group*

	Consumer returns *HK$'000*	**Cooperative advertising** *HK$'000*	**Cancellation charges** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	**1,217**	**6,818**	**1,368**	**9,403**
Exchange fluctuation	**8**	**44**	**9**	**61**
Additional provisions made	**571**	**1,128**	**77**	**1,776**
Provisions utilised	**(768)**	**(1,405)**	**(53)**	**(2,226)**
Reversal of unutilised provisions	**(244)**	**(2,907)**	**(716)**	**(3,867)**
At 31 December 2011	**784**	**3,678**	**685**	**5,147**

22 Deferred Tax Assets – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2010: 16.5%) in Hong Kong, and federal and California state tax rates of 34% (2010: 34%) and 8.84% (2010: 8.84%) respectively in the U.S..

The movement in the deferred tax assets in respect of accelerated tax depreciation during the year is as follows:

	2011 *HK$'000*	2010 *HK$'000*
At 1 January	72	332
Credited/(Charged) to profit or loss	53	(260)
At 31 December	125	72

The Group has unrecognised tax losses of HK$475 million (2010: HK$393 million) as it is not probable that future taxable profits will be available against which the losses can be utilised. Of the unrecognised tax losses, HK$462 million expires at various dates up to and including 2031 (2010: HK$379 million expires at various dates up to and including 2030) and the remaining balance has no expiry dates under respective current tax legislation.

23 Equity Settled Share-based Transactions

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

	2011		2010	
	Weighted average exercise price *HK$*	Number of options *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	0.660	36,788	0.350	10,162
Granted *(Note (a))*	0.318	14,380	0.881	25,500
Adjustment due to rights issue	–	–	0.660	3,669
Exercised *(Note (b))*	0.315	(140)	–	–
Lapsed	0.654	(4,603)	0.705	(2,543)
At 31 December *(Note (c))*	0.556	46,425	0.660	36,788

Notes:

(a) Share options were granted to directors, employees and other participants on 18 April 2011 and 24 May 2011 at the exercise price of HK$0.315 and HK$0.428 per share respectively and expiring on 17 April 2021 and 23 May 2021 respectively. The closing prices of the ordinary share of the Company on 15 April 2011 and 23 May 2011, being the trading days immediately before the dates on which the share options were granted, were HK$0.30 and HK$0.41 respectively. Consideration received was HK$602 in respect of the share options granted during the year.

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

Date of grant	18 April 2011	24 May 2011
Share price at date of grant	HK$0.315	HK$0.415
Exercise price	HK$0.315	HK$0.428
Expected volatility	111%	110%
Expected life of option	5 years	5 years
Risk-free rate	1.85%	1.72%
Expected dividend yield	NIL	NIL
Fair value at date of grant	HK$0.251	HK$0.327

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

(b) These share options were exercised on 13 June 2011 and 8 August 2011 at exercise price of HK$0.315 per share. The closing price per share of the Company immediately before the date on which the options were exercised was HK$0.41 and HK$0.45 respectively.

23 Equity Settled Share-based Transactions (Continued)

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

Expiry date	Exercise price	Number of options		Exercisable and vested Number of options	
		2011	2010	2011	2010
	HK$	*'000*	*'000*	*'000*	*'000*
Directors					
30 March 2018	0.316	**2,437**	2,437	**2,437**	1,828
19 January 2020	0.828	**4,546**	4,546	**2,273**	1,136
17 April 2021	0.315	**2,200**	–	**550**	–
		9,183	6,983	**5,260**	2,964
Employees					
30 March 2018	0.316	**7,075**	7,297	**7,075**	5,473
19 January 2020	0.828	**12,418**	13,527	**6,209**	3,382
17 April 2021	0.315	**7,000**	–	**1,750**	–
23 May 2021	0.428	**400**	–	**100**	–
		26,893	20,824	**15,134**	8,855
Other participants					
30 March 2018	0.316	**499**	499	**499**	374
19 January 2020	0.828	**2,384**	2,384	**1,192**	596
29 March 2020	0.673	**3,326**	6,098	**–**	416
17 April 2021	0.315	**4,140**	–	**1,035**	–
		10,349	8,981	**2,726**	1,386
		46,425	36,788	**23,120**	13,205

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

The share options outstanding at 31 December 2011 had a weighted average remaining contractual life of 8.05 years (2010: 8.59 years).

In total, HK$5,129,000 of share-based compensation expense has been included in the consolidated income statement for 2011 (2010: HK$11,867,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

24 Equity – Group and Company

24.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2010 and 2011	**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 2010	495,500,000	4,955
Conversion of convertible bond	200,000,000	2,000
Issue of shares	347,750,000	3,478
Exercise of warrants	7,473	–
At 31 December 2010 and 1 January 2011	**1,043,257,473**	**10,433**
Exercise of share options	**140,000**	**1**
Exercise of warrants *(Note)*	**2,862,735**	**29**
At 31 December 2011	**1,046,260,208**	**10,463**

Note: The warrants are exercisable from 4 August 2010 to 3 August 2012 at an initial subscription price of HK$0.45 per share (subject to adjustment). As at 31 December 2011, 132,752,292 (2010: 135,615,027) warrants remained unexercised.

24 Equity – Group and Company (Continued)

24.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contribution surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	204	1,357	142,523	(177,750)	(33,666)
Loss for the year	–	–	–	(77,447)	(77,447)
Conversion of convertible bond	153,000	–	–	–	153,000
Issue of shares	100,850	–	–	–	100,850
Shares issuing expenses	(2,183)	–	–	–	(2,183)
Share option scheme					
– value of services	–	11,867	–	–	11,867
– options lapsed	–	(375)	–	375	–
At 31 December 2010	251,871	12,849	142,523	(254,822)	152,421
At 1 January 2011	**251,871**	**12,849**	**142,523**	**(254,822)**	**152,421**
Loss for the year	**–**	**–**	**–**	**(47,726)**	**(47,726)**
Issue of shares	**1,259**	**–**	**–**	**–**	**1,259**
Share option scheme					
– value of services	**–**	**5,129**	**–**	**–**	**5,129**
– shares issued	**78**	**(35)**	**–**	**–**	**43**
– options lapsed	**–**	**(726)**	**–**	**726**	**–**
At 31 December 2011	**253,208**	**17,217**	**142,523**	**(301,822)**	**111,126**

Nature and purpose of reserves

Company

(i) *Contributed surplus*

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

Group

(ii) Capital reserve

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

24.3 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 2011 and 2010.

25 Notes to the Consolidated Cash Flow Statement

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

	2011	2010
	HK$'000	*HK$'000*
Loss before income tax	**(90,308)**	(93,598)
Bank interest income	**(1,503)**	(203)
Interest on convertible bond	**1,172**	178
Depreciation of property, plant and equipment	**1,484**	2,367
Share-based compensation	**5,129**	11,867
Loss on disposal of property, plant and equipment	**65**	1,097
Gain on winding up of a subsidiary	**–**	(23)
Unrealised exchange gain	**(589)**	–
Change in fair value of derivative financial instrument	**(10)**	–
Share of loss of an associated company	**3,231**	2,360
Operating loss before working capital changes	**(81,329)**	(75,955)
Decrease in inventories	**3,277**	4,777
Decrease in trade receivables, deposits paid, other receivables and prepayments	**5,440**	81,842
Increase/(Decrease) in trade payables, deposits received, other payables and accrued charges and provisions	**29,952**	(61,716)
Cash used in operations	**(42,660)**	(51,052)

25 Notes to the Consolidated Cash Flow Statement (Continued)

25.2 Analysis of cash and cash equivalents

	2011 *HK$'000*	2010 *HK$'000*
Cash and bank balances	**208,766**	172,787

26 Financial Guarantee Contracts – Company

As at 31 December 2011, the Company did not have any financial guarantee contract. In 2010, the Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$35 million. None of such banking facilities were utilised as at 31 December 2010 and no provision for the Company's obligation under the financial guarantee contracts had been made accordingly.

27 Commitments – Group

27.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

	2011 *HK$'000*	2010 *HK$'000*
Within one year	**22,079**	16,106
In the second to fifth years	**104,676**	95,519
After five years	**–**	23,250
	126,755	134,875

27.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 2011, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2011 *HK$'000*	2010 *HK$'000*
Within one year	**3,671**	3,135
In the second to fifth years	**8,467**	8,245
	12,138	11,380

The Company did not have any commitment at 31 December 2011 and 2010.

28 Related Party Transactions

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

	2011 *HK$'000*	2010 *HK$'000*
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	**1,938**	1,938
Interest expense paid to the immediate holding company, PIL Toys Limited	**1,172**	178
Commission paid to the immediate holding company, PIL Toys Limited	**–**	941
Commission paid to a related company, TGC Assets Limited	**–**	172

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

29 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2011.

30 Financial Risk Management and Fair Value Measurement

30.1 Categories of financial instruments

	2011 *HK$'000*	2010 *HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**7,144**	10,642
Deposits paid and other receivables	**882**	461
Cash and bank balances	**208,766**	172,787
	216,792	183,890
Financial liabilities		
At amortised cost:		
Convertible bond	**74,447**	–
Trade payables	**3,160**	7,076
Other payables and accrued charges	**15,659**	25,809
	93,266	32,885
At fair value:		
Derivative financial instrument	**3,437**	–
	96,703	32,885

30.2 Financial risk factors

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

30.2.1 Currency risk

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

30.2.2 Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet as summarised in note 30.1 above.

Concentrations of credit risk

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:

	2011	2010
Sales		
– the largest customer	**19%**	17%
– five largest customers in aggregate	**65%**	53%

30 Financial Risk Management and Fair Value Measurement (Continued)

30.2 Financial risk factors (Continued)

30.2.3 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.

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

	2011				
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Total undiscounted amount *HK$'000*	Carrying amount *HK$'000*
Convertible bond	1,560	1,560	81,510	84,630	74,447
Trade payables	3,160	–	–	3,160	3,160
Other payables and accrued charges	15,659	–	–	15,659	15,659
	20,379	1,560	81,510	103,449	93,266

The Group's financial liabilities at 31 December 2010 were settled within 3 months.

30.3 Fair value measurement

The financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

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

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

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

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

At 31 December 2011, the financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1 ***HK$'000***	**Level 2** ***HK$'000***	**Level 3** ***HK$'000***	**Total** ***HK$'000***
Liabilities:				
Derivative financial instrument	**–**	**3,437**	**–**	**3,437**

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

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

31 Events After the Balance Sheet Date

31.1 Exercise of warrants

On 27 February 2012, PIL Toys exercised 65,000,000 warrants at subscription price of HK$0.45 per share totaling HK$29.3 million and on 28 February 2012, the Company issued 65,000,000 ordinary shares with an aggregate nominal value of HK$650,000 to PIL Toys.

31.2 Repayment of convertible bond

On 27 February 2012, the Company repaid US$5 million (equivalent to HK$38.8 million) being part of the principal amount of the convertible bond to PIL Toys together with US$50,000 (equivalent to HK$387,900), a sum equal to 1% of the principal amount so early repaid in accordance with the terms and conditions of the convertible bond.

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:

	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**44,947**	148,219	636,440	703,596	909,030
Loss before income tax	**(90,308)**	(93,598)	(45,315)	(143,698)	(68,136)
Income tax (expense)/credit	**(213)**	(2,085)	(41,389)	(46,818)	34,551
Loss for the year attributable to equity holders of the Company	**(90,521)**	(95,683)	(86,704)	(190,516)	(33,585)
Total assets	**244,408**	221,270	264,746	315,602	495,130
Total liabilities	**(150,124)**	(42,598)	(259,380)	(223,521)	(213,874)
Net assets	**94,284**	178,672	5,366	92,081	281,256

Playmates Toys Limited

(Incorporated in Bermuda with limited liability)

(Stock code 869)

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