Playmates®

2011 Annual Report

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Corporate Information

Directors

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

Company Secretary

NG Ka Yan

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

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

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

Website

www.playmates.net

Statement from the Chairman

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, our operating units engaging in different business segments delivered mixed results. As economic performance of the Greater China region remained buoyant, our property investment and associated businesses reported growth in profit, reflecting positive consumer sentiment and gains in property valuation.

During 2011 Playmates Toys completed realignment of product portfolio and focused on rebuilding its 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, 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 its 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 Playmates Toys 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

Group Overview

Playmates Holdings group worldwide turnover for the year ended 31 December 2011 was HK$163 million (2010: HK$264 million); reflected a decrease of 38.2% compared to the prior year. The Group reported an operating profit of HK$705 million (2010: HK$300 million) and net profit attributable to shareholders was HK$733 million (2010: HK$329 million (restated)). Basic earnings per share was HK$2.91 (2010: HK$1.34 (restated)).

Property Investments and Associated Businesses

In 2011 turnover from the property investments and property management businesses decreased slightly by 1.7% to approximately HK$80.2 million (2010: HK$81.6 million), while revenue from the food and beverage business increased by 18.4% to about HK$32.9 million (2010: HK$27.8 million). Aggregate turnover increased by approximately 3.4% to about HK$113.1 million (2010: HK$109.4 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of about HK$3.0 billion (2010: about HK$2.1 billion). A revaluation surplus of HK$785.1 million was reported in the consolidated income statement of the Group. Segment operating profit was HK$834.5 million including revaluation surplus, compared to HK$364.1 million (including revaluation surplus of HK$319.3 million) for 2010.

(a) Property Investments

The Group's major investment properties in Hong Kong include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. Overall occupancy rate of the investment properties in Hong Kong was about 94% as at 31 December 2011 and 31 December 2010. The Group's property portfolio also includes two investment properties in the United Kingdom.

(i) The Toy House

Rental income generated by The Toy House was about HK$42.7 million, a decrease of 5.7% from prior year (2010: HK$45.2 million), due to a slight drop in occupancy during 2011 as planned. With the implementation of the longer term development plans in the West Kowloon waterfront area, Canton Road has been firmly established as a luxury shopping, entertainment and dining destination. More and more prominent global brands have opened flagship stores in the area, which have continued to attract increasing numbers of local shoppers and visitors. We have entered into a long term lease agreement with a leading global brand to operate a flagship retail store in the building starting from 2013. We are optimistic that the value and recurring rental income of The Toy House will benefit from these developments over the next few years.

(ii) Hillview

Rental income generated by the residential properties at Hillview increased 8.3% from prior year to about HK$15.2 million (2010: HK$14.0 million). Rental increases from lease renewals during 2011 reflect the improvement in demand for luxury residential properties in Mid-levels. We expect the outlook for the high-end residential market in that area will remain positive due to under supply.

(iii) Playmates Factory Building

Rental income generated by Playmates Factory Building was about HK$9.9 million, an increase of 4.2% over prior year (2010: HK$9.5 million). The occupancy rate of the premises is close to 100% as demand for industrial space remains steady. We expect recurring rental income to further improve from lease renewals.

(b) ***Property Management***

The Group engaged Savills Property Management Limited as the manager of The Toy House and Playmates Factory Building. Savills provides comprehensive property management services, including repair and maintenance, building security, general cleaning for common areas, hand-over and take-over of premises, and the monitoring of reinstatement and refurbishment works.

Income generated from the property management business segment remained steady at about HK$12.4 million in both 2011 and 2010.

(c) ***Food & Beverage Business***

Turnover generated from the food and beverage business for the year increased by 18.4% to HK$32.9 million (2010: HK$27.8 million). The business of each Group restaurant improved during the year, which can be attributed to increase in consumer spending and growing customer base. Fandango was recently selected for listing in the 2012 edition of the "Michelin Guide Hong Kong and Macau" with positive review on its quality and Spanish authenticity. Wa-En and Zenpachi were both successful in strengthening their specialty Japanese cuisine positioning by further enhancing the quality and variety of their menus during the year.

As consumer sentiment continues to improve, management anticipates continued growth for the property investments and associated businesses. We will maintain our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

Playmates Toys

Playmates Toys group worldwide turnover for the year ended 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).

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.

Playmates Toys expects its 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 its product portfolio and focused on rebuilding the business by selective investments in quality opportunities reflecting its core competence. While significant challenges and uncertainties remain, Playmates Toys is 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 toy group.

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

Portfolio Investments

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

As at 31 December 2011, fair market value of the Group's investment portfolio was HK$156.3 million (2010: HK$198.5 million). The Group reported a net loss from investments of approximately HK$44.1 million. In comparison, a net gain from investments of approximately HK$33.7 million was recorded in 2010. In 2011, dividend and interest income generated from portfolio investments were approximately HK$5.0 million (2010: HK$6.1 million) and has been included in the revenue of the Group.

The Euro zone debt crisis and concerns over China's economic growth continue to contribute to uncertainties in the global financial markets. Management expects returns from equity investments to remain volatile and will remain vigilant in monitoring and adjusting the investment portfolio.

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

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 49, was appointed a director of the Company in 2006. He is the Group Legal Counsel and also an executive director of Playmates Toys 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.

IP Shu Wing, Charles

Independent Non-executive Director

Mr. Ip, age 61, was appointed a director of the Company in 1999. Mr. Ip has 38 years of experience in business management and has held a number of key management positions in various multi-national corporations. He has been re-designated from a Non-executive Director to an Independent Non-executive Director of the Company with effect from 25 March 2011.

LEE Peng Fei, Allen

Independent Non-executive Director

Dr. Lee, age 71, was appointed a director of the Company in 1993. He holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He was a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

LO Kai Yiu, Anthony

Independent Non-executive Director

Mr. Lo, age 63, was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 12 years of professional accounting experience, he has over 32 years of experience in investment banking and other financial services. Mr. Lo serves as a director of a number of public and private companies.

TO Shu Sing, Sidney

Executive Director

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

TSIM Tak Lung

Deputy Chairman and Non-executive Director

Mr. Tsim, age 65, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

YU Hon To, David

Independent Non-executive Director

Mr. Yu, age 63, was appointed a director of the Company in 1995. He is a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is the Vice Chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm. Currently, he is also an independent non-executive director of listed companies in Hong Kong including China Datang Corporation Renewable Power Company Limited, China Renewable Energy Investment Limited, Great China Holdings Limited, Haier Electronics Group Co., Limited, Media Chinese International Limited, One Media Group Limited, Sateri Holdings Limited, Synergis Holdings Limited, TeleEye Holdings Limited and VXL Capital Limited.

Report of the Directors

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 Operations

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

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

Major suppliers and customers

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

Purchases	
– the largest supplier	39%
– five largest suppliers in aggregate	70%
Sales	
– the largest customer	7%
– five largest customers in aggregate	26%

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 32.

The directors have declared a first interim dividend of HK$0.05 per ordinary share, totalling HK$12,365,000, which was paid on 3 October 2011.

The directors have declared a second interim dividend of HK$0.05 per ordinary share, totalling HK$12,335,000, which is calculated on the basis of 246,690,000 ordinary shares in issue at the date of board meeting held on 23 March 2012.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 40. Movements in the reserves of the Company during the year are set out in note 27.2 to the financial statements.

Distributable reserves of the Company at 31 December 2011, calculated under the Companies Act 1981 of Bermuda, amounted to HK$363,337,000 (2010: HK$483,606,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 22 to the financial statements.

Liquidity and financial resources

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2011, trade receivables related to toy operation were HK$7,144,000 (2010: HK$10,642,000) and inventories related to toy operation were at a seasonal low level of HK$2,127,000 (2010: HK$5,404,000) or 4.7% (2010: 3.6%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 94% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2011. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2011 was 14.9% compared to 13.6% at 31 December 2010. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.4 at 31 December 2011 compared to 1.5 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$466,521,000 (2010: HK$430,878,000), and the amount invested in various securities was HK$156,261,000 (2010: HK$198,459,000).

Employees

As at 31 December 2011, the Group had a total of 109 employees in Hong Kong, the United States of America and the United Kingdom. This compares to 116 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 29 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2011 are set out in note 22 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$3,292,000 which includes committed donations as part of the promotional program for a doll product. Charitable and other donations made in 2010 was HK$2,028,000.

Fixed Assets

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

Principal Properties

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

Share Capital

Details of the movements in share capital of the Company are set out in note 27.1 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 91.

Purchase, Sale or Redemption of Shares

During the year, 11,070,000 shares of HK$0.10 each were repurchased by the Company at prices ranging from HK$2.32 to HK$2.90 per share through The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The particulars of the repurchases are set out in note 27.1 to the financial statements.

Directors

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

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

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Ip Shu Wing, Charles, Mr. Lee Peng Fei, Allen and Mr. Lo Kai Yiu, Anthony shall retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

Share Options of the Company

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

Purpose	:	**Plan** To attract, retain and motivate high calibre employees. **Scheme** (i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	**Plan** Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary). **Scheme** (i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.

Total number of ordinary shares available for issue under the Plan/Scheme and the percentage of issued share capital that it represents as at 23 March 2012	:	**Plan** Nil **Scheme** 2,145,700 ordinary shares, representing 0.87% of the issued capital.
Maximum entitlement of each participant	:	**Plan** Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan. **Scheme** Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	**Plan** HK$10.00 **Scheme** HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	**Plan** Determined by the directors at their discretion, but will not be less than the higher of: (i) the nominal value of an ordinary share; and (ii) the average (or, in the case of any person who owns ordinary shares possessing more than 10% of the total combined voting power of the ordinary shares of the Company or the shares of its parent or subsidiary corporations, 110% of the average) of the closing prices of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant.

Share Options (Continued)

Share Options of the Company (Continued)

The basis for determining the exercise price (continued)	:	**Scheme** Determined by the directors and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily 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 Plan/Scheme	:	**Plan** Remained in force until 3 May 2008. **Scheme** Remains in force until 27 June 2012.

The following shows the particulars of the share options of the Company granted to directors of the Company and employees of the Group that 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**	**Lapsed during the year**	**Balance at 31 December 2011**
Plan					
Continuous Contract Employees, excluding Directors	21 May 2001	2.97	11,100	11,100	–
Scheme					
CHENG Bing Kin, Alain	7 January 2004	13.60	59,000	–	59,000
Director	22 September 2005	12.06	62,500	–	62,500
	4 May 2006	9.10	37,500	–	37,500
IP Shu Wing, Charles	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	37,600	–	37,600
LEE Peng Fei, Allen	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
LO Kai Yiu, Anthony	9 August 2002	1.99	25,000	–	25,000
Director	22 September 2005	12.06	100,000	–	100,000
	4 May 2006	9.10	75,000	–	75,000
TO Shu Sing, Sidney	7 January 2004	13.60	120,000	–	120,000
Director	22 September 2005	12.06	150,000	–	150,000
	4 May 2006	9.10	37,500	–	37,500
TSIM Tak Lung	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
YU Hon To, David	22 September 2005	12.06	100,000	–	100,000
Director	4 May 2006	9.10	75,000	–	75,000
Continuous Contract	9 August 2002	1.99	27,700	–	27,700
Employees,	10 March 2003	5.50	115,020	12,600	102,420
excluding Directors	7 January 2004	13.60	665,060	58,000	607,060
	19 March 2004	12.40	1,100,000	–	1,100,000
	22 September 2005	12.06	1,438,120	50,000	1,388,120
	4 May 2006	9.10	927,400	36,100	891,300

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

Share Options (Continued)

Share Options of Playmates Toys Limited ("PTL")

Share options of PTL, an indirect non-wholly owned subsidiary of the Company, are granted to directors of PTL, employees of PTL group and other eligible participants specified under a Share Option Scheme of PTL ("PTL Scheme") adopted on 25 January 2008. Details of the Scheme are as follows:

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of PTL and its subsidiaries ("PTL Group"); and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the PTL Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the PTL Scheme and the percentage of issued share capital of PTL that it represents as at 23 March 2012	:	38,549,000 ordinary shares, representing 3.45% of the issued capital of PTL.
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL.

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

Share Options (Continued)

Share Options of PTL (Continued)

The following shows the particulars of the share options of PTL granted to directors of the Company, directors of PTL, employees of PTL Group and other participants, pursuant to the PTL Scheme, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules 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 of the	20 January 2010	0.828	1,663,000	–	–	–	1,663,000
Company & PTL	18 April 2011	0.315	–	1,000,000	–	–	1,000,000
TO Shu Sing, Sidney	31 March 2008	0.316	554,000	–	–	–	554,000
Director of the	20 January 2010	0.828	2,217,000	–	–	–	2,217,000
Company & PTL	18 April 2011	0.315	–	1,200,000	–	–	1,200,000
Other directors of	31 March 2008	0.316	1,329,000	–	–	–	1,329,000
of PTL	20 January 2010	0.828	666,000	–	–	–	666,000
Continuous Contract	31 March 2008	0.316	7,297,000	–	–	222,000	7,075,000
Employees of PTL	20 January 2010	0.828	13,527,000	–	–	1,109,000	12,418,000
Group, excluding	18 April 2011	0.315	–	7,640,000	140,000	500,000	7,000,000
directors of PTL	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 PTL 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 PTL 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' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

As at 31 December 2011, the interests of each director and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	4.85%
	Corporate *(Note (a))*	91,500,000 ordinary shares	37.00%
	Associate *(Note (e))*	10,000,000 ordinary shares	4.04%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.09%
IP Shu Wing, Charles	Personal	294,480 ordinary shares	0.12%
LEE Peng Fei, Allen	Personal	72,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Personal	344,160 ordinary shares	0.14%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.81%
TSIM Tak Lung	Personal	196,416 ordinary shares	0.08%
YU Hon To, David	Personal	132,000 ordinary shares	0.05%
	Corporate *(Note (b))*	547,200 ordinary shares	0.22%

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

Long positions in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHENG Bing Kin, Alain	Personal	159,000 share options	159,000 shares	0.06%
IP Shu Wing, Charles	Personal	137,600 share options	137,600 shares	0.06%
LEE Peng Fei, Allen	Personal	175,000 share options	175,000 shares	0.07%
LO Kai Yiu, Anthony	Personal	200,000 share options	200,000 shares	0.08%
TO Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.12%
TSIM Tak Lung	Personal	175,000 share options	175,000 shares	0.07%
YU Hon To, David	Personal	175,000 share options	175,000 shares	0.07%

Long positions in shares of PTL

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (c))*	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%
IP Shu Wing, Charles	Personal	908,960 ordinary shares	0.09%
LEE Peng Fei, Allen	Personal	244,000 ordinary shares	0.02%
LO Kai Yiu, Anthony	Personal	688,320 ordinary shares	0.07%
TO Shu Sing, Sidney	Personal	10,400,000 ordinary shares	0.99%
TSIM Tak Lung	Personal	692,832 ordinary shares	0.07%
YU Hon To, David	Personal	176,000 ordinary shares	0.02%
	Corporate *(Note (d))*	1,065,600 ordinary shares	0.10%

Long positions in underlying shares and debentures of PTL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (c))*	114,285,714 conversion shares	114,285,714 shares	10.923%
		76,244,350 warrants	76,244,350 shares	7.287%
	Personal	1,807,650 warrants	1,807,650 shares	0.173%
CHENG Bing Kin, Alain	Personal	3,217,000 share options	3,217,000 shares	0.307%
		520,000 warrants	520,000 shares	0.050%
IP Shu Wing, Charles	Personal	118,040 warrants	118,040 shares	0.011%
LEE Peng Fei, Allen	Personal	31,720 warrants	31,720 shares	0.003%
LO Kai Yiu, Anthony	Personal	89,440 warrants	89,440 shares	0.009%
TO Shu Sing, Sidney	Personal	3,971,000 share options	3,971,000 shares	0.380%
		1,040,000 warrants	1,040,000 shares	0.099%
TSIM Tak Lung	Personal	90,064 warrants	90,064 shares	0.009%
YU Hon To, David	Personal	22,880 warrants	22,880 shares	0.002%
	Corporate *(Note (d))*	138,450 warrants	138,450 shares	0.013%

Notes:

(a) 91,500,000 ordinary shares of the Company were beneficially owned by TGC Assets Limited ("TGC"). All the issued share capital of TGC is wholly-owned by Mr. Chan Chun Hoo, Thomas ("Mr. Chan").

(b) 547,200 ordinary shares of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

(c) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 51,300,000 shares and 11,244,350 warrants of PTL in aggregate which TGC is interested in. Since TGC directly owns approximately 37% of the shareholding of the Company 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 the Company pursuant to a subscription agreement dated 29 October 2010) and 65,000,000 warrants of PTL in aggregate which the Company 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 PTL in aggregate which the Company is interested in.

(d) 1,065,600 ordinary shares and 138,450 warrants of PTL were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

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

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

Long positions in underlying shares and debentures of PTL (Continued)

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

The warrants of PTL 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 and chief executive of the Company are disclosed in the above section headed "Share Options".

As at 31 December 2011, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2011, no person (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO.

Pre-emptive Rights

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

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently amended in 2005, 2009 and 2012.

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

Sufficiency of Public Float

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

Auditors

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 26 August 2008, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of PTL, as tenant and Belmont Limited, an indirect wholly owned subsidiary of the Company, as landlord entered into a tenancy agreement (“Tenancy Agreement”) relating to the leasing of the premises known as 22nd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 September 2008 to 31 August 2011 at the rental of HK$119,991 per month and management charges of HK$19,458 per month (exclusive of rates, Government rent, utilities and other outgoings). Mr. Chan Chun Hoo, Thomas, being a director and the ultimate controlling shareholder (as defined in the Listing Rules) of the Company and hence a connected person of the Company, held indirectly through TGC an aggregate of approximately 18.99% of PTL at the time of the transaction, which resulted in PTL being a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constituted a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 27 August 2008, was exempt from independent shareholders’ approval requirement pursuant to Chapter 14A of the Listing Rules.

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

The auditors of the Company have also reviewed the continuing connected transaction and confirmed to the board that the transaction has been approved by the board of the Company and it 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.

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

The board comprises three executive directors (one of whom is the Chairman) and five non-executive directors. Of the five non-executive directors, four are independent non-executive directors. In addition, two of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the board except for the in-law relationship between Mr. Tsim Tak Lung and Mr. To Shu Sing, Sidney.

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

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

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 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.

Board of Directors (Continued)

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
IP Shu Wing, Charles	4/4	1/1	N/A
LEE Peng Fei, Allen	4/4	1/1	2/2
LO Kai Yiu, Anthony	3/4	1/1	2/2
TO Shu Sing, Sidney	4/4	1/1	N/A
TSIM Tak Lung	4/4	1/1	2/2
YU Hon To, David	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 30 to 31 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 written terms of reference.

Audit Committee

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

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

The majority of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee exceeds the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently revised in 2005, 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 early 2004 and its current members include:

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

The majority of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The written terms of reference of the Compensation Committee were adopted in 2004 and subsequently revised in 2005 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 Compensation Committee meets to determine the policy for the remuneration of directors and assess the performance of executive directors and members of senior management.

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

Board Committees (Continued)

Compensation Committee (Continued)

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 14.1 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
LEE Peng Fei, Allen *(Independent)*
LO Kai Yiu, Anthony *(Independent)*

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 in 2004. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 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 19 to 20 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$1,260,000. 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.

GrantThornton
京都天华

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 90, 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.

GrantThornton
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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton 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$'000 (Note 32)	2011 HK$'000	2010 HK$'000 (Restated)
Revenue	4	**20,907**	**163,077**	263,725
Cost of sales		**(6,662)**	**(51,968)**	(103,800)
Gross profit		**14,245**	**111,109**	159,925
Marketing expenses		**(3,210)**	**(25,040)**	(55,057)
Selling and distribution expenses		**(261)**	**(2,034)**	(7,345)
Administration expenses		**(15,338)**	**(119,634)**	(150,830)
Net (loss)/gain on financial assets at fair value through profit or loss	6	**(5,656)**	**(44,117)**	33,732
Revaluation surplus on investment properties		**100,654**	**785,105**	319,275
Operating profit	7	**90,434**	**705,389**	299,700
Other income		**193**	**1,503**	203
Finance costs	8	**(1,089)**	**(8,490)**	(6,893)
Share of loss of an associated company		**(414)**	**(3,231)**	(2,360)
Profit before income tax		**89,124**	**695,171**	290,650
Income tax expense	9	**(928)**	**(7,240)**	(8,662)
Profit for the year		**88,196**	**687,931**	281,988
Profit for the year attributable to:				
Equity holders of the Company	10	**93,913**	**732,525**	329,314
Non-controlling interests		**(5,717)**	**(44,594)**	(47,326)
		88,196	**687,931**	281,988
		US$	***HK$***	*HK$ (Restated)*
Earnings per share	12			
Basic		**0.37**	**2.91**	1.34
Diluted		**0.37**	**2.91**	1.25

The notes on pages 41 to 90 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 ***US$'000*** *(Note 32)*	**2011** ***HK$'000***	2010 *HK$'000* *(Restated)*
Profit for the year	**88,196**	**687,931**	281,988
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	**(47)**	**(368)**	383
Total comprehensive income for the year	**88,149**	**687,563**	282,348
Total comprehensive income attributable to:			
Equity holders of the Company	**93,887**	**732,321**	329,685
Non-controlling interests	**(5,738)**	**(44,758)**	(47,337)
	88,149	**687,563**	282,348

The notes on pages 41 to 90 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	**31 December 2011 US$'000** (Note 32)	**31 December 2011 HK$'000**	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Non-current assets					
Fixed assets					
– Investment properties	*15*	**381,073**	**2,972,369**	2,117,856	1,808,250
– Other property, plant and equipment	*15*	**18,552**	**144,710**	150,749	140,379
		399,625	**3,117,079**	2,268,605	1,948,629
Goodwill	*16*	**766**	**5,976**	5,976	5,976
Interest in an associated company	*18*	**2,205**	**17,198**	20,429	25,729
Deferred tax assets	*25*	**135**	**1,053**	428	678
		402,731	**3,141,306**	2,295,438	1,981,012
Current assets					
Inventories	*19*	**348**	**2,717**	6,046	10,835
Trade receivables	*20*	**1,067**	**8,319**	11,846	77,964
Deposits paid, other receivables and prepayments		**1,515**	**11,818**	12,133	29,243
Taxation recoverable		**51**	**400**	1,213	6,320
Financial assets at fair value through profit or loss	*21*	**20,034**	**156,261**	198,459	250,621
Interest in a jointly controlled entity		**–**	**–**	–	3,162
Cash and bank balances	*28.2*	**59,810**	**466,521**	430,878	306,764
		82,825	**646,036**	660,575	684,909
Current liabilities					
Bank loans	*22*	**44,304**	**345,571**	355,000	335,000
Trade payables	*23*	**1,102**	**8,599**	9,741	22,434
Deposits received, other payables and accrued charges		**12,440**	**97,030**	53,567	87,991
Provisions	*24*	**660**	**5,147**	9,403	24,904
Taxation payable		**153**	**1,193**	818	2,637
		58,659	**457,540**	428,529	472,966
Net current assets		**24,166**	**188,496**	232,046	211,943

	Note	**31 December 2011 US$'000** (Note 32)	**31 December 2011 HK$'000**	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Total assets less current liabilities		**426,897**	**3,329,802**	2,527,484	2,192,955
Non-current liabilities					
Bank loans	22	**28,077**	**219,000**	45,000	60,000
Deferred tax liabilities	25	**3,366**	**26,256**	25,922	25,545
		31,443	**245,256**	70,922	85,545
Net assets		**395,454**	**3,084,546**	2,456,562	2,107,410
Equity					
Share capital	27.1	**3,171**	**24,730**	25,800	22,462
Reserves		**384,705**	**3,000,699**	2,319,549	1,992,310
Declared dividends	11.1	**1,581**	**12,335**	20,640	89,471
Equity attributable to the equity holders of the Company		**389,457**	**3,037,764**	2,365,989	2,104,243
Non-controlling interests		**5,997**	**46,782**	90,573	3,167
Total equity		**395,454**	**3,084,546**	2,456,562	2,107,410

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 41 to 90 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2011

	Note	2011 *US$'000* *(Note 32)*	2011 *HK$'000*	2010 *HK$'000*
Non-current assets				
Interest in subsidiaries	*17*	**215,189**	**1,678,478**	1,830,582
Current assets				
Prepayments		**37**	**290**	–
Taxation recoverable		**9**	**67**	225
Cash and bank balances		**339**	**2,646**	81
		385	**3,003**	306
Current liabilities				
Other payables and accrued charges		**358**	**2,794**	4
Net current assets		**27**	**209**	302
Net assets		**215,216**	**1,678,687**	1,830,884
Equity				
Share capital	*27.1*	**3,171**	**24,730**	25,800
Reserves	*27.2*	**210,464**	**1,641,622**	1,784,444
Declared dividends	*11.1*	**1,581**	**12,335**	20,640
Total equity		**215,216**	**1,678,687**	1,830,884

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 41 to 90 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 US$'000 (Note 32)	2011 HK$'000	2010 HK$'000
Cash flows from operating activities				
Cash generated from operations	*28.1*	**2,104**	**16,414**	82,383
Interest paid		**(809)**	**(6,310)**	(4,780)
Interest received		**91**	**709**	225
Dividends received from financial assets at fair value through profit or loss		**549**	**4,283**	5,896
Hong Kong profits tax paid		**(1,022)**	**(7,974)**	(8,969)
Hong Kong profits tax refunded		**207**	**1,614**	123
Overseas tax paid		**–**	**–**	(93)
Overseas tax refunded		**2**	**17**	4,192
Net cash generated from operating activities		**1,122**	**8,753**	78,977
Cash flows from investing activities				
Capitalised subsequent expenditure on investment properties		**(6,089)**	**(47,497)**	(18,321)
Acquisition of investment properties		**(2,767)**	**(21,583)**	–
Purchases of other property, plant and equipment		**(530)**	**(4,131)**	(2,115)
Proceeds from disposal of other property, plant and equipment		**–**	**–**	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 used in investing activities		**(9,193)**	**(71,708)**	(14,113)

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 *US$'000* *(Note 32)*	2011 *HK$'000*	2010 *HK$'000*
Cash flows from financing activities				
Issue of shares of the Company		–	–	30,285
Issue of shares of a listed subsidiary		**8**	**63**	52,157
Share issuing expenses		–	–	(1,241)
Repurchase of shares of the Company		**(3,993)**	**(31,146)**	(674)
Repurchase of shares of a listed subsidiary		–	–	(535)
New bank loans		**26,923**	**210,000**	20,000
Repayment of bank loans		**(5,824)**	**(45,429)**	(15,000)
Dividends paid		**(4,311)**	**(33,625)**	(25,055)
Net cash generated from financing activities		**12,803**	**99,863**	59,937
Net increase in cash and cash equivalents		**4,732**	**36,908**	124,801
Cash and cash equivalents at 1 January		**55,240**	**430,878**	306,764
Effect of foreign exchange rate changes		**(162)**	**(1,265)**	(687)
Cash and cash equivalents at 31 December	*28.2*	**59,810**	**466,521**	430,878

The notes on pages 41 to 90 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2010, as previously reported	22,462	1,271,883	1,864	21,196	(292)	26,202	618,564	1,961,879	3,167	1,965,046
Adoption of amendments to HKAS 12 *(Note 3)*	–	–	–	–	–	–	142,364	142,364	–	142,364
At 1 January 2010, as restated	22,462	1,271,883	1,864	21,196	(292)	26,202	760,928	2,104,243	3,167	2,107,410
Profit/(loss) for the year	–	–	–	–	–	–	329,314	329,314	(47,326)	281,988
Other comprehensive income:										
Release of reserve upon winding up of a subsidiary	–	–	–	–	(12)	–	–	(12)	(11)	(23)
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	383	–	–	383	–	383
Total comprehensive income for the year	–	–	–	–	371	–	329,314	329,685	(47,337)	282,348
Issue of shares of the Company	3,365	26,920	–	–	–	–	–	30,285	–	30,285
Issue of shares of a listed subsidiary	–	–	–	–	–	–	–	–	52,157	52,157
Share issuing expenses	–	–	–	(150)	–	–	–	(150)	(1,091)	(1,241)
Repurchase of shares of the Company	(27)	(647)	27	–	–	–	(27)	(674)	–	(674)
Repurchase of shares of a listed subsidiary	–	–	–	(353)	–	–	–	(353)	(182)	(535)
2009 second interim dividend paid	–	–	–	–	–	–	(12,426)	(12,426)	–	(12,426)
2009 special interim dividend in specie	–	–	–	–	–	–	(77,045)	(77,045)	28,653	(48,392)
Gain arising from distribution in specie of shares of a listed subsidiary	–	–	–	–	–	–	48,392	48,392	–	48,392
2010 first interim dividend paid	–	–	–	–	–	–	(12,629)	(12,629)	–	(12,629)
Conversion of convertible bond of a listed subsidiary	–	–	–	(49,273)	–	–	–	(49,273)	49,273	–
Share option scheme – value of services	–	–	–	–	–	5,934	–	5,934	5,933	11,867
Transactions with owners	3,338	26,273	27	(49,776)	–	5,934	(53,735)	(67,939)	134,743	66,804
Share options lapsed	–	–	–	–	–	(468)	468	–	–	–
At 31 December 2010	25,800	1,298,156	1,891	(28,580)	79	31,668	1,036,975	2,365,989	90,573	2,456,562

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Share repurchase reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2011, as previously reported	**25,800**	**1,298,156**	**1,891**	**–**	**(28,580)**	**79**	**31,668**	**840,298**	**2,169,312**	**90,573**	**2,259,885**
Adoption of amendments to HKAS 12 *(Note 3)*	–	–	–	–	–	–	–	196,677	196,677	–	196,677
At 1 January 2011, as restated	25,800	1,298,156	1,891	–	(28,580)	79	31,668	1,036,975	2,365,989	90,573	2,456,562
Profit/(loss) for the year	–	–	–	–	–	–	–	732,525	732,525	(44,594)	687,931
Other comprehensive income:											
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	–	(204)	–	–	(204)	(164)	(368)
Total comprehensive income for the year	–	–	–	–	–	(204)	–	732,525	732,321	(44,758)	687,563
Issue of shares of a listed subsidiary	–	–	–	–	(624)	–	–	–	(624)	643	19
Repurchase of shares of the Company	(1,070)	(29,196)	1,070	(880)	–	–	–	(1,070)	(31,146)	–	(31,146)
2010 second interim dividend paid	–	–	–	–	–	–	–	(20,600)	(20,600)	–	(20,600)
2011 first interim dividend paid	–	–	–	–	–	–	–	(12,365)	(12,365)	–	(12,365)
Dividend paid	–	–	–	–	–	–	–	–	–	(660)	(660)
Changes in ownership interests in a subsidiary that do not result in a loss of control	–	–	–	–	–	–	–	1,596	1,596	(1,596)	–
Share option scheme											
– value of services	–	–	–	–	–	–	2,571	–	2,571	2,558	5,129
– shares issued	–	–	–	–	40	–	(18)	–	22	22	44
Transactions with owners	(1,070)	(29,196)	1,070	(880)	(584)	–	2,553	(32,439)	(60,546)	967	(59,579)
Share options lapsed	–	–	–	–	–	–	(1,146)	1,146	–	–	–
At 31 December 2011	**24,730**	**1,268,960**	**2,961**	**(880)**	**(29,164)**	**(125)**	**33,075**	**1,738,207**	**3,037,764**	**46,782**	**3,084,546**

The notes on pages 41 to 90 form an integral part of these financial statements.

1 GENERAL INFORMATION

The Company was incorporated in Bermuda on 10 October 1991. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 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").

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

The financial statements for the year ended 31 December 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 32 to 90 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 investment properties and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.7 "Inventories" and note 2.11 "Provisions" to the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

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

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

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

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income respectively for the year between non-controlling interests and the equity holders of the Company.

Changes in the Group's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associated company or a jointly controlled entity.

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 assets sales between the Group and its associated company or jointly controlled entity are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective.

After the application of the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Fixed assets

Investment properties

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

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

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

When the use of a property changes such that it is reclassified as other property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Gains or losses arising from either changes in the fair value or the sale of an investment property are recognised in profit or loss in the period in which they arise.

Other property, plant and equipment

Other 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:

Land and buildings	Over the shorter of remaining lease term and 40 years
Machinery, vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

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

2.6 *Goodwill*

Goodwill represents the excess of (i) aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the date of acquisition.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on bargain purchase.

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

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

2.7 *Inventories*

Inventories are stated at the lower of cost 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$2,717,000 (2010: HK$6,046,000).

2.8 *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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Trade and other receivables (Continued)

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

– Significant financial difficulty of the debtor;

– 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 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.

Financial assets at fair value through profit or loss

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

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

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

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

2.9 Impairment of non-financial assets

Goodwill with indefinite useful life is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Other property, plant and equipment and 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 which are largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which the goodwill is monitored for internal management purpose.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets (Continued)

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

2.10 Financial liabilities

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

Bank loans

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

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where any company of the Group purchases the Company's equity share capital, the consideration paid, including any attributable costs, is deducted from equity (share repurchase reserve) attributable to the Company's equity holders until the shares are cancelled or reissued.

2.13 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract is initially recognised as deferred income within trade and other payables at fair value. Where consideration is received or receivable for issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services and the use by others of the Group's assets yielding rental income, dividend and 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.

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

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

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

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

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

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

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

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

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

All other product development costs are charged to 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.

Operating lease charges as the lessee

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Operating leases (Continued)

Assets leased out under operating leases as the lessor

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Leased incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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.

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

2.19 *Deferred taxation*

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense/credit in 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. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit 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.

2.23 *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 Group has presented the following three reportable segments.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Group has early adopted the following amendments:

Amendments to HKAS 12 "Income Taxes – Deferred Tax: Recovery of Underlying Assets"

The amendments to HKAS 12 "Income Taxes – Deferred Tax: Recovery of Underlying Assets" issued by the HKICPA is effective for annual period beginning on or after 1 January 2012 with early adoption permitted. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group has early adopted these amendments retrospectively. The effects of adoption are summarised below:

Effect on the consolidated income statement for the year ended 31 December

	2011 ***HK$'000***	2010 *HK$'000*
Decrease in income tax expense	**(137,466)**	(54,313)
Increase in profit for the year	**137,466**	54,313
Increase in basic earnings per share	**HK$0.55**	HK$0.22
Increase in diluted earnings per share	**HK$0.55**	HK$0.21

Effect on the consolidated balance sheet

	As at **31 December 2011** ***HK$'000***	As at 31 December 2010 *HK$'000*	As at 1 January 2010 *HK$'000*
Decrease in deferred tax liabilities	**(334,143)**	(196,677)	(142,364)
Increase in retained profits	**334,143**	196,677	142,364

3 ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

The directors anticipate that all of the other new or amended HKFRSs that have been published but are not yet effective will be adopted in the Group's accounting policy for the first period beginning after the effective date. 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, property investments, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

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

	2011 ***HK$'000***	2010 *HK$'000*
Sale of toys	**44,947**	148,219
Rental income from investment properties	**67,843**	69,172
Property management income	**12,392**	12,422
Restaurant income	**32,903**	27,791
Dividend income	**4,283**	5,896
Interest income	**709**	225
Total revenue	**163,077**	263,725

5 SEGMENT INFORMATION

5.1 Segment results, assets and liabilities

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

Inter-segment revenue represents inter-company rental and property management fee charged on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

The segment results for the year ended 31 December 2011 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Gross segment revenue	**120,475**	**4,992**	**44,947**	**170,414**
Inter-segment revenue	**(7,337)**	–	–	**(7,337)**
Revenue from external customers	**113,138**	**4,992**	**44,947**	**163,077**
Segment profit/(loss) before depreciation	**842,453**	**(39,125)**	**(84,850)**	**718,478**
Depreciation	**(7,905)**	–	**(1,484)**	**(9,389)**
Segment operating profit/(loss)	**834,548**	**(39,125)**	**(86,334)**	**709,089**
Other income	–	–	**1,503**	**1,503**
Finance costs	**(7,027)**	**(224)**	**(1,084)**	**(8,335)**
Share of loss of an associated company	–	–	**(3,231)**	**(3,231)**
	(7,027)	**(224)**	**(2,812)**	**(10,063)**
Segment profit/(loss) before income tax	**827,521**	**(39,349)**	**(89,146)**	**699,026**
Unallocated corporate expenses				**(3,855)**
Profit before income tax				**695,171**
Bank interest income	–	**709**	**1,503**	
Revaluation surplus on investment properties	**785,105**	–	–	
Net realised gain on financial assets at fair value through profit or loss	–	**1,715**	–	
Net unrealised loss on financial assets at fair value through profit or loss	–	**(45,832)**	–	

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2010 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Gross segment revenue	117,436	6,121	148,219	271,776
Inter-segment revenue	(8,051)	–	–	(8,051)
Revenue from external customers	109,385	6,121	148,219	263,725
Segment profit/(loss) before depreciation	372,246	39,853	(87,616)	324,483
Depreciation	(8,107)	–	(2,367)	(10,474)
Segment operating profit/(loss)	364,139	39,853	(89,983)	314,009
Other income	–	–	203	203
Finance costs	(5,363)	(219)	(1,280)	(6,862)
Share of loss of an associated company	–	–	(2,360)	(2,360)
	(5,363)	(219)	(3,437)	(9,019)
Segment profit/(loss) before income tax	358,776	39,634	(93,420)	304,990
Unallocated corporate expenses				(14,340)
Profit before income tax				290,650
Bank interest income	–	225	203	
Revaluation surplus on investment properties	319,275	–	–	
Net realised gain on financial assets at fair value through profit or loss	–	28,248	–	
Net unrealised gain on financial assets at fair value through profit or loss	–	5,484	–	

The segment assets and liabilities as at 31 December 2011 are as follows:

	Property investments and associated businesses *HK$'000*	**Investment business** *HK$'000*	**Toy business** *HK$'000*	**Total** *HK$'000*
Reportable segment assets	**3,137,330**	**398,725**	**226,869**	**3,762,924**
Interest in an associated company	–	–	**17,198**	**17,198**
Total reportable segment assets	**3,137,330**	**398,725**	**244,067**	**3,780,122**
Inter-segment elimination	–	–	**(489)**	**(489)**
Deferred tax assets				**1,053**
Taxation recoverable				**400**
Unallocated assets				**6,256**
Total assets				**3,787,342**
Reportable segment liabilities	**598,649**	**2,112**	**72,240**	**673,001**
Inter-segment elimination	**(489)**	–	–	**(489)**
Deferred tax liabilities				**26,256**
Taxation payable				**1,193**
Unallocated liabilities				**2,835**
Total liabilities				**702,796**
Capital expenditure	**72,813**	–	**398**	

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2010 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000* *(Restated)*
Reportable segment assets	2,281,239	448,707	200,753	2,930,699
Interest in an associated company	–	–	20,429	20,429
Total reportable segment assets	2,281,239	448,707	221,182	2,951,128
Inter-segment elimination	(285)	–	(489)	(774)
Deferred tax assets				428
Taxation recoverable				1,213
Unallocated assets				4,018
Total assets				2,956,013
Reportable segment liabilities	428,784	–	42,286	471,070
Inter-segment elimination	(489)	–	(285)	(774)
Deferred tax liabilities				25,922
Taxation payable				818
Unallocated liabilities				2,415
Total liabilities				499,451
Capital expenditure	18,782	–	1,566	

5.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, goodwill and 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 fixed assets, the location of operation to which they are allocated in case of goodwill, and the location of operation in case of interest in an associated company.

	Revenue from external customers		Specified non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**116,905**	113,782	**2,940,846**	2,095,959
Americas				
– U.S.A.	**36,986**	66,251	**1,129**	1,595
– Others	**127**	13,296	**–**	–
Europe	**7,274**	62,819	**198,278**	197,456
Asia Pacific other than Hong Kong	**894**	6,484	**–**	–
Others	**891**	1,093	**–**	–
	46,172	149,943	**199,407**	199,051
	163,077	263,725	**3,140,253**	2,295,010

5.3 Major customers

The Group's customer base is diversified with no customer with whom transactions have exceeded 10% of the Group's total revenue for the years ended 31 December 2011 and 2010.

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

	2011	2010
	HK$'000	*HK$'000*
Net realised gain on financial assets at fair value through profit or loss	**1,715**	28,248
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	**(45,832)**	5,484
	(44,117)	33,732

7 OPERATING PROFIT

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

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**30,800**	80,517
(Reversal of provision)/Write-down of inventories	**(31)**	297
Product development costs	**7,843**	3,195
Royalties paid	**11,517**	22,512
Direct operating expenses arising from investment properties that generate rental income	**3,540**	2,225
Direct operating expenses arising from investment properties that did not generate rental income	**1,180**	665
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 24)*	**1,776**	4,595
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 24)*	**(3,867)**	(6,033)
Depreciation of other property, plant and equipment	**10,114**	11,207
Employee benefit expense, including directors' remuneration *(Note 13)*	**66,748**	79,084
Operating leases expense on office and warehouse facilities	**2,924**	9,980
Loss on disposal of other property, plant and equipment	**66**	1,288
Net foreign exchange (gain)/loss	**(52)**	10,925
Auditors' remuneration	**1,260**	1,260

8 *FINANCE COSTS*

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**4,441**	4,780
Interest on bank loans wholly repayable after five years	**1,869**	–
	6,310	4,780
Bank charges	**2,180**	2,113
	8,490	6,893

9 *INCOME TAX EXPENSE*

9.1 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 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.

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Current taxation		
Hong Kong profits tax	**7,419**	6,450
Under/(Over) provision in prior years – Hong Kong	**112**	(128)
Under provision in prior years – overseas	**–**	1,713
	7,531	8,035
Deferred taxation		
Origination and reversal of temporary differences	**(291)**	627
Income tax expense	**7,240**	8,662

9 INCOME TAX EXPENSE (Continued)

9.2 Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 HK$'000	2010 HK$'000 (Restated)
Profit before income tax	**695,171**	290,650
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**95,530**	33,836
Tax effect of:		
Non-taxable income	**(139,809)**	(56,690)
Non-deductible expenses	**12,595**	3,636
Utilisation of previously unrecognised temporary differences	**–**	(91)
Unrecognised temporary differences	**1,031**	514
Utilisation of previously unrecognised tax losses	**(276)**	(3,404)
Unrecognised tax losses	**38,503**	30,343
Recognition of previously unrecognised temporary differences	**(387)**	–
Reversal of previously recognised temporary differences	**(59)**	(1,087)
Prior years under provision	**112**	1,585
Others	**–**	20
Income tax expense	**7,240**	8,662

10 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit for the year attributable to equity holders of the Company includes a loss of HK$88,086,000 (2010: profit of HK$110,429,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

11.1 Dividends attributable to the year

	2011 HK$'000	2010 HK$'000
First interim dividend of HK$0.05 (2010: HK$0.05) per share	**12,365**	12,629
Second interim dividend of HK$0.05 (2010: HK$0.08) per share	**12,335**	20,640
	24,700	33,269

At a meeting held on 31 August 2011, the directors declared a first interim dividend of HK$0.05 per share, which was paid on 3 October 2011.

At a meeting held on 23 March 2012, the directors declared a second interim dividend of HK$0.05 per share on the basis of 246,690,000 shares in issue as at the date of the meeting. This declared dividend declared after the balance sheet date has not been recognised as liabilities in the financial statements, but reflected as an appropriation of retained profits for the year ended 31 December 2011.

11.2 Dividends attributable to previous year and paid during the year

	2011	2010
	HK$'000	*HK$'000*
Second interim dividend of HK$0.08 (2010: HK$0.05) per share	**20,600**	12,426
Special interim dividend in specie of HK$nil (2010: HK$0.31) per share	–	77,045
	20,600	89,471

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$732,525,000 (2010: HK$329,314,000 (restated)) and the weighted average number of ordinary shares of 251,533,000 (2010: 244,711,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$732,525,000 (2010: HK$329,314,000 (restated)) and the weighted average number of ordinary shares of 251,546,000 (2010: 263,243,000) in issue during the year, adjusted for the effects of 13,000 dilutive potential shares on exercise of share options (2010: 18,532,000 dilutive potential shares on exercise of share options and warrants).

13 EMPLOYEE BENEFIT EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**61,137**	61,252
Share-based compensation	**4,009**	11,318
Employer's contributions to provident fund	**1,602**	1,747
Termination benefits	–	4,767
	66,748	79,084

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee 2011 HK$'000	Salary 2011 HK$'000	Share-based compensation 2011 HK$'000	Other benefits 2011 HK$'000 (Note)	Employer's contribution to provident fund 2011 HK$'000	Total 2011 HK$'000
CHAN Chun Hoo, Thomas	**20**	**120**	**–**	**131**	**7**	**278**
CHENG Bing Kin, Alain	**20**	**1,760**	**415**	**290**	**12**	**2,497**
IP Shu Wing, Charles	**120**	**–**	**–**	**25**	**–**	**145**
LEE Peng Fei, Allen	**120**	**–**	**–**	**160**	**–**	**280**
LO Kai Yiu, Anthony	**120**	**–**	**–**	**180**	**–**	**300**
TO Shu Sing, Sidney	**20**	**2,040**	**534**	**78**	**12**	**2,684**
TSIM Tak Lung	**120**	**–**	**–**	**185**	**–**	**305**
YU Hon To, David	**120**	**–**	**–**	**105**	**–**	**225**
	660	**3,920**	**949**	**1,154**	**31**	**6,714**

Name of director	Fee 2010 HK$'000	Salary 2010 HK$'000	Share-based compensation 2010 HK$'000	Other benefits 2010 HK$'000 (Note)	Employer's contribution to provident fund 2010 HK$'000	Total 2010 HK$'000
CHAN Chun Hoo, Thomas	20	120	–	142	7	289
CHENG Bing Kin, Alain	18	1,716	846	330	12	2,922
IP Shu Wing, Charles	120	–	–	25	–	145
LEE Peng Fei, Allen	120	–	–	165	–	285
LO Kai Yiu, Anthony	120	–	–	190	–	310
TO Shu Sing, Sidney	20	2,040	1,124	75	12	3,271
TSIM Tak Lung	120	–	–	175	–	295
YU Hon To, David	120	–	–	110	–	230
	658	3,876	1,970	1,212	31	7,747

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

14.2 *Five highest paid individuals*

Two (2010: two) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (2010: three) highest paid individuals are as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**8,930**	7,993
Share-based compensation	**659**	2,056
Employer's contributions to provident fund	**260**	470
	9,849	10,519

The emoluments of these three (2010: three) individuals are within the following bands:

	Number of individuals	
	2011	2010
HK$		
1,500,001 – 2,000,000	**–**	1
2,000,001 – 2,500,000	**2**	–
2,500,001 – 3,000,000	**–**	1
4,500,001 – 5,000,000	**1**	–
5,500,001 – 6,000,000	**–**	1
	3	3

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

15 FIXED ASSETS – GROUP

	Land and buildings *HK$'000*	Machinery, vehicle, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Total *HK$'000*
Cost or valuation						
At 1 January 2011	154,900	26,517	29,893	211,310	2,117,856	2,329,166
Exchange fluctuation	–	11	159	170	328	498
Additions	–	3,727	404	4,131	21,583	25,714
Capitalised subsequent expenditure	–	–	–	–	47,497	47,497
Revaluation surplus	–	–	–	–	785,105	785,105
Disposals	–	(2,093)	(1,855)	(3,948)	–	(3,948)
At 31 December 2011	154,900	28,162	28,601	211,663	2,972,369	3,184,032
Accumulated depreciation						
At 1 January 2011	13,890	18,080	28,591	60,561	–	60,561
Exchange fluctuation	–	5	155	160	–	160
Charge for the year	6,132	3,122	860	10,114	–	10,114
Disposals	–	(2,092)	(1,790)	(3,882)	–	(3,882)
At 31 December 2011	20,022	19,115	27,816	66,953	–	66,953
Net book value						
At 31 December 2011	134,878	9,047	785	144,710	2,972,369	3,117,079

	Land and buildings HK$'000	Machinery, vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2010	136,451	37,708	31,161	205,320	1,808,250	2,013,570
Exchange fluctuation	–	–	–	–	(7,222)	(7,222)
Additions	–	1,810	305	2,115	–	2,115
Capitalised subsequent expenditure	–	–	–	–	18,321	18,321
Revaluation surplus	–	–	–	–	319,275	319,275
Reclassification	18,449	–	–	18,449	(20,768)	(2,319)
Disposals	–	(13,001)	(1,573)	(14,574)	–	(14,574)
At 31 December 2010	154,900	26,517	29,893	211,310	2,117,856	2,329,166
Accumulated depreciation						
At 1 January 2010	9,800	26,370	28,771	64,941	–	64,941
Charge for the year	6,409	3,435	1,363	11,207	–	11,207
Reclassification	(2,319)	–	–	(2,319)	–	(2,319)
Disposals	–	(11,725)	(1,543)	(13,268)	–	(13,268)
At 31 December 2010	13,890	18,080	28,591	60,561	–	60,561
Net book value						
At 31 December 2010	141,010	8,437	1,302	150,749	2,117,856	2,268,605

15 *FIXED ASSETS – GROUP (Continued)*

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

	2011		2010	
	Land and buildings *HK$'000*	**Investment properties** *HK$'000*	Land and buildings *HK$'000*	Investment properties *HK$'000*
In Hong Kong, held under:				
Leases of over 50 years	**–**	**510,000**	–	439,000
Leases of between 10 and 50 years	**134,878**	**2,267,600**	141,010	1,481,400
Outside Hong Kong:				
Freehold	**–**	**194,769**	–	197,456
	134,878	**2,972,369**	141,010	2,117,856

The investment properties in Hong Kong were revalued as at 31 December 2011 on the market value basis. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar properties in the same location and condition.

The investment properties in the United Kingdom were revalued as at 31 December 2011 on the market value basis. The valuations were carried out by an independent firm of surveyors, Adrian Cole & Company Limited, who have among their staff members of the United Kingdom Royal Institute of Chartered Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar properties in the same location and condition.

At 31 December 2011, certain of the Group's investment properties and land and buildings with a net book value of approximately HK$2,642 million and HK$135 million (2010: HK$1,816 million and HK$141 million) respectively were pledged to secure general banking facilities granted to the Group *(note 22)*.

Details of the principal properties of the Group as at 31 December 2011 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui, Hong Kong	Commercial	2049	107,400 sq. ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun, Hong Kong	Industrial	2047	317,100 sq. ft.	100%
A number of residential flats situated at Nos. 21 & 21A and Nos. 23 & 23 A MacDonnell Road Midlevel, Hong Kong	Residential	2895	43,840 sq. ft.	100%
Great Westwood Bucks Hill, Kings Langley Hertfordshire United Kingdom	Residential	Freehold	44 acres	100%
Pophleys Ranage, Buckinghamshire United Kingdom	Residential	Freehold	13 acres	100%

16 *GOODWILL – GROUP*

	HK$'000
Gross and net carrying amount	
At 1 January 2010, 31 December 2010 and 31 December 2011	**5,976**

17 *INTEREST IN SUBSIDIARIES – COMPANY*

	2011 ***HK$'000***	2010 *HK$'000*
Amounts due from subsidiaries, net of provisions	**1,678,478**	1,830,582

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK$788,553,000 (2010: HK$868,484,000) which are interest-free, are interest bearing at 0.25% (2010: 0.25%) per annum.

17 INTEREST IN SUBSIDIARIES – COMPANY (Continued)

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:				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK$10 each	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Property investment, Hong Kong
Great Westwood Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Investment holding, Hong Kong
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	50.13%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	50.13%	Toy development, marketing and distribution, U.S.A.
Playmates Toys Limited	Bermuda	1,046,260,208 ordinary shares of HK$0.01 each	50.13%	Investment holding, Hong Kong
Pophleys Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK$ 1 each	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	100 ordinary share of HK$1 each	70%	Restaurant operation, Hong Kong

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

18 *INTEREST IN AN ASSOCIATED COMPANY – GROUP*

	2011	2010
	HK$'000	*HK$'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	**Liabilities**	**Equity**	**Revenue**	**Loss**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

19 *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).

20 TRADE RECEIVABLES – GROUP

	2011 HK$'000	2010 HK$'000
Trade receivables	**8,379**	12,948
Less: Allowance for customer concession	**(60)**	(1,102)
	8,319	11,846

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

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

	2011 HK$'000	2010 HK$'000
0 – 30 days	**7,819**	10,979
31 – 60 days	**293**	427
Over 60 days	**207**	440
	8,319	11,846

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**	10,569
1 – 90 days past due	**1,226**	1,081
91 – 180 days past due	**–**	42
Over 180 days past due	**6**	154
	1,232	1,277
	8,319	11,846

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.

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

	2011 HK$'000	2010 HK$'000
Listed equity investment in Hong Kong	**114,592**	108,911
Listed equity investment outside Hong Kong	**31,554**	77,114
Unlisted managed funds	**10,115**	12,434
	156,261	198,459

22 BANK LOANS-GROUP

	2011 HK$'000	2010 HK$'000
Secured bank loans repayable		
Within one year	**345,571**	355,000
In the second year	**55,571**	15,000
In the third to fifth year	**127,714**	30,000
After five years	**35,715**	–
	564,571	400,000
Current portion included in current liabilities	**(345,571)**	(355,000)
Non-current portion	**219,000**	45,000

All bank loans were denominated in HK dollar and the effective interest rate at the balance sheet date was 1.51% p.a. (2010: 1.24% p.a.).

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

As at 31 December 2011, the Group has banking facilities amounting to HK$725 million (2010: HK$745 million), of which HK$565 million (2010: HK$400 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK$2,642 million and HK$135 million (2010: HK$1,816 million and HK$141 million) respectively of the Group at 31 December 2011.

23 TRADE PAYABLES – GROUP

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

	2011 HK$'000	2010 HK$'000
0 – 30 days	**6,869**	8,002
31 – 60 days	**1,202**	1,304
Over 60 days	**528**	435
	8,599	9,741

24 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**

25 DEFERRED TAXATION – 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 state tax rates of 34% (2010: 34%) and 8.84% (2010: 8.84%) respectively in the U.S..

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

	2011 HK$'000	2010 HK$'000 (Restated)
At 1 January	**25,494**	24,867
(Credited)/Charged to profit or loss	**(291)**	627
At 31 December	**25,203**	25,494

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

Deferred tax liabilities

	Accelerated tax depreciation	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**25,701**	25,067
(Credited)/Charged to profit or loss	**(206)**	634
At 31 December	**25,495**	25,701

Deferred tax assets

	Tax losses	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**(207)**	(200)
Credited to profit or loss	**(85)**	(7)
At 31 December	**(292)**	(207)

The amounts recognised in the consolidated balance sheet are as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Deferred tax assets	**(1,053)**	(428)
Deferred tax liabilities	**26,256**	25,922
	25,203	25,494

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

The Group has unrecognised tax losses of HK$596 million (2010: HK$485 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.

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

At the special general meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") respectively were approved and adopted. A nominal consideration at HK$10 or US$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. All share-based compensation will be settled in equity. The number and weighted average exercise price of share option are as follows:

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$	***'000***	*HK$*	*'000*
At 1 January	**11.41**	**5,614**	11.33	5,738
Lapsed	**10.86**	**(168)**	8.13	(124)
At 31 December *(Note)*	**11.42**	**5,446**	11.41	5,614

Note: The terms of the share options outstanding at the end of the year are as follows:

Expiry date	**Exercise price**	**Number of options**		**Exercisable and vested Number of options**	
		2011	2010	**2011**	2010
	HK$	***'000***	*'000*	***'000***	*'000*
Directors					
8 August 2012	1.99	**25**	25	**25**	25
6 January 2014	13.60	**179**	179	**179**	179
21 September 2015	12.06	**712**	712	**712**	712
3 May 2016	9.10	**413**	413	**413**	413
		1,329	1,329	**1,329**	1,329
Other employees					
20 May 2011	2.97	**–**	11	**–**	11
8 August 2012	1.99	**28**	28	**28**	28
9 March 2013	5.50	**103**	115	**103**	115
6 January 2014	13.60	**607**	665	**607**	665
18 March 2014	12.40	**1,100**	1,100	**1,100**	1,100
21 September 2015	12.06	**1,388**	1,438	**1,388**	1,438
3 May 2016	9.10	**891**	928	**891**	928
		4,117	4,285	**4,117**	4,285
		5,446	5,614	**5,446**	5,614

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

The share options outstanding at 31 December 2011 had a weighted average remaining contractual life of 3.24 years (2010: 4.23 years).

No share-based compensation expense has been included in the consolidated income statement for 2011 and 2010. No liabilities were recognised due to share-based payment transactions.

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

At the special general meeting of the Company held on 25 January 2008, the shareholders of the Company approved the share option scheme of PTL, an indirectly non-wholly owned subsidiary of the Company (the "PTL Scheme"). Certain directors, employees and other participants of PTL were granted options at a nominal consideration of HK$10 or US$1.5 on acceptance of the option offered. Details of the PTL Scheme and movements in the number of share options outstanding during the year are set out in the Report of the Directors and the annual report of PTL for the year ended 31 December 2011.

Subject to the waiver or variation by the board of PTL 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 of PTL 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.

27 EQUITY – GROUP AND COMPANY

27.1 Share capital

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 31 December 2010 and 2011	**3,000,000,000**	**300,000**

	Issued and fully paid Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 1 January 2010	224,621,637	22,462
Exercise of warrants 2010	33,650,052	3,365
Repurchase of shares	(271,689)	(27)
At 31 December 2010 and 1 January 2011	**258,000,000**	**25,800**
Repurchase of shares *(Note)*	**(10,700,000)**	**(1,070)**
At 31 December 2011	**247,300,000**	**24,730**

Note: During the year, 11,070,000 shares were repurchased by the Company on the Stock Exchange at prices ranging from HK$2.32 to HK$2.90 each as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate price paid** *HK$'000*
March 2011	500,000	2.85	2.85	1,425
April 2011	3,480,000	2.84	2.77	9,797
May 2011	1,098,000	2.82	2.82	3,096
June 2011	4,322,000	2.85	2.75	12,178
July 2011	1,300,000	2.90	2.90	3,770
December 2011	370,000	2.49	2.32	880

3,980,000 shares, 1,098,000 shares, 4,322,000 shares, 1,300,000 shares and 370,000 shares were cancelled and redeemed on 12 May 2011, 9 June 2011, 29 June 2011, 17 August 2011 and 15 February 2012 respectively and accordingly the issued capital of the Company diminished by the nominal value of these shares. The premium paid on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve *(note 27.2)*.

27.2 *Reserves*

Company

	Share premium *HK$'000*	Share-based compensation reserve *HK$'000*	Capital redemption reserve *HK$'000*	Share repurchase reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2010	1,270,027	25,458	1,864	–	473,133	1,770,482
Profit for the year	–	–	–	–	110,429	110,429
2009 second interim dividend paid	–	–	–	–	(12,426)	(12,426)
2009 special interim dividend in specie	–	–	–	–	(77,045)	(77,045)
2010 first interim dividend paid	–	–	–	–	(12,629)	(12,629)
Issue of shares	26,920	–	–	–	–	26,920
Repurchase of shares	(647)	–	27	–	(27)	(647)
Share option scheme – options lapsed	–	(280)	–	–	280	–
At 31 December 2010	1,296,300	25,178	1,891	–	481,715	1,805,084
At 1 January 2011	**1,296,300**	**25,178**	**1,891**	**–**	**481,715**	**1,805,084**
Loss for the year	**–**	**–**	**–**	**–**	**(88,086)**	**(88,086)**
2010 second interim dividend paid	**–**	**–**	**–**	**–**	**(20,600)**	**(20,600)**
2011 first interim dividend paid	**–**	**–**	**–**	**–**	**(12,365)**	**(12,365)**
Repurchase of shares	**(29,196)**	**–**	**1,070**	**(880)**	**(1,070)**	**(30,076)**
Share option scheme – options lapsed	**–**	**(782)**	**–**	**–**	**782**	**–**
At 31 December 2011	**1,267,104**	**24,396**	**2,961**	**(880)**	**360,376**	**1,653,957**

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

27.3 *Capital management*

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

Capital represents total equity and debts. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. The Group may maintain or adjust the capital structure by taking necessary measures including issuing new shares 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, at 31 December 2011 was 3.2% compared to nil at 31 December 2010.

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

28.1 Reconciliation of profit before income tax to cash generated from operations

	2011 HK$'000	2010 HK$'000
Profit before income tax	**695,171**	290,650
Bank interest income	**(2,212)**	(428)
Interest on bank loans and overdrafts	**6,310**	4,780
Dividend income from financial assets at fair value through profit or loss	**(4,283)**	(5,896)
Depreciation of other property, plant and equipment	**10,114**	11,207
Share-based compensation	**5,129**	11,867
Revaluation surplus on investment properties	**(785,105)**	(319,275)
Loss on disposal of other property, plant and equipment	**66**	1,288
Unrealised loss/(gain) on financial assets at fair value through profit or loss	**45,832**	(5,484)
Unrealised exchange losses	**559**	8,292
Gain on winding up of a subsidiary	**–**	(23)
Share of loss of an associated company	**3,231**	2,360
Operating loss before working capital changes	**(25,188)**	(662)
Decrease in inventories	**3,329**	4,789
Decrease in trade receivables, deposits paid, other receivables and prepayments	**3,842**	83,228
(Increase)/Decrease in financial assets at fair value through profit or loss	**(3,634)**	57,646
Increase/(Decrease) in trade payables, deposits received, other payables and accrued charges and provisions	**38,065**	(62,618)
Cash generated from operations	**16,414**	82,383

28.2 Analysis of cash and cash equivalents

	2011 HK$'000	2010 HK$'000
Cash and bank balances	**466,521**	430,878

29 *FINANCIAL GUARANTEE CONTRACTS – COMPANY*

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$680 million (2010: HK$680 million), of which HK$565 million (2010: HK$400 million) of such banking facilities were utilised as at 31 December 2011. This represents the Company's maximum exposure under the financial guarantee contracts. Under the guarantee contracts, the Company would be liable to pay the banks if the banks are unable to recover the loans. No provision for the Company's obligation under the financial guarantee contracts has been made as it was not probable that the repayment of loans would be in default. According to the terms of the bank loans, the earliest repayment date of the bank loans would be in year 2012.

30 *COMMITMENTS – GROUP*

30.1 *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

30.2 *Operating lease commitments*

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

30.2.1 As lessee

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	**2,231**	2,175
In the second to fifth years	**6,068**	8,245
	8,299	10,420

30 COMMITMENTS – GROUP (Continued)

30.2 Operating lease commitments (Continued)

30.2.2 As lessor

At 31 December 2011, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	**57,385**	56,124
In the second to fifth years	**450,326**	35,255
After five years	**838,685**	–
	1,346,396	91,379

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

31 RELATED PARTY TRANSACTIONS

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

	2011	2010
	HK$'000	*HK$'000*
Commission paid to a related company, TGC Assets Limited	**–**	172

31.2 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 14.1.

32 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.

33 COMPARATIVE FIGURES

As a result of the early adoption of amendments to HKAS 12 "Income Taxes – Deferred Tax: Recovery of Underlying Assets", certain comparative figures have been adjusted.

34 *FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT*

34.1 *Categories of financial instruments*

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**8,319**	11,846
Deposits paid and other receivables	**5,262**	1,189
Cash and bank balances	**466,521**	430,878
Financial assets at fair value through profit or loss	**156,261**	198,459
	636,363	642,372
Financial liabilities at amortised cost		
Bank loans	**564,571**	400,000
Trade payables	**8,599**	9,741
Other payables and accrued charges	**48,756**	53,567
	621,926	463,308

34.2 *Financial risk factors*

Exposure to market risk (including currency, interest rate and price risks), 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:

34.2.1 Market risk

(i) Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations of certain subsidiaries to which they relate. The currency giving rise to this risk is 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.

(ii) Interest rate risk

The Group's interest rate risk arises primarily from bank loans at floating rates, which expose the Group to cash flow interest rate risk.

At 31 December 2011, it is estimated that a sensitivity to a reasonable general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and equity by approximately HK$2,823,000 (2010: HK$2,000,000).

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

34.2 Financial risk factors (Continued)

34.2.1 Market risk (Continued)

(iii) Price risk

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

At 31 December 2011, it is estimated that a sensitivity to a reasonable general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and equity by approximately HK$7,813,000 (2010: HK$9,923,000).

34.2.2 Credit risk

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

The credit risk for financial assets at fair value through profit or loss is considered negligible as the counterparties are reputable financial institutions.

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 34.1 above.

Concentrations of credit risk

The Group places its cash investments in highly rated financial institutions which limits the exposure to the financial institutions.

The Group markets a substantial portion of its products to customers in the retail industry. The Group continually evaluates the credit risk of these customers. The percentages of sales for the year attributable to the Group's major customers were:

	2011	2010
Sales		
– the largest customer	**7%**	10%
– five largest customers in aggregate	**26%**	31%

34.2.3 *Liquidity risk*

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

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December. The contractual maturity analysis below is based on the undiscounted cash flows of the 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$'000*	**Over 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Bank loans	**349,260**	**58,233**	**131,607**	**36,074**	**575,174**	**564,571**
Trade payables	**8,599**	**–**	**–**	**–**	**8,599**	**8,599**
Other payables and accrued charges	**48,756**	**–**	**–**	**–**	**48,756**	**48,756**
	406,615	**58,233**	**131,607**	**36,074**	**632,529**	**621,926**

	2010				
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Total undiscounted amount *HK$'000*	Carrying amount *HK$'000*
Bank loans	355,766	15,472	30,403	401,641	400,000
Trade payables	9,741	–	–	9,741	9,741
Other payables and accrued charges	53,567	–	–	53,567	53,567
	419,074	15,472	30,403	464,949	463,308

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

34.3 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).

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

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	**114,592**	**–**	**–**	**114,592**
Listed equity investment outside Hong Kong	**31,554**	**–**	**–**	**31,554**
Unlisted managed funds	**–**	**10,115**	**–**	**10,115**
	146,146	**10,115**	**–**	**156,261**

	2010			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	108,911	–	–	108,911
Listed equity investment outside Hong Kong	77,114	–	–	77,114
Unlisted managed funds	–	12,434	–	12,434
	186,025	12,434	–	198,459

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

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*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Revenue	**163,077**	263,725	740,635	813,207	1,006,866
Profit/(Loss) before income tax	**695,171**	290,650	288,252	(514,579)	346,626
Income tax (expense)/credit	**(7,240)**	(8,662)	(50,147)	(57,028)	27,277
Profit/(Loss) for the year	**687,931**	281,988	238,105	(571,607)	373,903
Profit/(Loss) for the year attributable to:					
Equity holders of the Company	**732,525**	329,314	277,295	(484,321)	373,470
Non-controlling interests	**(44,594)**	(47,326)	(39,190)	(87,286)	433
	687,931	281,988	238,105	(571,607)	373,903
Total assets	**3,787,342**	2,956,013	2,665,921	2,325,234	2,989,255
Total liabilities	**(702,796)**	(499,451)	(558,511)	(441,240)	(458,455)
Net assets	**3,084,546**	2,456,562	2,107,410	1,883,994	2,530,800

Playmates Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code 635)

www.playmates.net