Playmates TOYS

Annual Report

Corporate Information

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

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditors
Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

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

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

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

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

Website
www.playmatestoys.com

Table of Contents

Statement from the Chairman

The operating environment was challenging in 2012 as our key markets in North America and Europe continued to struggle in a fragile and protracted economic recovery, the Euro zone debt crisis remained unresolved and manufacturing cost inflation persisted in China. US retail dollar sales for the toy industry in 2012 were reported to be down by about 3% year-on-year.

In spite of the challenges, I am pleased to report that Playmates Toys achieved a turnaround in 2012. After three years of meticulous planning and preparation, ***Teenage Mutant Ninja Turtles*** re-launched on schedule and Nickelodeon's animated TV series quickly became a top rated show in the US. Despite a short selling window, our Turtles toys were among the top selling brands at retail by the end of the year with clean sell-through.

Early results from international markets that already have Turtles toys at retail reported similar successes, building the momentum for further growth as worldwide roll out accelerates in 2013.

The girls' brands ***Waterbabies*** and ***Hearts For Hearts Girls*** performed in line with expectations and will be expanded in 2013 with line extensions and broadened distribution.

To tackle and prevail over unrelenting external challenges and uncertainties, we will steadfastly adhere to the proven strategy, as validated by our results of 2012, of constantly refreshing product pipeline with new innovative toys and enhancing the efficiency of key operating functions. Based on the sustained positive market response to our program in the beginning months of this year, I am optimistic that we can achieve further improvement in Group operating results in 2013.

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

CHAN Chun Hoo, Thomas
Chairman of the board

Hong Kong, 28 March 2013

Business Review and Prospects

*Playmates Toys group worldwide turnover for the year ended 31 December 2012 was HK$372 million (2011: HK$45 million), an increase of 727% compared to the prior year. The majority of our new products launched in the second half of 2012, notably the **Teenage Mutant Ninja Turtles** line of toys, performed well at retail and achieved intended sales results. The group reported an operating profit of HK$52 million (2011: operating loss HK$86 million) and net profit attributable to shareholders of HK$43 million (2011: net loss HK$91 million). Basic earnings per share was HK cents 3.87 (2011: basic loss per share HK cents 8.67). The Board does not recommend the payment of a dividend for 2012 but will consider dividend distribution in 2013 depending on the performance of the Group.*

Gross profit ratio on toy sales was 60.3% (2011: 28.6%). The improvement in gross profit ratio was attributable to a significant increase in sales volume of products with higher margin and more efficient utilization of investments in product design, development and tooling.

Recurring operating expenses were higher than last year, reflecting increases in marketing, selling and distribution expenses to support the significantly higher sales volume, yet administration expenses were managed to similar level as in 2011.

Brand Overview

Hearts For Hearts Girls, the line of beautiful award-winning dolls with a philanthropic theme, continued to steadily build upon its base of consumers and social media supporters with its positive message of empowerment. With the addition of ***Mosi***, an American Indian, and ***Shola*** from Afghanistan in 2013, a total of 10 ***Hearts For Hearts Girls***, each representing a different culture and ethnicity from different parts of the world, will champion their individual good causes.

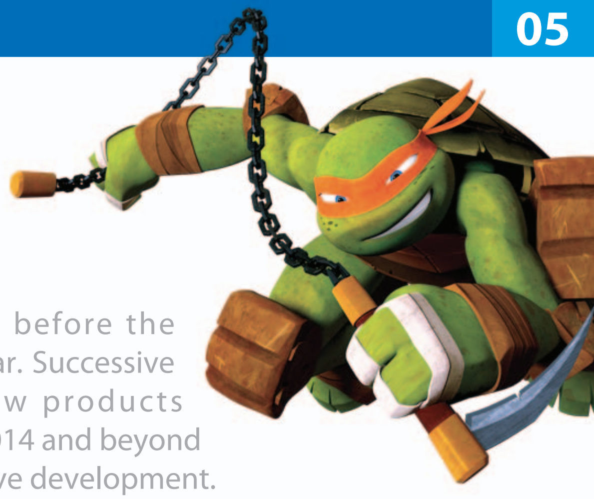
The ***Build-A-Bear Workshop*** line of collectible characters was discontinued after recording limited sales.

In 2012 Playmates successfully re-launched ***Waterbabies***, the classic water-filled baby doll line, with a fresh new look. The brand is expected to further grow in 2013 with a substantial expansion in distribution and the introduction of a series of collectible ***Wee Waterbabies*** in a brand new size.

Nickelodeon's ground breaking CGI animated ***Teenage Mutant Ninja Turtles ("TMNT")*** TV series premiered as planned in September 2012. It was an immediate hit – scoring top ratings with its core kids' audience from the first episode and has consistently rated among the top 3 kids shows in the US. With Season 2 currently in production Nickelodeon has already announced the Season 3 pick up of the ***TMNT*** TV series and the release date of the Michael Bay produced live-action movie by Paramount Pictures in 2014.

In tandem with the popularity of the TV show, Playmates' ***TMNT*** toys performed well at retail, quickly becoming a top selling brand and winning multiple awards and accolades from the trade. Retail shelves were clean at the end of the year, setting the stage for even stronger support for the brand in 2013. NPD, the leading provider of consumer market research data, reported ***TMNT*** Figures ranked number one among sales of all action figures in the US in 2012. At the 2013 Toy of the Year Awards ceremony of the US Toy Industry Association, Nickelodeon's ***Teenage Mutant Ninja Turtles*** won Property of the Year award and Playmates' ***TMNT Shellraiser*** vehicle won Boy Toy of the Year.

nickelodeon
TEENAGE MUTANT NINJA
TURTLES



In the few international markets that already have ***TMNT*** toys on retail shelves, including Canada, the UK and Australia, similarly rapid rises in ratings and popularity were experienced. Distribution partners reported ***TMNT*** became the number one best selling action figure brand in Australia and ***TMNT*** Figure was the number one best selling item among all action figures in the UK after less than 2 months on shelf in those markets.

Playmates' 2013 ***TMNT*** toy line will triple in size with line extensions and expansions into new categories. Distribution is expected to reach over 60 countries before the end of the year. Successive waves of new products planned for 2014 and beyond are under active development.

Based on the sustained positive market response to our program in the beginning months of this year, management is optimistic that the Group can achieve further improvement in operating results in 2013.

Directors and Senior Management

Biographical details of directors are shown below:

CHAN Chun Hoo, Thomas
Chairman and Executive Director

Mr. Chan, age 62, joined the Group in 1967. He has been the principal driving force behind the growth, global expansion and diversification of the Group's business activities into multiple segments and markets. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHENG Bing Kin, Alain
Executive Director

Mr. Cheng, age 50, was appointed a director of the Company in March 2010. He is the Group Legal Counsel and also an executive director of Playmates Holdings Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and in England and Wales in 1997. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

CHOW Yu Chun, Alexander
Independent Non-executive Director

Mr. Chow, age 66, joined the Group in 2007. He is a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 35 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is currently an independent non-executive director of Top Form International Limited and China Strategic Holdings Limited. He was a non-executive director of New World China Land Limited and resigned on 28 December 2012, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin
Independent Non-executive Director

Mr. Lee, age 64, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practise in Hong Kong and England and Wales, he now serves as an adviser to a number of private companies and organizations.

TO Shu Sing, Sidney
Executive Director

Mr. To, age 55, joined the Group in 1986. Prior to joining the Group, he had 9 years working experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He was appointed an executive director in May 2008. Mr. To is also an executive director of Playmates Holdings Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada.

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 67, joined the Group in 2007. Mr. Yang holds a Bachelor of Commerce degree and a Juris Doctorate degree from the University of British Columbia, Canada. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong SAR. He has over 39 years experience in legal practice and is a solicitor of the High Court of Hong Kong, a barrister and solicitor in British Columbia, Canada and a solicitor in England and Wales.

Mr. Yang is presently a governor of the Canadian Chamber of Commerce in Hong Kong and an immediate past member of the Major Sports Committee of the Home Affairs Bureau, Hong Kong. He is an independent non-executive director of China Agri-Industries Holdings Limited and Singamas Container Holdings Limited, all of which are companies, shares of which are listed on the Stock Exchange of Hong Kong.

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal Activities and Geographical Analysis of Operation

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

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

Major suppliers and customers

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

Purchases	
– the largest supplier	41%
– five largest suppliers in aggregate	100%
Sales	
– the largest customer	29%
– five largest customers in aggregate	83%

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 28.

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

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35. Movements in the reserves of the Company during the year are set out in note 24.2 to the financial statements.

The Company has no distributable reserves at 31 December 2012 and 2011 as calculated under the Companies Act 1981 of Bermuda.

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

As at 31 December 2012, the Group has banking facilities amounting to HK$45 million (2011: HK$45 million). None of such banking facilities were utilised at 31 December 2012 and 2011.

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 2012, trade receivables were HK$177,304,000 (2011: HK$7,144,000) and inventories were at a seasonal low level of HK$21,783,000 or 5.9% of turnover (2011: HK$2,127,000 or 4.7% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 1.9 at 31 December 2012 compared to 3.0 at 31 December 2011.

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 2012, the Group's cash and bank balances were HK$161,452,000 (2011: HK$208,766,000).

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

Employees

As at 31 December 2012, the Group had a total of 47 employees in Hong Kong and the United States of America. This compares to 46 employees as at 31 December 2011.

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.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,095,000 which includes mainly committed donations as part of the promotional program for a doll product. Charitable and other donations made in 2011 was HK$1,596,000.

Report of the Directors

Property, Plant and Equipment

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

Investment in an Associated Company

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

Share Capital

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

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 76.

Purchase, Sale or Redemption of Shares

During the year, 98,751 shares of HK$0.01 each were repurchased by the Company at a price of HK$0.46 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 24.1 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. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. YANG, Victor *(Independent Non-executive Director)*

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

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

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

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 28 March 2013	:	54,033,000 ordinary shares, representing 4.68% of the issued capital.
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.

Report of the Directors

Share Options (Continued)

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

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

			Number of share options				
Participant	Date of grant	Exercise price HK$	Balance at 1 January 2012	Granted during the year (Note (1))	Exercised during the year (Note (2))	Lapsed during the year	Balance at 31 December 2012
CHENG Bing Kin, Alain	31 March 2008	0.316	554,000	–	–	–	554,000
Director	20 January 2010	0.828	1,663,000	–	–	–	1,663,000
	18 April 2011	0.315	1,000,000	–	–	–	1,000,000
	13 April 2012	0.415	–	1,000,000	–	–	1,000,000
CHOW Yu Chun,	31 March 2008	0.316	443,000	–	–	–	443,000
Alexander	20 January 2010	0.828	222,000	–	–	–	222,000
Director	13 April 2012	0.415	–	500,000	–	–	500,000
LEE Ching Kwok, Rin	31 March 2008	0.316	443,000	–	–	–	443,000
Director	20 January 2010	0.828	222,000	–	–	–	222,000
	13 April 2012	0.415	–	500,000	–	–	500,000
TO Shu Sing, Sidney	31 March 2008	0.316	554,000	–	–	–	554,000
Director	20 January 2010	0.828	2,217,000	–	–	–	2,217,000
	18 April 2011	0.315	1,200,000	–	–	–	1,200,000
	13 April 2012	0.415	–	1,200,000	–	–	1,200,000
YANG, Victor	31 March 2008	0.316	443,000	–	–	–	443,000
Director	20 January 2010	0.828	222,000	–	–	–	222,000
	13 April 2012	0.415	–	500,000	–	–	500,000
Continuous Contract	31 March 2008	0.316	7,075,000	–	5,515,000	–	1,560,000
Employees, excluding	20 January 2010	0.828	12,418,000	–	–	2,328,000	10,090,000
Directors	18 April 2011	0.315	7,000,000	–	1,387,000	210,000	5,403,000
	24 May 2011	0.428	400,000	–	–	–	400,000
	13 April 2012	0.415	–	9,800,000	630,000	–	9,170,000
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	3,326,000	–	–	–	3,326,000
	18 April 2011	0.315	4,140,000	–	28,000	–	4,112,000
	13 April 2012	0.415	–	5,780,000	84,000	336,000	5,360,000

Notes:

(1) The closing price of the ordinary shares of the Company on 12 April 2012, being the trading day immediately before the date on which the share options were granted during the year, was HK$0.41.

(2) The weighted average closing prices of the ordinary shares of the Company immediately before the dates on which the share options were exercised by continuous contract employees (excluding Directors) and other participants during the year were HK$0.44 and HK$0.51 respectively.

Report of the Directors

Share Options (Continued)

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

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

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

As at 31 December 2012, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate *(Note (a))*	726,750,000 ordinary shares	63.02%
CHENG Bing Kin, Alain	Personal	6,020,000 ordinary shares	0.52%
TO Shu Sing, Sidney	Personal	10,400,000 ordinary shares	0.90%

Long positions in underlying shares and debentures of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHENG Bing Kin, Alain	Personal	4,217,000 share options	4,217,000 shares	0.37%
CHOW Yu Chun, Alexander	Personal	1,165,000 share options	1,165,000 shares	0.10%
LEE Ching Kwok, Rin	Personal	1,165,000 share options	1,165,000 shares	0.10%
TO Shu Sing, Sidney	Personal	5,171,000 share options	5,171,000 shares	0.45%
YANG, Victor	Personal	1,165,000 share options	1,165,000 shares	0.10%

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

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	5.06%
	Corporate *(Note (b))*	91,500,000 ordinary shares	38.61%
	Associate *(Note (c))*	10,000,000 ordinary shares	4.22%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.10%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.84%

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHENG Bing Kin, Alain	Personal	159,000 share options	159,000 shares	0.07%
TO Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.13%

Notes:

(a) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC") and is therefore deemed to be interested in the 48,750,000 shares of the Company in aggregate which TGC is interested in. Since TGC directly owns approximately 38.61% of the shareholding of PHL and is deemed to be interested in the 678,000,000 shares of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 678,000,000 shares of the Company in aggregate which PHL is interested in.

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

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

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2012.

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

As at 31 December 2012, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

Report of the Directors

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

As at 31 December 2012, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
TGC	Corporate *(Note (i))*	726,750,000 ordinary shares	63.02%
PHL	Corporate *(Note (ii))*	678,000,000 ordinary shares	58.79%
Playmates International Limited	Corporate *(Note (ii))*	678,000,000 ordinary shares	58.79%
PIL Investments Limited	Corporate *(Note (ii))*	678,000,000 ordinary shares	58.79%
PIL Toys Limited	Corporate	678,000,000 ordinary shares	58.79%

Notes:

(i) TGC directly owns approximately 38.61% of the shareholding of PHL and is therefore deemed to be interested in the 678,000,000 shares of the Company in aggregate which PHL is interested in.

(ii) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 678,000,000 shares of the Company in which PIL Toys Limited is beneficially interested in.

Pre-emptive Rights

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

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 2007 and subsequently amended in 2009 and 2012.

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

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

Sufficiency of Public Float

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

Auditors

The financial statements for the years ended 31 December 2011 and 2010 have been audited by Grant Thornton Jingdu Tianhua. Grant Thornton Jingdu Tianhua has incorporated its practice in the name of Grant Thornton Hong Kong Limited since 2012. For the year ended 31 December 2012, the financial statements have been audited by Grant Thornton Hong Kong Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Report of the Directors

Continuing Connected Transaction

On 1 September 2011, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Prestige Property Management Limited, an indirect wholly-owned subsidiary of PHL, as agent for landlord, Belmont Limited entered into a tenancy agreement ("Tenancy Agreement") to renew the lease expired on 31 August 2011 in respect of the premises known as 22nd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 September 2011 to 31 August 2014 at the rental of HK$119,991 per month (exclusive of rates, government rent, utilities and other outgoings) and management charges of HK$19,458 per month (the management charges are subject to review by the landlord). PHL indirectly owns and controls approximately 58.79% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 2 September 2011, was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

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

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

Save and except the transactions disclosed above and in note 27.1 to the financial statements, there is no contract of significance between the Group and our controlling shareholder or any of its subsidiaries.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 28 March 2013

Corporate Governance Report

Corporate Governance Practices

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the former Code on Corporate Governance Practices (effective until 31 March 2012) and the new Corporate Governance Code (effective from 1 April 2012) ("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 2012, 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

Composition and Responsibilities

The board of directors of the Company comprises:

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

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

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

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

In respect of the segregation of the roles of the chairman and chief executive officer, the Group's practice is that the Chairman also acts as chief executive officer. This allows him to focus on Group strategy and at the same time ensure that all key issues are considered by the board in a timely manner. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is suitable and 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.

Corporate Governance Report

Board of Directors (Continued)

Appointment and Re-election

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.

Support and Professional Development of Directors

All directors are provided with monthly updates on the Company's performance, position and prospects.

All directors have participated in continuous professional development programmes such as in-house briefings and external seminars to develop and refresh their knowledge and skills. All directors have provided the Company with their respective training record pursuant to the Code.

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.

Board Meetings and Proceedings

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

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

The board held four meetings in 2012. Details of directors' attendance at the board meetings, other committee meetings and the annual general meeting during the year are set out in the following table.

	Meetings attended/held				
Directors	Board	Audit Committee	Compensation Committee	Nomination Committee	Annual General Meeting
CHAN Chun Hoo, Thomas	4/4	N/A	N/A	1/1	1/1
CHENG Bing Kin, Alain	4/4	N/A	N/A	N/A	1/1
CHOW Yu Chun, Alexander	4/4	2/2	1/1	1/1	1/1
LEE Ching Kwok, Rin	4/4	2/2	1/1	1/1	1/1
TO Shu Sing, Sidney	4/4	N/A	N/A	N/A	1/1
YANG, Victor	3/4	2/2	1/1	N/A	1/1

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 July 2007 and its current members include:

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

All of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in December 2007 and subsequently revised in 2009 and 2012 to conform to the provisions of the Code and its amendments, a copy of which is posted on the websites of the Company and the Stock Exchange.

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 2012.

At the meeting held on 28 March 2013, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2012 together with the annual results announcement, with a recommendation to the board of directors for approval.

Corporate Governance Report

Board Committees (Continued)

Compensation Committee

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

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

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

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

Remuneration Policy for Non-executive Directors and Executive Directors

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

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

Nomination Committee

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

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

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

Corporate Governance Functions

The board is collectively responsible for performing the corporate governance duties as below:

(i) develop and review the Company's policies and practices on corporate governance;

(ii) review and monitor the training and continuous professional development of directors and senior management;

(iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) develop, review and monitor the code of conduct applicable to employees and directors; and

(v) review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2012. The Model Code also applies to other specified senior management of the Group.

Directors' Interest

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

Internal Controls

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

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

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

Corporate Governance Report

Internal Controls (Continued)

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 2012, 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$740,000. 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.

Directors' and Independent Auditors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2012. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 26 to 27 of this annual report.

Communications with Shareholders

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

Shareholders’ Rights

Procedures for shareholders to convene a special general meeting and putting forward proposals at general meetings

Pursuant to the Bye-laws of the Company, shareholders holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition to the board or the secretary of the Company, to require a special general meeting to be called by the board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Bermuda Companies Act 1981 (“Act”).

Pursuant to the Act, either any number of the shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (“Requisitionists”), or not less than one hundred of such shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company’s relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution and not less than one week before the meeting in the case of any other requisition. Provided that if an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Shareholders may make enquiries to the board by writing to the company secretary at the principal office of the Company.

Changes in Constitutional Documents

During the year, there is no substantial change in the Memorandum of Association and Bye-Laws of the Company.

Independent Auditors' Report

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

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 75, which comprise the consolidated and the Company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Grant Thornton
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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 2012 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 Hong Kong Limited
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue, Causeway Bay
Hong Kong

28 March 2013

Chan Tze Kit
Practising Certificate No.: P05707

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 US$'000 (Note 28)	2012 HK$'000	2011 HK$'000
Revenue	4	**47,950**	**371,615**	44,947
Cost of sales		**(19,041)**	**(147,571)**	(32,095)
Gross profit		**28,909**	**224,044**	12,852
Marketing expenses		**(9,794)**	**(75,902)**	(25,040)
Selling and distribution expenses		**(2,505)**	**(19,420)**	(2,034)
Administration expenses		**(9,872)**	**(76,505)**	(72,112)
Operating profit/(loss)	6	**6,738**	**52,217**	(86,334)
Other income		**202**	**1,568**	1,503
Finance costs	7	**(569)**	**(4,407)**	(2,256)
Change in fair value of derivative financial instrument	20	**–**	**–**	10
Share of loss of an associated company		**(709)**	**(5,497)**	(3,231)
Profit/(Loss) before income tax		**5,662**	**43,881**	(90,308)
Income tax expense	8	**(62)**	**(486)**	(213)
Profit/(Loss) for the year attributable to equity holders of the Company	9	**5,600**	**43,395**	(90,521)
		US cents	***HK cents***	*HK cents*
Earnings/(Loss) per share	10			
Basic		**0.50**	**3.87**	(8.67)
Diluted		**0.50**	**3.85**	(8.67)

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 US$'000 (Note 28)	2012 HK$'000	2011 HK$'000
Profit/(Loss) for the year	**5,600**	**43,395**	(90,521)
Other comprehensive income:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**91**	**703**	(328)
Total comprehensive income for the year attributable to equity holders of the Company	**5,691**	**44,098**	(90,849)

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2012

	Note	**2012 US$'000** (Note 28)	**2012 HK$'000**	2011 HK$'000
Non-current assets				
Property, plant and equipment	13	**164**	**1,274**	1,767
Interest in an associated company	15	**1,510**	**11,701**	17,198
Deferred tax assets	22	**18**	**136**	125
		1,692	**13,111**	19,090
Current assets				
Inventories	16	**2,811**	**21,783**	2,127
Trade receivables	17	**22,878**	**177,304**	7,144
Deposits paid, other receivables and prepayments		**852**	**6,601**	7,065
Taxation recoverable		**22**	**173**	216
Cash and bank balances	25.2	**20,832**	**161,452**	208,766
		47,395	**367,313**	225,318
Current liabilities				
Trade payables	18	**5,983**	**46,367**	3,160
Deposits received, other payables and accrued charges		**16,642**	**128,979**	63,933
Derivative financial instrument	20	**–**	**–**	3,437
Provisions	21	**1,720**	**13,330**	5,147
Taxation payable		**50**	**390**	–
		24,395	**189,066**	75,677
Net current assets		**23,000**	**178,247**	149,641

	Note	2012 US$'000 (Note 28)	2012 HK$'000	2011 HK$'000
Total assets less current liabilities		**24,692**	**191,358**	168,731
Non-current liabilities				
Convertible bond	20	**–**	**–**	74,447
Net assets		**24,692**	**191,358**	94,284
Equity				
Share capital	24.1	**1,488**	**11,533**	10,463
Reserves		**23,204**	**179,825**	83,821
Total equity		**24,692**	**191,358**	94,284

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 36 to 75 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2012

	Note	2012 US$'000 (Note 28)	2012 HK$'000	2011 HK$'000
Non-current assets				
Interest in subsidiaries	14	**412**	**3,192**	3,192
Current assets				
Other receivables and prepayments		**42**	**322**	426
Amounts due from subsidiaries	19	**4,081**	**31,629**	–
Cash and bank balances		**17,870**	**138,495**	200,618
		21,993	**170,446**	201,044
Current liabilities				
Other payables and accrued charges		**177**	**1,368**	1,576
Amount due to a subsidiary	19	**411**	**3,187**	3,187
Derivative financial instrument	20	**–**	**–**	3,437
		588	**4,555**	8,200
Net current assets		**21,405**	**165,891**	192,844
Total assets less current liabilities		**21,817**	**169,083**	196,036
Non-current liabilities				
Convertible bond	20	**–**	**–**	74,447
Net assets		**21,817**	**169,083**	121,589
Equity				
Share capital	24.1	**1,488**	**11,533**	10,463
Reserves	24.2	**20,329**	**157,550**	111,126
Total equity		**21,817**	**169,083**	121,589

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 US$'000 (Note 28)	2012 HK$'000	2011 HK$'000
Cash flows from operating activities				
Cash used in operations	25.1	**(2,058)**	**(15,949)**	(42,660)
Interest paid		**(165)**	**(1,277)**	(778)
Overseas tax refunded		**–**	**–**	17
Hong Kong profits tax paid		**(8)**	**(63)**	(793)
Net cash used in operating activities		**(2,231)**	**(17,289)**	(44,214)
Cash flows from investing activities				
Purchases of property, plant and equipment		**(24)**	**(183)**	(398)
Proceeds from disposal of property, plant and equipment		**–**	**2**	4
Bank interest received		**202**	**1,568**	1,503
Net cash generated from investing activities		**178**	**1,387**	1,109
Cash flows from financing activities				
Issue of shares		**6,096**	**47,243**	1,332
Repurchase of shares of the Company		**(6)**	**(45)**	–
Issue of convertible bond		**–**	**–**	77,500
Repayment of convertible bond		**(10,037)**	**(77,790)**	–
Net cash (used in)/generated from financing activities		**(3,947)**	**(30,592)**	78,832
Net (decrease)/increase in cash and cash equivalents		**(6,000)**	**(46,494)**	35,727
Cash and cash equivalents at 1 January		**26,938**	**208,766**	172,787
Effect of foreign exchange rate changes		**(106)**	**(820)**	252
Cash and cash equivalents at 31 December	25.2	**20,832**	**161,452**	208,766

The notes on pages 36 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

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

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 24.2)	Exchange reserve HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	**10,463**	**253,208**	**167,613**	**(884)**	**17,217**	**(353,333)**	**94,284**
Profit for the year	–	–	–	–	–	**43,395**	**43,395**
Other comprehensive income:							
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	**703**	–	–	**703**
Total comprehensive income for the year	–	–	–	**703**	–	**43,395**	**44,098**
Issue of shares	**995**	**43,764**	–	–	–	–	**44,759**
Repurchase of shares of the Company	**(1)**	**(44)**	–	–	–	–	**(45)**
Share option scheme							
– value of services	–	–	–	–	**5,778**	–	**5,778**
– shares issued	**76**	**3,751**	–	–	**(1,343)**	–	**2,484**
Transactions with owners	**1,070**	**47,471**	–	–	**4,435**	–	**52,976**
Share options lapsed	–	–	–	–	**(1,316)**	**1,316**	–
At 31 December 2012	**11,533**	**300,679**	**167,613**	**(181)**	**20,336**	**(308,622)**	**191,358**

The notes on pages 36 to 75 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

1 General Information

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

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

The financial statements for the year ended 31 December 2012 were approved by the board of directors on 28 March 2013.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements on pages 28 to 75 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

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

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.6 "Inventories", note 2.10 "Derivative financial instruments" and note 2.11 "Provisions" to the financial statements.

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

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

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

2.4 Associated companies

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.

In the consolidated financial statements, an investment in an associated company 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 is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associated company'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 for the year, including any impairment loss on the investment in the associated company recognised for the year.

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

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

2.4 Associated companies (Continued)

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

2.6 Inventories

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

The Group reviews the condition of inventories at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. At the balance sheet date, the carrying amount of inventories after provision for impairment amounted to HK$21,783,000 (2011: HK$2,127,000).

2.7 Financial assets

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

2.7 Financial assets (Continued)

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

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

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

2.8 Impairment of non-financial assets

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

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

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

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

2.9 Financial liabilities

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

Trade and other payables

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

Convertible bond

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

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

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

2.10 Derivative financial instruments

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

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

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. 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$13,330,000 (2011: HK$5,147,000).

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

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

2.12 Share capital

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

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

2.13 Revenue recognition

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

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

2.14.1 Advertising and marketing expenses are expensed as incurred.

2.14.2 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.

2.14.3 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.

2.15 Operating leases

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

2.16 Employee benefits

2.16.1 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.

2.16.2 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.

2.16.3 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.

2.17 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.

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

2.18 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.

2.19 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.

2.20 Foreign currency translation

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

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

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

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

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

2.21 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.

Notes to the Financial Statements

For the year ended 31 December 2012

2 Summary of Significant Accounting Policies (Continued)

2.22 Segment reporting

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

2.23 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 2012:

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

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.

The following new standards, amendments and interpretations which have been issued by the HKICPA as of 31 December 2012 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2012:

Effective for the annual period beginning on 1 January 2013

Amendments to HKAS 1	Presentation of items of other comprehensive income
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement

Effective for the annual period beginning on 1 January 2014 or after

Amendments to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
HKFRS 9	Financial instruments

The above standards, amendments and interpretations, if they are relevant to the Group, will be adopted in the annual periods listed. The Group is in the process of making an assessment of the impact of the above standards, amendments and interpretations but is not yet in a position to ascertain their impact on its results of operations and financial position.

4 Revenue

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

Revenue recognised during the year ended 31 December 2012 from sales of toys was HK$371,615,000 (2011: HK$44,947,000).

Notes to the Financial Statements

For the year ended 31 December 2012

5 Segment Information

5.1 Geographical information

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

	Revenue		Specified non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**41**	–	**12,167**	17,836
Americas				
– U.S.A.	**302,528**	36,170	**808**	1,129
– Others	**19,945**	127	**–**	–
Europe	**36,381**	7,104	**–**	–
Asia Pacific other than Hong Kong	**12,698**	655	**–**	–
Others	**22**	891	**–**	–
	371,574	44,947	**808**	1,129
	371,615	44,947	**12,975**	18,965

5.2 Major customers

The Group's customer base is diversified and includes three (2011: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK$108.2 million, HK$83.3 million and HK$74.0 million (2011: HK$8.4 million, HK$8.3 million and HK$7.5 million) respectively.

6 Operating Profit/(Loss)

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

	2012 **HK$'000**	2011 *HK$'000*
Cost of inventories sold	**126,566**	20,092
Write-down/(Reversal of write-down) of inventories	**130**	(31)
Product development costs	**4,377**	7,843
Royalties paid	**45,997**	11,517
Provision for customer concession	**1,319**	390
Reversal of unutilised provision for customer concession	**–**	(185)
Provision for customer returns, cooperative advertising and cancellation charges *(Note 21)*	**13,671**	1,776
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges *(Note 21)*	**(1,854)**	(3,867)
Depreciation of property, plant and equipment	**668**	1,484
Employee benefit expense, including directors' remuneration *(Note 11)*	**42,131**	44,362
Operating leases expense on office and warehouse facilities	**3,693**	5,113
Loss on disposal of property, plant and equipment	**–**	65
Net foreign exchange loss/(gain)	**1,696**	(520)
Auditors' remuneration	**740**	700

7 Finance Costs

	2012 **HK$'000**	2011 *HK$'000*
Interest on convertible bond	**883**	1,172
Penalty for early repayment of convertible bond	**778**	–
Bank charges	**2,746**	1,084
	4,407	2,256

Notes to the Financial Statements

For the year ended 31 December 2012

8 Income Tax Expense

8.1 Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Overseas, mainly the U.S., taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profits. The tax rate for federal tax is 34% (2011: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2011: 8.84%).

	2012 ***HK$'000***	2011 *HK$'000*
Current taxation		
Hong Kong profits tax	**119**	291
Overseas taxation	**390**	–
Over provision in prior years – Hong Kong	**(12)**	(25)
	497	266
Deferred taxation		
Origination and reversal of temporary differences	**(11)**	(53)
Income tax expense	**486**	213

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

	2012 ***HK$'000***	2011 *HK$'000*
Profit/(Loss) before income tax	**43,881**	(90,308)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**21,699**	(34,074)
Tax effect of:		
Non-taxable income	**(257)**	(400)
Non-deductible expenses	**1,616**	845
Unrecognised temporary differences	**9,421**	1,031
Unrecognised tax losses	**652**	32,799
Utilisation of previously unrecognised tax losses	**(32,633)**	–
Reversal of previously recognised temporary differences	**–**	37
Prior years over provision	**(12)**	(25)
Income tax expense	**486**	213

9 Profit/(Loss) for the Year Attributable to Equity Holders of the Company

The consolidated profit/(loss) for the year attributable to equity holders of the Company includes a loss of HK$5,482,000 (2011: HK$4,412,000) which has been dealt with in the financial statements of the Company.

10 Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK$43,395,000 (2011: loss of HK$90,521,000) and the weighted average number of ordinary shares of 1,121,800,000 (2011: 1,044,487,000) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2012 is based on the profit attributable to equity holders of the Company of HK$43,395,000 and the weighted average number of ordinary shares of 1,127,379,000 in issue during the year, adjusted for the effects of 5,579,000 dilutive potential shares on exercise of share options and warrants.

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

11 Employee Benefit Expense

	2012	2011
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**37,050**	39,526
Share-based compensation	**3,777**	3,735
Employer's contributions to provident fund	**1,304**	1,101
	42,131	44,362

Total employee benefit expense include directors' remuneration.

Notes to the Financial Statements

For the year ended 31 December 2012

12 Directors' Remuneration and Senior Management's Emoluments

12.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	**Fee 2012 *HK$'000***	**Salary 2012 *HK$'000***	**Share-based compensation 2012 *HK$'000***	**Other benefits 2012 *HK$'000* *(Note)***	**Employer's contribution to provident fund 2012 *HK$'000***	**Total 2012 *HK$'000***
CHAN Chun Hoo, Thomas	**10**	**–**	**–**	**–**	**–**	**10**
CHENG Bing Kin, Alain	**10**	**–**	**359**	**–**	**–**	**369**
CHOW Yu Chun, Alexander	**120**	**–**	**104**	**214**	**–**	**438**
LEE Ching Kwok, Rin	**120**	**–**	**104**	**189**	**–**	**413**
TO Shu Sing, Sidney	**10**	**–**	**445**	**–**	**–**	**455**
YANG, Victor	**120**	**–**	**104**	**175**	**–**	**399**
	390	**–**	**1,116**	**578**	**–**	**2,084**

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	10	–	–	–	–	10
CHENG Bing Kin, Alain	10	–	415	–	–	425
CHOW Yu Chun, Alexander	120	–	37	190	–	347
LEE Ching Kwok, Rin	120	–	37	160	–	317
TO Shu Sing, Sidney	10	–	534	–	–	544
YANG, Victor	120	–	37	190	–	347
	390	–	1,060	540	–	1,990

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2012 and 2011.

Note: Other benefits include committee work and meeting attendance allowance for non-executive directors.

12.2 Five highest paid individuals

None of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the five highest paid individuals for the year ended 31 December 2012 and 2011 are as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**8,723**	11,429
Share-based compensation	**731**	998
Employer's contributions to provident fund	**423**	465
	9,877	12,892

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

	Number of individuals	
	2012	2011
HK$		
1,500,001 – 2,000,000	**3**	2
2,000,001 – 2,500,000	**2**	2
2,500,001 – 3,000,000	**–**	–
4,500,001 – 5,000,000	**–**	1
	5	5

Notes to the Financial Statements

For the year ended 31 December 2012

13 Property, Plant and Equipment – Group

	Leasehold improvements HK$'000	Machinery, equipment, furniture and fixtures HK$'000	Computers HK$'000	Total HK$'000
Cost				
At 1 January 2012	**596**	**1,839**	**24,836**	**27,271**
Exchange fluctuation	**(3)**	**(7)**	**(154)**	**(164)**
Additions	**–**	**16**	**167**	**183**
Disposals	**–**	**–**	**(191)**	**(191)**
At 31 December 2012	**593**	**1,848**	**24,658**	**27,099**
Accumulated depreciation				
At 1 January 2012	**197**	**1,101**	**24,206**	**25,504**
Exchange fluctuation	**(1)**	**(5)**	**(152)**	**(158)**
Charge for the year	**111**	**163**	**394**	**668**
Disposals	**–**	**–**	**(189)**	**(189)**
At 31 December 2012	**307**	**1,259**	**24,259**	**25,825**
Net book value				
At 31 December 2012	**286**	**589**	**399**	**1,274**
Cost				
At 1 January 2011	2,486	2,013	26,160	30,659
Exchange fluctuation	4	7	159	170
Additions	16	–	382	398
Disposals	(1,910)	(181)	(1,865)	(3,956)
At 31 December 2011	596	1,839	24,836	27,271
Accumulated depreciation				
At 1 January 2011	1,568	1,090	25,088	27,746
Exchange fluctuation	1	5	155	161
Charge for the year	538	187	759	1,484
Disposals	(1,910)	(181)	(1,796)	(3,887)
At 31 December 2011	197	1,101	24,206	25,504
Net book value				
At 31 December 2011	399	738	630	1,767

14 Interest in Subsidiaries – Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**147,380**	147,380
Less: Provision for impairment	**(144,188)**	(144,188)
Interest in subsidiaries	**3,192**	3,192

Details of the principal subsidiaries of the Company as at 31 December 2012 are as follows:

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

The above table includes subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

Notes to the Financial Statements

For the year ended 31 December 2012

15 Interest in an Associated Company – Group

	2012 *HK$'000*	2011 *HK$'000*
Cost of investment	**18,077**	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	**(6,376)**	(879)
	11,701	17,198

As at 31 December 2012, the Group held interests in the following associated company:

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

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

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

Summary of financial information of the associated company

	Assets *HK$'000*	**Liabilities** *HK$'000*	**Equity** *HK$'000*	**Revenue** *HK$'000*	**Loss** *HK$'000*
2012					
100 per cent	**34,536**	**10,656**	**23,880**	**45,110**	**11,219**
Group's effective interest	**16,923**	**5,222**	**11,701**	**22,104**	**5,497**
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

16 Inventories – Group

As at 31 December 2012, the carrying amount of inventories that are carried at net realisable value amounted to HK$233,000 (2011: HK$nil).

17 Trade Receivables – Group

	2012 *HK$'000*	2011 *HK$'000*
Trade receivables	**178,280**	7,204
Less: Allowance for customer concession	**(976)**	(60)
	177,304	7,144

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

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

	2012 *HK$'000*	2011 *HK$'000*
0 – 30 days	**175,472**	7,087
31 – 60 days	**1,523**	52
Over 60 days	**309**	5
	177,304	7,144

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

	2012 *HK$'000*	2011 *HK$'000*
Neither past due nor impaired	**144,098**	7,087
1 – 90 days past due	**33,098**	52
91 – 180 days past due	**37**	–
Over 180 days past due	**71**	5
	33,206	57
	177,304	7,144

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.

Notes to the Financial Statements

For the year ended 31 December 2012

18 Trade Payables – Group

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

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**37,368**	2,531
31 – 60 days	**7,525**	247
Over 60 days	**1,474**	382
	46,367	3,160

19 Amounts Due from/to Subsidiaries – Company

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amount of amounts due approximates their fair values.

20 Convertible Bond and Derivative Financial Instrument – Group and Company

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

During the year ended 31 December 2012, the Company fully repaid US$10 million (equivalent to HK$77.8 million) to PIL Toys together with US$100,000 (equivalent to HK$778,000), a sum equals to 1% of the early repaid amount in accordance with the terms and conditions of the convertible bond.

The carrying values of the liability component and derivative component of the convertible bond as at 31 December 2012 were as follows:

	HK$'000
Liability component – classified as non-current liability	
Opening net carrying amount at 1 January 2012	**74,447**
Repayment during the year	**(74,053)**
Interest expense	**883**
Interest paid	**(1,277)**
Closing net carrying amount at 31 December 2012	**–**

	HK$'000
Opening net carrying amount at 1 January 2011	–
Net carrying amount on initial recognition	74,053
Interest expense	1,172
Interest paid	(778)
Closing net carrying amount at 31 December 2011	74,447

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

Notes to the Financial Statements

For the year ended 31 December 2012

20 Convertible Bond and Derivative Financial Instrument – Group and Company (Continued)

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 2.09% (2011:2.09%) to the liability component.

	HK$'000
Derivative component – classified as current liability	
Opening net carrying amount as at 1 January 2012	**3,437**
Repayment during the year	**(3,437)**
Closing net carrying amount at 31 December 2012	**–**
Opening net carrying amount as at 1 January 2011	–
Net carrying amount on initial recognition	3,447
Change in fair value recognised in profit or loss	(10)
Closing net carrying amount at 31 December 2011	3,437

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

21 Provisions – Group

	Consumer returns HK$'000	Cooperative advertising HK$'000	Cancellation charges HK$'000	Total HK$'000
At 1 January 2012	**784**	**3,678**	**685**	**5,147**
Exchange fluctuation	**(5)**	**(24)**	**(4)**	**(33)**
Additional provisions made	**3,005**	**10,666**	**–**	**13,671**
Provisions utilised	**(493)**	**(3,108)**	**–**	**(3,601)**
Reversal of unutilised provisions	**–**	**(1,814)**	**(40)**	**(1,854)**
At 31 December 2012	**3,291**	**9,398**	**641**	**13,330**

22 Deferred Tax Assets – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2011: 16.5%) in Hong Kong, and federal and California state tax rates of 34% (2011: 34%) and 8.84% (2011: 8.84%) respectively in the U.S..

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

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**125**	72
Credited to profit or loss	**11**	53
At 31 December	**136**	125

The Group has not recognised tax losses of HK$429 million (2011: HK$475 million) due to unpredictability of future profit streams, of which HK$412 million expires at various dates up to and including 2031 (2011: HK$462 million expires at various dates up to and including 2031) and the remaining balance has no expiry dates under respective current tax legislation.

In addition, the Group has not recognised temporary differences of HK$33 million (2011: HK$31 million) in respect of employee benefits relating to shared-based compensation for U.S. subsidiaries of the Group.

Notes to the Financial Statements

For the year ended 31 December 2012

23 Equity Settled Share-based Transactions

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

	2012		2011	
	Weighted average exercise price ***HK$***	**Number of options** ***'000***	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.556**	**46,425**	0.660	36,788
Granted *(Note (a))*	**0.415**	**19,280**	0.318	14,380
Exercised *(Note (b))*	**0.325**	**(7,644)**	0.315	(140)
Lapsed	**0.742**	**(2,874)**	0.654	(4,603)
At 31 December	**0.529**	**55,187**	0.556	46,425
Exercisable at 31 December	**0.581**	**27,690**	0.531	23,120

Notes:

(a) Share options were granted to directors, employees and other participants on 13 April 2012 at the exercise price of HK$0.415 and expiring on 12 April 2022. The closing price of the ordinary share of the Company on 12 April 2012, being the trading day immediately before the day on which the share options were granted, was HK$0.410. Consideration received was HK$698 in respect of the share options granted during the year.

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

Date of grant	**13 April 2012**
Share price at date of grant	HK$0.415
Exercise price	HK$0.415
Expected volatility	101%
Expected life of option	5 years
Risk-free rate	0.55%
Expected dividend yield	NIL
Fair value at date of grant	HK$0.308

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

(b) These share options were exercised during the year ended 31 December 2012 at exercise prices ranging from HK$0.315 to HK$0.415. The weighted average closing price of ordinary share of the Company immediately before the dates on which the options were exercised during the year was HK$0.44.

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

The share options outstanding at 31 December 2012 had a weighted average remaining contractual life of 7.93 years (2011: 8.05 years).

In total, HK$5,778,000 of share-based compensation expense has been included in the consolidated income statement for 2012 (2011: HK$5,129,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2012

24 Equity – Group and Company

24.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2011 and 2012	**3,000,000,000**	**30,000**

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2011	1,043,257,473	10,433
Exercise of share options	140,000	1
Exercise of warrants *(Note (a))*	2,862,735	29
At 31 December 2011 and 1 January 2012	**1,046,260,208**	**10,463**
Exercise of share options	**7,644,000**	**76**
Exercise of warrants *(Note (a))*	**99,462,543**	**995**
Repurchase of shares *(Note (b))*	**(98,751)**	**(1)**
At 31 December 2012	**1,153,268,000**	**11,533**

Notes:

(a) The warrants were exercisable from 4 August 2010 to 3 August 2012 at an initial subscription price of HK$0.45 per share (subject to adjustment). The subscription rights attaching to the warrants expired on 3 August 2012. As at 31 December 2011, 132,752,292 warrants remained unexercised.

(b) During the year, 98,751 shares were repurchased by the Company on the Stock Exchange at a price of HK$0.46 each, and were cancelled and redeemed on 13 September 2012 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.

24.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	251,871	12,849	142,523	(254,822)	152,421
Loss for the year	–	–	–	(47,726)	(47,726)
Issue of shares	1,259	–	–	–	1,259
Share option scheme					
– value of services	–	5,129	–	–	5,129
– shares issued	78	(35)	–	–	43
– options lapsed	–	(726)	–	726	–
At 31 December 2011	253,208	17,217	142,523	(301,822)	111,126
At 1 January 2012	**253,208**	**17,217**	**142,523**	**(301,822)**	**111,126**
Loss for the year	**–**	**–**	**–**	**(5,482)**	**(5,482)**
Issue of shares	**43,764**	**–**	**–**	**–**	**43,764**
Repurchase of shares	**(44)**	**–**	**–**	**–**	**(44)**
Share option scheme					
– value of services	**–**	**5,778**	**–**	**–**	**5,778**
– shares issued	**3,751**	**(1,343)**	**–**	**–**	**2,408**
– options lapsed	**–**	**(1,316)**	**–**	**1,316**	**–**
At 31 December 2012	**300,679**	**20,336**	**142,523**	**(305,988)**	**157,550**

Notes to the Financial Statements

For the year ended 31 December 2012

24 Equity – Group and Company (Continued)

24.2 Reserves (Continued)

Nature and purpose of reserves

Company

(i) Contributed surplus

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

Group

(ii) Capital reserve

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

24.3 Capital management

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

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

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity was nil at 31 December 2012 and 2011.

25 Notes to the Consolidated Cash Flow Statement

25.1 Reconciliation of profit/(loss) before income tax to cash used in operations

	2012 HK$'000	2011 HK$'000
Profit/(Loss) before income tax	**43,881**	(90,308)
Bank interest income	**(1,568)**	(1,503)
Interest on convertible bond	**883**	1,172
Depreciation of property, plant and equipment	**668**	1,484
Share-based compensation	**5,778**	5,129
Loss on disposal of property, plant and equipment	**–**	65
Loss on early repayment of convertible bond	**510**	–
Unrealised exchange loss/(gain)	**1,318**	(589)
Change in fair value of derivative financial instrument	**–**	(10)
Share of loss of an associated company	**5,497**	3,231
Operating profit/(loss) before working capital changes	**56,967**	(81,329)
(Increase)/Decrease in inventories	**(19,656)**	3,277
(Increase)/Decrease in trade receivables, deposits paid, other receivables and prepayments	**(169,696)**	5,440
Increase in trade payables, deposits received, other payables and accrued charges and provisions	**116,436**	29,952
Cash used in operations	**(15,949)**	(42,660)

25.2 Analysis of cash and cash equivalents

	2012 HK$'000	2011 HK$'000
Cash and bank balances	**161,452**	208,766

Notes to the Financial Statements

26 Commitments – Group

26.1 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:

	2012 HK$'000	2011 HK$'000
Within one year	**32,612**	22,079
In the second to fifth years	**76,376**	104,676
	108,988	126,755

26.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 2012, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**3,719**	3,671
In the second to fifth years	**4,710**	8,467
	8,429	12,138

The Company did not have any commitment at 31 December 2012 and 2011.

27 Related Party Transactions

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

	2012 **HK$'000**	2011 *HK$'000*
Rent and building management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	**1,882**	1,938
Interest expense paid to the immediate holding company, PIL Toys Limited	**883**	1,172
Penalty for early repayment of convertible bond paid to the immediate holding company, PIL Toys Limited	**778**	–

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

28 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2012.

Notes to the Financial Statements

For the year ended 31 December 2012

29 Financial Risk Management and Fair Value Measurement

29.1 Categories of financial instruments

	2012 *HK$'000*	2011 *HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**177,304**	7,144
Deposits paid and other receivables	**805**	882
Cash and bank balances	**161,452**	208,766
	339,561	216,792
Financial liabilities		
At amortised cost:		
Convertible bond	**–**	74,447
Trade payables	**46,367**	3,160
Other payables and accrued charges	**49,123**	15,659
	95,490	93,266
At fair value:		
Derivative financial instrument	**–**	3,437
	95,490	96,703

29.2 Financial risk factors

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

29.2.1 Currency risk

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

29.2.2 Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet as summarised in note 29.1 above.

Concentrations of credit risk

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

	2012	2011
Sales		
– the largest customer	**29%**	19%
– five largest customers in aggregate	**83%**	65%

Notes to the Financial Statements

For the year ended 31 December 2012

29 Financial Risk Management and Fair Value Measurement (Continued)

29.2 Financial risk factors (Continued)

29.2.3 Liquidity risk

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

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

	2012				
	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*
Trade payables	**46,367**	**–**	**–**	**46,367**	**46,367**
Other payables and accrued charges	**49,123**	**–**	**–**	**49,123**	**49,123**
	95,490	**–**	**–**	**95,490**	**95,490**

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

29.3 Fair value measurement

The financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

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

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

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

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

There was no financial assets and liabilities measured at fair value at 31 December 2012.

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

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

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

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:

	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**371,615**	44,947	148,219	636,440	703,596
Profit/(Loss) before income tax	**43,881**	(90,308)	(93,598)	(45,315)	(143,698)
Income tax expense	**(486)**	(213)	(2,085)	(41,389)	(46,818)
Profit/(Loss) for the year attributable to equity holders of the Company	**43,395**	(90,521)	(95,683)	(86,704)	(190,516)
Total assets	**380,424**	244,408	221,270	264,746	315,602
Total liabilities	**(189,066)**	(150,124)	(42,598)	(259,380)	(223,521)
Net assets	**191,358**	94,284	178,672	5,366	92,081

Playmates Toys Limited
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(Stock code 869)
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