Playmates TOYS

2013 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
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

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

Website
www.playmatestoys.com

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STATEMENT FROM THE CHAIRMAN

I am pleased to report that during the past year we have been successful in the execution of our planned programs and achieved the intended overall results.

2013 was the first full year of the re-launched ***Teenage Mutant Ninja Turtles*** ("TMNT" or "Turtles") program. The Nickelodeon TMNT TV series continued to be a top rated show in the United States of America ("the US") as well as in the leading markets in Europe and Australasia, driving our Turtles toys to become the top selling brand in the action figure category in those markets. As the year came to an end, momentum remained strong with consistent positive growth trends reported in both show rankings and our market shares.

Barring unforeseen material adverse circumstances, we expect that strong entertainment, new market penetration and an expanded product line will drive further growth and good performance in 2014. The TMNT TV series, the key entertainment driver of the Turtles program, is in its second season and every new episode has been ranked the number one boys show in its premiere time period in the US. The blockbuster movie by Paramount Pictures scheduled for global release starting in summer is expected to give a significant boost to the profile of the entire franchise. At the end of last year, distribution of our Turtles toys has already reached all key markets in the Americas, Europe and Australasia. In 2014, we will enter the major Asian markets, namely China and Japan. We are also expanding the range of our TMNT product line to broaden the consumer base and capture incremental retail shelf presence.

Going forward, we will continue to adhere to the strategy of focusing our efforts and resources to nurture our established brands for long term profitability while selectively seeking out new concepts and investment opportunities.

I must thank our many business partners, in particular licensors, manufacturing vendors, retail and distribution partners, for their trust and support, without which we could not have achieved our results. My sincere appreciation also goes to my fellow board members and colleagues for their diligence, quality performance and commitment to excellence.

CHAN Chun Hoo, Thomas
Chairman of the board

Hong Kong, 26 March 2014

BUSINESS REVIEW AND PROSPECTS

Playmates Toys group worldwide turnover for the year ended 31 December 2013 was HK$1,659 million (2012: HK$372 million), an increase of 346.3% compared to the prior year. The significant increase in revenue was mainly attributed to strong sales of TMNT products throughout the whole year as well as expanded distribution in additional markets in 2013, compared to the late launch of the Turtles program in the third quarter of 2012 only in the US and Canada. Sales of TMNT products contributed over 90% of our revenue in 2013.

The US continued to be our biggest market in 2013, contributing 67% of revenue. Europe as a whole contributed 22%, the rest of the Americas 5% and 4% came from Australasia. During the year, the key markets in North America and Europe reported clearer signs of recovery from the 2008 economic recession, prompting the US Federal Reserve to start trimming down its market intervention program. At the end of the year, consumer confidence in the US was at the highest year-end level since 2007 as job market improved and home values rebounded. However, according to NPD, the leading provider of toys point-of-sale market research data, 2013 US retail dollar sales of toys were down by about 1% year-on-year apparently due to a shorter holiday shopping season.[1]

Gross profit ratio on toy sales was 62.8% (2012: 60.3%). The increase in gross profit ratio was attributable to more efficient utilization of investments in product design, development and tooling at higher sales volume, partially offset by a higher portion of sales to markets with lower gross margin structure. Recurring operating expenses were higher than last year by 188.2%, reflecting increases in selling and distribution, marketing and administrative expenses to support the significantly higher sales volume. Recognition of tax credits due to accumulated losses in prior years resulted in non-recurring reductions in tax liabilities for the year 2013.

The group reported an operating profit for 2013 of HK$547 million (2012: HK$52 million). Net profit attributable to shareholders was HK$533 million (2012: HK$43 million) and basic earnings per share was HK Cents 45.73 (2012: HK Cents 3.87).

[1]Source: The NPD Group/Retail Tracking Services; Dollars, 52 weeks vs. YAG (1/6/2013-1/4/2014 vs. 1/8/2012-1/5/2013)

Brand Overview

Teenage Mutant Ninja Turtles

Throughout 2013, Nickelodeon's TMNT TV show recorded consistent growth in its top ratings with the core boys' audience in the US. With the launch of Season 2 in October 2013, every new episode so far has been ranked the number one boys show in its premiere time period with further growth in ratings. The TV series has also reached all markets around the world where Nickelodeon has presence and where necessary local broadcast partners were engaged to ensure broad coverage of the target audience.

In tandem with the global rollout of the TV show, distribution of our Turtles toys has reached over 70 countries/territories by the end of 2013 including all key markets in the Americas, Europe, the Middle East and Australasia. According to reports from distribution partners, TMNT was the top selling brand in the action figure category in Australia, Canada, France, Germany, Italy, Russia, Spain and the UK. In many of these markets, Turtles products were among the top sellers in the subcategories of figures, vehicles and accessories, and role-play toys. In the US, NPD reported Turtles was not only the top selling property in the action figure subclass, but also the third ranked license and the number one dollar growth property in the entire toy industry in 2013.[2] Retail sell-through ratio of our Turtles toys in the US at the end of the year was over 90%, setting the stage for even stronger retail support for the brand in 2014.

In 2014 we expect the strong entertainment program from the Viacom group, the expansion of distribution coverage to the major Asian markets and the introduction of new product segments to be the key growth drivers of our TMNT business. The 2014 TMNT entertainment program will not only benefit from the continuing top-rated Nickelodeon TV show, but also be given a powerful boost by the summer blockbuster movie from Paramount Pictures. We have appointed a leading toy marketing and animation company in China with national distribution capabilities as our distributor for the China market. Another distribution partner with track record of successful marketing of TMNT products has been appointed for Japan.

[2]Source: The NPD Group/Retail Tracking Services; Dollars, 52 weeks vs. YAG (1/6/2013-1/4/2014 vs. 1/8/2012-1/5/2013)

Turtles toys are expected to be available at retail in those markets beginning in the first half of 2014. In addition to refreshing and extending the established core product line, we are introducing new segments to the Turtles brand including a separate line of products developed specifically for younger boys.

We are also working closely with Nickelodeon in the planning and development of the 2015 TMNT program in conjunction with the preparation for Season 3 of the TV show. The core line will be driven by new themes from the show and innovative new product segments currently in development.

Girls Brands

Our two girls' brands performed to expectation in 2013 and will continue in 2014.

Hearts For Hearts Girls, the line of award-winning dolls with a philanthropic theme, continued to steadily build upon its base of consumers and social media supporters with positive messages of empowerment. In 2014, the brand will have

broader distribution support from major retailers. With the planned introduction in 2014 of *Nyesha*, a mixed-race American in Harlem, and *Surjan* from Nepal, there will be a total of 12 *Hearts For Hearts Girls*, representing different cultures and ethnicities from different parts of the world, advocating their individual good causes.

Waterbabies will return in 2014 with continuing distribution support from all major US retailers. Planned expansions to the line include further extensions to the classic *Dream to Be* baby doll assortment and the series of collectible *Wee Waterbabies*.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

CHAN Chun Hoo, Thomas
Chairman and Executive Director

Mr. Chan, age 63, 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 51, 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 67, joined the Group in 2007. He is a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 36 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 65, 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 56, 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 68, 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. Mr. Yang has over 40 years experience in legal practice primarily in the areas of corporate finance, commercial law, mergers, acquisitions and taxation and is a solicitor of the High Court of Hong Kong, a Barrister and Solicitor in British Columbia and a Solicitor in England and Wales.

He is presently a Director and a past governor of the Canadian Chamber of Commerce, a director of the Hong Kong Foundation for UBC Limited and a member of the University of British Columbia, Dean of Law's Council of Advisors. Mr. Yang was a past board member of the Canadian International School of Hong Kong Limited and a past member of the Major Sports Events Committee of the Home Affairs Bureau, Hong Kong Special Administrative Region. Mr. Yang is also an independent non-executive director of China Agri-Industries Holdings Limited and Singamas Container Holdings Limited, both of which are listed on the main board of The Stock Exchange of Hong Kong. Mr. Yang remained as a non-executive director of Lei Shing Hong Limited after the company privatized in March 2008 and resigned as an independent non-executive director of Media Chinese International Limited as of 1 October 2009.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2013.

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	47%
– five largest suppliers in aggregate	95%
Sales	
– the largest customer	28%
– five largest customers in aggregate	76%

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 30.

The directors have declared an interim dividend of HK$0.05 per ordinary share, totally HK$59,272,000, which is calculated on the basis of 1,185,431,000 ordinary shares in issue at the date of board meeting held on 26 March 2014.

The directors have proposed to declare and distribute a special dividend of HK$0.10 per ordinary share, totally HK$118,543,000, which is calculated on the basis of 1,185,431,000 ordinary shares in issue at the date of the board meeting held on 26 March 2014. The declaration of special dividend is subject to the approval of shareholders at the forthcoming annual general meeting and is conditional upon the approval of the share premium reduction by the shareholders at the forthcoming annual general meeting.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37. Movements in the reserves of the Company during the year are set out in note 24.2 to the financial statements.

Distributable reserves of the Company at 31 December 2013, calculated under the Companies Act 1981 of Bermuda, amounted to HK$96,605,000 (2012: HK$Nil).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

As at 31 December 2013, the Group has banking facilities amounting to HK$45 million (2012: HK$45 million). None of such banking facilities were utilised at 31 December 2013 and 2012.

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 2013, trade receivables were HK$411,831,000 (2012: HK$177,304,000) and inventories were at a seasonal low level of HK$36,959,000 or 2.2% of turnover (2012: HK$21,783,000 or 5.9% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was 3.4 at 31 December 2013 compared to 1.9 at 31 December 2012.

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 2013, the Group's cash and bank balances were HK$519,563,000 (2012: HK$161,452,000), of which HK$476,126,000 (2012: HK$148,134,000) was denominated in United States dollar and the remaining balance was denominated in Hong Kong dollar.

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 2013, the Group had a total of 55 employees in Hong Kong and the United States of America. This compares to 47 employees as at 31 December 2012.

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$841,000 which includes mainly committed donations as part of the promotional program for a doll product. Charitable and other donations made in 2012 was HK$1,095,000.

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 14 to the financial statements.

Investment in an Associated Company

Details of the investment are set out in note 16 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 79.

Purchase, Sale or Redemption of Shares

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

Directors

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

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

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Chan Chun Hoo, Thomas and Mr. Chow Yu Chun, Alexander 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 26 March 2014	:	48,469,000 ordinary shares, representing 4.09% of the issued capital.	

REPORT OF THE DIRECTORS

Share Options (Continued)

Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
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 2013**	**Granted during the year** *(Note (1))*	**Exercised during the year** *(Note (3))*	**Lapsed during the year**	**Balance at 31 December 2013**
CHENG Bing Kin,	31 March 2008	0.316	554,000	–	554,000	–	–
Alain	20 January 2010	0.828	1,663,000	–	1,176,000	–	487,000
Director	18 April 2011	0.315	1,000,000	–	750,000	–	250,000
	13 April 2012	0.415	1,000,000	–	500,000	–	500,000
	15 May 2013	0.930	–	1,800,000	–	–	1,800,000
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	–	250,000	–	250,000
	15 May 2013	0.930	–	700,000	175,000	–	525,000
LEE Ching Kwok,	31 March 2008	0.316	443,000	–	–	–	443,000
Rin	20 January 2010	0.828	222,000	–	–	–	222,000
Director	13 April 2012	0.415	500,000	–	–	–	500,000
	15 May 2013	0.930	–	700,000	–	–	700,000
TO Shu Sing,	31 March 2008	0.316	554,000	–	554,000	–	–
Sidney	20 January 2010	0.828	2,217,000	–	546,000	–	1,671,000
Director	18 April 2011	0.315	1,200,000	–	900,000	–	300,000
	13 April 2012	0.415	1,200,000	–	600,000	–	600,000
	15 May 2013	0.930	–	1,800,000	–	–	1,800,000
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
	15 May 2013	0.930	–	700,000	–	–	700,000

REPORT OF THE DIRECTORS

Share Options (Continued)

Participant	Date of grant	Exercise price HK$	Number of share options: Balance at 1 January 2013	Granted during the year (Note (1))	Exercised during the year (Note (3))	Lapsed during the year	Balance at 31 December 2013
Continuous Contract Employees, excluding Directors	31 March 2008	0.316	1,560,000	–	701,000	–	859,000
	20 January 2010	0.828	10,090,000	–	6,194,000	–	3,896,000
	18 April 2011	0.315	5,403,000	–	2,179,500	–	3,223,500
	24 May 2011	0.428	400,000	–	300,000	–	100,000
	13 April 2012	0.415	9,170,000	–	2,935,000	–	6,235,000
	15 May 2013	0.930	–	13,880,000	1,980,000	–	11,900,000
Other participants	31 March 2008	0.316	499,000	–	499,000	–	–
	20 January 2010	0.828	2,384,000	–	1,719,000	–	665,000
	30 March 2010	0.673	3,326,000	–	–	–	3,326,000
	18 April 2011	0.315	4,112,000	–	1,601,000	15,000	2,496,000
	13 April 2012	0.415	5,360,000	–	1,216,000	50,000	4,094,000
	15 May 2013	0.930	–	5,930,000	489,000	–	5,441,000

Notes:

(1) The closing price of the ordinary shares of the Company on 14 May 2013, being the trading day immediately before the date on which the share options were granted during the year, was HK$0.86.

(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$1.90 and HK$1.38 respectively.

(3) The weighted average closing prices of the ordinary shares of the Company immediately before the dates on which the share options were exercised by the directors, namely Mr. Cheng Bing Kin, Alain, Mr. Chow Yu Chun, Alexander and Mr. To Shu Sing, Sidney during the year was HK$1.20, HK$2.17 and HK$0.95 respectively.

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

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

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

As at 31 December 2013, 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))*	678,000,000 ordinary shares	57.47%
CHENG Bing Kin, Alain	Personal	9,000,000 ordinary shares	0.76%
CHOW Yu Chun, Alexander	Personal	2,038,000 ordinary shares	0.17%
TO Shu Sing, Sidney	Personal	13,000,000 ordinary shares	1.10%

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	3,037,000 share options	3,037,000 shares	0.26%
CHOW Yu Chun, Alexander	Personal	775,000 share options	775,000 shares	0.07%
LEE Ching Kwok, Rin	Personal	1,865,000 share options	1,865,000 shares	0.16%
TO Shu Sing, Sidney	Personal	4,371,000 share options	4,371,000 shares	0.37%
YANG, Victor	Personal	1,865,000 share options	1,865,000 shares	0.16%

REPORT OF THE DIRECTORS

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

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	5.17%
	Corporate *(Note (b))*	92,000,000 ordinary shares	39.65%
	Associate *(Note (c))*	10,500,000 ordinary shares	4.53%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.10%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.86%

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"). Since TGC directly owns approximately 39.65% 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 92,000,000 shares of PHL in aggregate which TGC is interested in.

(c) 10,500,000 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 2013.

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 2013, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2013, 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))*	678,000,000 ordinary shares	57.47%
PHL	Corporate *(Note (ii))*	678,000,000 ordinary shares	57.47%
PIL Management Limited (formerly known as Playmates International Limited)	Corporate *(Note (ii))*	678,000,000 ordinary shares	57.47%
PIL Investments Limited	Corporate *(Note (ii))*	678,000,000 ordinary shares	57.47%
PIL Toys Limited	Corporate	678,000,000 ordinary shares	57.47%

Notes:

(i) TGC directly owns approximately 39.65% 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) PIL Management Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of PIL Management Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, PIL Management Limited and PIL Investments Limited are therefore deemed to be interested in the 678,000,000 shares of the Company in aggregate which PIL Toys Limited is beneficial interested in.

REPORT OF THE DIRECTORS

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 year ended 31 December 2011 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 years ended 31 December 2013 and 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.

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 57.47% 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, 26 March 2014

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 Corporate Governance Code ("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 2013, 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.

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.

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

Board Meetings and Proceedings (Continued)

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

The board held four meetings in 2013. 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	2/2	1/1	0/1
LEE Ching Kwok, Rin	4/4	2/2	2/2	1/1	1/1
TO Shu Sing, Sidney	4/4	N/A	N/A	N/A	1/1
YANG, Victor	4/4	2/2	2/2	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 2013.

At the meeting held on 26 March 2014, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2013 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

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

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

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

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

Remuneration Policy for Non-executive Director and Executive Directors

The Compensation Committee is charged with the duties to advise the board on the Group's overall policy and structure for the remuneration of directors and senior management. The Compensation Committee also makes recommendations to the board from time to time on the remuneration of the non-executive directors. Pursuant to the 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 13.1 to the financial statements.

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

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.

The board has adopted a Board Diversity Policy in August 2013. Such policy aims at achieving board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board.

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 2013. 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 15 to 17 of this annual report.

Internal Controls

The board has overall responsibility for maintaining an adequate system of internal controls of the Company and 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.

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.

CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

For the year ended 31 December 2013, the auditors of the Company only provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK$1,000,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

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 2013. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 28 to 29 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 ("SGM") 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 (2) months after the deposit of such requisition. If within twenty-one (21) 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 30 to 78, which comprise the consolidated and the Company balance sheets as at 31 December 2013, 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.

Grant Thornton
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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.

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 2013 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
Level 12
28 Hennessy Road
Wanchai
Hong Kong

26 March 2014

Chan Tze Kit
Practising Certificate No.: P05707

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 *US$'000* *(Note 28)*	2013 *HK$'000*	2012 *HK$'000*
Revenue	4	214,003	1,658,527	371,615
Cost of sales		(79,586)	(616,793)	(147,571)
Gross profit		134,417	1,041,734	224,044
Marketing expenses		(37,287)	(288,976)	(75,902)
Selling and distribution expenses		(10,619)	(82,299)	(19,420)
Administration expenses		(15,989)	(123,917)	(76,505)
Operating profit	6	70,522	546,542	52,217
Other income		200	1,555	1,568
Finance costs	7	(972)	(7,534)	(4,407)
Share of loss of an associated company		(117)	(906)	(5,497)
Profit before income tax		69,633	539,657	43,881
Income tax expense	8	(811)	(6,283)	(486)
Profit for the year attributable to equity holders of the Company	9	68,822	533,374	43,395
		US cents	*HK cents*	*HK cents*
Earnings per share	11			
Basic		5.90	45.73	3.87
Diluted		5.76	44.66	3.85

The notes on pages 38 to 78 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 *US$'000* *(Note 28)*	2013 *HK$'000*	2012 *HK$'000*
Profit for the year	**68,822**	**533,374**	43,395
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**21**	**164**	703
Total comprehensive income for the year attributable to equity holders of the Company	**68,843**	**533,538**	44,098

The notes on pages 38 to 78 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	2013 US$'000 (Note 28)	2013 HK$'000	2012 HK$'000
Non-current assets				
Property, plant and equipment	14	151	1,172	1,274
Interest in an associated company	16	1,393	10,795	11,701
Deferred tax assets	22	5,686	44,071	136
		7,230	56,038	13,111
Current assets				
Inventories	17	4,769	36,959	21,783
Trade receivables	18	53,139	411,831	177,304
Deposits paid, other receivables and prepayments		2,708	20,985	6,601
Taxation recoverable		–	–	173
Cash and bank balances	25.2	67,040	519,563	161,452
		127,656	989,338	367,313
Current liabilities				
Trade payables	19	7,608	58,963	46,367
Deposits received, other payables and accrued charges		25,437	197,142	128,979
Provisions	21	4,559	35,329	13,330
Taxation payable		284	2,199	390
		37,888	293,633	189,066
Net current assets		89,768	695,705	178,247
Net assets		96,998	751,743	191,358

	Note	2013 US$'000 (Note 28)	2013 HK$'000	2012 HK$'000
Equity				
Share capital	24.1	1,522	11,798	11,533
Reserves		87,828	680,673	179,825
Declared dividends	10	7,648	59,272	–
Total equity		96,998	751,743	191,358

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 38 to 78 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2013

	Note	2013 US$'000 (Note 28)	2013 HK$'000	2012 HK$'000
Non-current assets				
Interest in subsidiaries	15	19,017	147,380	3,192
Current assets				
Other receivables and prepayments		57	444	322
Amounts due from subsidiaries	20	316	2,450	31,629
Cash and bank balances		40,120	310,927	138,495
		40,493	313,821	170,446
Current liabilities				
Other payables and accrued charges		263	2,034	1,368
Amount due to a subsidiary	20	411	3,187	3,187
		674	5,221	4,555
Net current assets		39,819	308,600	165,891
Net assets		58,836	455,980	169,083
Equity				
Share capital	24.1	1,522	11,798	11,533
Reserves	24.2	49,666	384,910	157,550
Declared dividends	10	7,648	59,272	–
Total equity		58,836	455,980	169,083

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 38 to 78 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	Note	2013 US$'000 (Note 28)	2013 HK$'000	2012 HK$'000
Cash flows from operating activities				
Cash generated from/(used in) operations	25.1	50,297	389,801	(15,949)
Interest paid		–	–	(1,277)
Overseas tax paid		(6,232)	(48,301)	–
Hong Kong profits tax refunded		24	183	–
Hong Kong profits tax paid		(15)	(118)	(63)
Net cash generated from/(used in) operating activities		44,074	341,565	(17,289)
Cash flows from investing activities				
Purchases of property, plant and equipment		(80)	(621)	(183)
Proceeds from disposal of property, plant and equipment		–	–	2
Bank interest received		200	1,555	1,568
Net cash generated from investing activities		120	934	1,387
Cash flows from financing activities				
Issue of shares		2,014	15,612	47,243
Repurchase of shares of the Company		–	–	(45)
Repayment of convertible bond		–	–	(77,790)
Net cash generated from/(used in) financing activities		2,014	15,612	(30,592)
Net increase/(decrease) in cash and cash equivalents		46,208	358,111	(46,494)
Cash and cash equivalents at 1 January		20,832	161,452	208,766
Effect of foreign exchange rate changes		–	–	(820)
Cash and cash equivalents at 31 December	25.2	67,040	519,563	161,452

The notes on pages 38 to 78 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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
– share options lapsed	–	–	–	–	(1,316)	1,316	–
Transactions with owners	1,070	47,471	–	–	3,119	1,316	52,976
At 31 December 2012	11,533	300,679	167,613	(181)	20,336	(308,622)	191,358

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 24.2)	Exchange reserve HK$'000	Share-based compensation reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2013	11,533	300,679	167,613	(181)	20,336	(308,622)	191,358
Profit for the year	–	–	–	–	–	533,374	533,374
Other comprehensive income:							
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	164	–	–	164
Total comprehensive income for the year	–	–	–	164	–	533,374	533,538
Share option scheme							
– value of services	–	–	–	–	11,235	–	11,235
– shares issued	265	27,831	–	–	(12,484)	–	15,612
– share options lapsed	–	–	–	–	(20)	20	–
Transactions with owners	265	27,831	–	–	(1,269)	20	26,847
At 31 December 2013	11,798	328,510	167,613	(17)	19,067	224,772	751,743

The notes on pages 38 to 78 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2013

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 15 to the financial statements.

The financial statements for the year ended 31 December 2013 were approved by the board of directors on 26 March 2014.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements on pages 30 to 78 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 "Listing Rules").

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. 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" and note 2.10 "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 controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

An associated company is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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 2013

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 are 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 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 allowance amounted to HK$36,959,000 (2012: HK$21,783,000).

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.

Notes to the Financial Statements

For the year ended 31 December 2013

2 Summary of Significant Accounting Policies (Continued)

2.7 Financial assets (Continued)

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

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

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

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

2.8 Impairment of non-financial assets

Property, plant and equipment, 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. They are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

2.10 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.

Notes to the Financial Statements

For the year ended 31 December 2013

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions (Continued)

(i) Consumer returns (Continued)

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 customer 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 supplier 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$35,329,000 (2012: HK$13,330,000).

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.

2.11 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.

2.12 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 2013

2 Summary of Significant Accounting Policies (Continued)

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

2.13.1 Advertising and marketing expenses are expensed as incurred.

2.13.2 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.

2.13.3 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.

2.14 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.

2.15 Employee benefits

2.15.1 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.

2.15.2 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 from employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2.15.3 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.

2.16 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 2013

2 Summary of Significant Accounting Policies (Continued)

2.17 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.

2.18 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.

2.19 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.

Notes to the Financial Statements

For the year ended 31 December 2013

2 Summary of Significant Accounting Policies (Continued)

2.20 Cash and cash equivalents

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

2.21 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.

2.22 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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Group's presentation of other comprehensive income has been modified accordingly.

Notes to the Financial Statements

For the year ended 31 December 2013

3 Adoption of New or Amended HKFRSs (Continued)

HKFRS 10 Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12, Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 15 and 16.

HKFRS 13 Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 29.

Amendments to HKFRS 7 Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and liabilities. Those new disclosures are required for all recognised financial instruments that are set off under HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's consolidated financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

The following new standards, amendments and interpretations which have been issued by the HKICPA as of 31 December 2013 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2013:

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 2013 from sales of toys was HK$1,658,527,000 (2012: HK$371,615,000).

Notes to the Financial Statements

For the year ended 31 December 2013

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	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**1,064**	41	**11,332**	12,167
Americas				
– U.S.A.	**1,114,966**	302,528	**635**	808
– Others	**84,505**	19,945	**–**	–
Europe	**356,293**	36,381	**–**	–
Asia Pacific other than Hong Kong	**95,864**	12,698	**–**	–
Others	**5,835**	22	**–**	–
	1,657,463	371,574	**635**	808
	1,658,527	371,615	**11,967**	12,975

5.2 Major customers

The Group's customer base is diversified and includes four (2012: 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$466.0 million, HK$295.7 million, HK$216.1 million and HK$215.8 million (2012: HK$108.2 million, HK$83.3 million and HK$74.0 million) respectively.

6 Operating Profit

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

	2013 *HK$'000*	2012 *HK$'000*
Cost of inventories sold	**589,930**	126,566
Write-down of inventories	**21**	130
Product development costs	**8,005**	4,377
Royalties paid	**212,077**	45,997
Provision for customer concession	**–**	1,319
Provision for consumer returns, cooperative advertising and cancellation charges *(Note 21)*	**56,656**	13,671
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges *(Note 21)*	**(451)**	(1,854)
Depreciation of property, plant and equipment	**723**	668
Employee benefit expense, including directors' remuneration *(Note 12)*	**84,115**	42,131
Operating leases expense on office and warehouse facilities	**3,725**	3,693
Net foreign exchange (gain)/loss	**(136)**	1,696
Auditors' remuneration	**1,000**	740

7 Finance Costs

	2013 *HK$'000*	2012 *HK$'000*
Interest on convertible bond	**–**	883
Penalty for early repayment of convertible bond	**–**	778
Bank charges	**7,534**	2,746
	7,534	4,407

Notes to the Financial Statements

For the year ended 31 December 2013

8 Income Tax Expense

8.1 Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 35% (2012: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2012: 8.84%).

	2013 *HK$'000*	2012 *HK$'000*
Current taxation		
Hong Kong profits tax	519	119
Overseas taxation	49,709	390
Over provision in prior years – Hong Kong	(10)	(12)
	50,218	497
Deferred taxation		
Origination and reversal of temporary differences	(43,935)	(11)
Income tax expense	6,283	486

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

	2013 *HK$'000*	2012 *HK$'000*
Profit before income tax	539,657	43,881
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	222,499	21,699
Tax effect of:		
Non-taxable income	(242)	(257)
Non-deductible expenses	485	1,616
Unrecognised temporary differences	–	9,421
Unrecognised tax losses	1,198	652
Utilisation of previously unrecognised tax losses	(180,708)	(32,633)
Recognition of previously unrecognised temporary differences	(36,939)	–
Over provision in prior years	(10)	(12)
Income tax expense	6,283	486

9 Profit for the Year Attributable to Equity Holders of the Company

The consolidated profit for the year attributable to equity holders of the Company includes a profit of HK$260,050,000 (2012: a loss of HK$5,482,000) which has been dealt with in the financial statements of the Company.

10 Dividends

Dividends attributable to the year

	2013 *HK$'000*	2012 *HK$'000*
Interim dividend of HK$0.05 (2012: HK$nil) per share	59,272	–
Special dividend of HK$0.10 (2012: HK$nil) per share	118,543	–
	177,815	–

At a meeting held on 26 March 2014, the board of directors:

(i) declared an interim dividend of HK$0.05 per share to be paid on or around 6 June 2014 to shareholders whose names appear on the Company's register of members on 26 May 2014; and

(ii) proposed to declare and distribute a special dividend of HK$0.10 per share subject to the approval of shareholders at the forthcoming annual general meeting and is conditional upon the approval of the share premium reduction by the shareholders at the forthcoming annual general meeting. The special dividend, if approved at the forthcoming annual general meeting, will be payable on or around 6 June 2014 to shareholders whose names appear on the Company's register of members on 26 May 2014. Details of the special dividend and the share premium reduction are set out in the section headed "Share Premium Reduction and Special Dividend" of the announcement of the Company on 26 March 2014.

The above interim dividend declared and the special dividend proposed after the balance sheet date have not been recognised as liabilities in the financial statements for the year ended 31 December 2013.

Notes to the Financial Statements

For the year ended 31 December 2013

11 Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$533,374,000 (2012: HK$43,395,000) and the weighted average number of ordinary shares of 1,166,329,000 shares (2012: 1,121,800,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$533,374,000 (2012: HK$43,395,000) and the weighted average number of ordinary shares of 1,194,206,000 shares (2012: 1,127,379,000 shares) in issue during the year, adjusted for the effects of 27,877,000 (2012: 5,579,000) dilutive potential shares on exercise of share options.

12 Employee Benefit Expense

	2013 *HK$'000*	2012 *HK$'000*
Wages, salaries and other benefits	74,198	37,050
Share-based compensation	8,433	3,777
Employer's contributions to provident fund	1,484	1,304
	84,115	42,131

Total employee benefit expense include directors' remuneration.

13 Directors' Remuneration and Senior Management's Emoluments

13.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee 2013 *HK$'000*	Salary 2013 *HK$'000*	Bonus 2013 *HK$'000*	Share-based compensation 2013 *HK$'000*	Other benefits 2013 *HK$'000* *(Note)*	Employer's contribution to provident fund 2013 *HK$'000*	Total 2013 *HK$'000*
CHAN Chun Hoo, Thomas	10	2,250	13,660	–	–	–	15,920
CHENG Bing Kin, Alain	10	–	–	745	–	–	755
CHOW Yu Chun, Alexander	120	–	–	286	215	–	621
LEE Ching Kwok, Rin	120	–	–	286	190	–	596
TO Shu Sing, Sidney	10	–	–	770	–	–	780
YANG, Victor	120	–	–	286	175	–	581
	390	2,250	13,660	2,373	580	–	19,253

Name of director	Fee 2012 *HK$'000*	Salary 2012 *HK$'000*	Bonus 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

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2013 and 2012.

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

Notes to the Financial Statements

For the year ended 31 December 2013

13 Directors' Remuneration and Senior Management's Emoluments (Continued)

13.2 Five highest paid individuals

One (2012: none) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other four (2012: five) highest paid individuals are as follows:

	2013 *HK$'000*	2012 *HK$'000*
Salaries, other allowances and benefits in kind	7,116	8,723
Bonuses	3,770	–
Share-based compensation	1,725	731
Employer's contributions to provident fund	273	423
	12,884	9,877

The emoluments of these four (2012: five) individuals are within the following bands:

	Number of individuals	
	2013	2012
HK$		
1,500,001 – 2,000,000	–	3
2,000,001 – 2,500,000	–	2
2,500,001 – 3,000,000	2	–
3,000,001 – 3,500,000	1	–
4,000,001 – 4,500,000	1	–
	4	5

14 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 2013	**593**	**1,848**	**24,658**	**27,099**
Additions	**159**	**255**	**207**	**621**
Disposals	**–**	**(122)**	**(65)**	**(187)**
At 31 December 2013	**752**	**1,981**	**24,800**	**27,533**
Accumulated depreciation				
At 1 January 2013	**307**	**1,259**	**24,259**	**25,825**
Charge for the year	**146**	**363**	**214**	**723**
Disposals	**–**	**(122)**	**(65)**	**(187)**
At 31 December 2013	**453**	**1,500**	**24,408**	**26,361**
Net book value				
At 31 December 2013	**299**	**481**	**392**	**1,172**
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

Notes to the Financial Statements

For the year ended 31 December 2013

15 Interest in Subsidiaries – Company

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**147,380**	147,380
Less: Provision for impairment	**–**	(144,188)
	147,380	3,192

Details of the principal subsidiaries of the Company as at 31 December 2013 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.

16 Interest in an Associated Company – Group

	2013 HK$'000	2012 HK$'000
Cost of investment	**18,077**	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	**(7,282)**	(6,376)
	10,795	11,701

As at 31 December 2013, 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. It is an unlisted corporate entity whose quoted market price is not available and is accounted for using the equity method in the consolidated financial statements.

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, and which was a strategic investment of the Group at the time of initial investment in 1992.

Summarised financial information of the associated company is disclosed below:

	2013 *HK$'000*	2012 *HK$'000*
Gross amounts of the associated company		
Non-current assets	**6,458**	6,162
Current assets	**26,801**	28,374
Current liabilities	**(11,217)**	(9,415)
Non-current liabilities	**(11)**	(1,241)
Equity	**22,031**	23,880
Group's effective interest	**49%**	49%
Group's share of net assets of the associated company and carrying amount in the consolidated financial statements	**10,795**	11,701
Revenue	**62,956**	45,110
Loss from continuing operations	**(1,849)**	(11,219)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(1,849)**	(11,219)
Dividend from the associated company	**–**	–

17 Inventories – Group

As at 31 December 2013, the carrying amount of inventories that are carried at net realisable value amounted to HK$nil (2012: HK$233,000).

Notes to the Financial Statements

For the year ended 31 December 2013

18 Trade Receivables – Group

	2013 HK$'000	2012 HK$'000
Trade receivables	411,831	178,280
Less: Allowance for customer concession	–	(976)
	411,831	177,304

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 in the range of 60 to 90 days. The following is an aging analysis of trade receivables at the balance sheet date:

	2013 HK$'000	2012 HK$'000
0 – 30 days	406,089	175,472
31 – 60 days	3,407	1,523
Over 60 days	2,335	309
	411,831	177,304

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

	2013 HK$'000	2012 HK$'000
Neither past due nor impaired	307,988	144,098
1 – 90 days past due	102,580	33,098
91 – 180 days past due	454	37
Over 180 days past due	809	71
	103,843	33,206
	411,831	177,304

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.

19 Trade Payables – Group

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

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**55,998**	37,368
31 – 60 days	**2,682**	7,525
Over 60 days	**283**	1,474
	58,963	46,367

20 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.

21 Provisions – Group

	Consumer returns	**Cooperative advertising**	**Cancellation charges**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2013	**3,291**	**9,398**	**641**	**13,330**
Additional provisions made	**11,053**	**45,578**	**25**	**56,656**
Provisions utilised	**(3,179)**	**(30,613)**	**(414)**	**(34,206)**
Reversal of unutilised provisions	**(181)**	**(207)**	**(63)**	**(451)**
At 31 December 2013	**10,984**	**24,156**	**189**	**35,329**

Notes to the Financial Statements

For the year ended 31 December 2013

22 Deferred Taxation – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2012: 16.5%) in Hong Kong, and federal and state tax rates of 35% (2012: 34%) and 8.84% (2012: 8.84%) respectively in the U.S..

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated depreciation *HK$'000*	Other temporary differences *HK$'000* *(Note (a))*	Employee benefits *HK$'000* *(Note (b))*	Total *HK$'000*
At 1 January 2012	125	–	–	125
Credited to profit or loss	11	–	–	11
At 31 December 2012 and 1 January 2013	136	–	–	136
Credited to profit or loss	4,051	27,907	11,977	43,935
At 31 December 2013	4,187	27,907	11,977	44,071

Notes:

(a) Other temporary differences mainly represent the provisions and foreign tax credits.

(b) Employee benefits represents share-based compensation.

Deferred tax assets not recognised

The Group has not recognised tax losses of HK$25 million (2012: tax losses and employee benefits of HK$429 million and HK$33 million respectively). The tax losses do not expire under respective current tax legislation (2012: HK$412 million expired at various dates up to and including 2031 and HK$17 million had no expiry dates).

Deferred tax liabilities not recognised

As at 31 December 2013, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$367,734,000 (2012: Nil). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

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:

	2013		2012	
	Weighted average exercise price *HK$*	Number of options *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.529**	**55,187**	0.556	46,425
Granted *(Note (a))*	**0.930**	**25,510**	0.415	19,280
Exercised *(Note (b))*	**0.589**	**(26,483)**	0.325	(7,644)
Lapsed	**0.392**	**(65)**	0.742	(2,874)
At 31 December	**0.688**	**54,149**	0.529	55,187
Exercisable at 31 December	**0.653**	**22,156**	0.581	27,690

Notes:

(a) Share options were granted to directors, employees and other participants on 15 May 2013 at the exercise price of HK$0.93 and expiring on 14 May 2023. The closing price of the ordinary share of the Company on 14 May 2013, being the trading day immediately before the day on which the share options were granted, was HK$0.86. Consideration received was HK$665 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	**15 May 2013**
Share price at date of grant	HK$0.93
Exercise price	HK$0.93
Expected volatility	90.5%
Expected life of option	5 years
Risk-free rate	0.37%
Expected dividend yield	NIL
Fair value at date of grant	HK$0.643

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

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23 Equity Settled Share-based Transactions (Continued)

Notes: (Continued)

(b) These share options were exercised during the year ended 31 December 2013 at exercise prices ranging from HK$0.315 to HK$0.930. 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$1.630.

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 2013 had a weighted average remaining contractual life of 8.08 years (2012: 7.93 years).

In total, HK$11,235,000 of share-based compensation expense has been included in the consolidated income statement for 2013 (2012: HK$5,778,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

24 Equity – Group and Company

24.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2013 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 2012	1,046,260,208	10,463
Exercise of share options	7,644,000	76
Exercise of warrants *(Note)*	99,462,543	995
Repurchase of shares	(98,751)	(1)
At 31 December 2012 and 1 January 2013	**1,153,268,000**	**11,533**
Exercise of share options	**26,483,500**	**265**
At 31 December 2013	**1,179,751,500**	**11,798**

Note: 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.

Notes to the Financial Statements

For the year ended 31 December 2013

24 Equity – Group and Company (Continued)

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 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
– share options lapsed	–	(1,316)	–	1,316	–
At 31 December 2012	300,679	20,336	142,523	(305,988)	157,550
At 1 January 2013	300,679	20,336	142,523	(305,988)	157,550
Profit for the year	–	–	–	260,050	260,050
Share option scheme					
– value of services	–	11,235	–	–	11,235
– shares issued	27,831	(12,484)	–	–	15,347
– share options lapsed	–	(20)	–	20	–
At 31 December 2013	**328,510**	**19,067**	**142,523**	**(45,918)**	**444,182**

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 2013 and 2012.

Notes to the Financial Statements

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25 Notes to the Consolidated Cash Flow Statement

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

	2013 *HK$'000*	2012 *HK$'000*
Profit before income tax	539,657	43,881
Bank interest income	(1,555)	(1,568)
Interest on convertible bond	–	883
Depreciation of property, plant and equipment	723	668
Share-based compensation	11,235	5,778
Loss on early repayment of convertible bond	–	510
Unrealised exchange loss	164	1,318
Share of loss of an associated company	906	5,497
Operating profit before working capital changes	551,130	56,967
Increase in inventories	(15,176)	(19,656)
Increase in trade receivables, deposits paid, other receivables and prepayments	(248,911)	(169,696)
Increase in trade payables, deposits received, other payables and accrued charges and provisions	102,758	116,436
Cash generated from/(used in) operations	389,801	(15,949)

25.2 Analysis of cash and cash equivalents

	2013 *HK$'000*	2012 *HK$'000*
Cash and bank balances	519,563	161,452

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:

	2013 *HK$'000*	2012 *HK$'000*
Within one year	22,743	32,612
In the second to fifth years	52,312	76,376
	75,055	108,988

26.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 2013, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2013 *HK$'000*	2012 *HK$'000*
Within one year	7,771	3,719
In the second to fifth years	11,881	4,710
	19,652	8,429

The Company did not have any commitment at 31 December 2013 and 2012.

Notes to the Financial Statements

For the year ended 31 December 2013

27 Related Party Transactions

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

	2013 HK$'000	2012 HK$'000
Rent and building management fee paid to fellow subsidiary, Belmont Limited *(Note (a))*	1,673	1,673
Rent and building management fee paid to fellow subsidiary, Bagnols Limited *(Note (b))*	234	209
Interest expense paid to the immediate holding company, PIL Toys Limited	–	883
Penalty for early repayment of convertible bond paid to the immediate holding company, PIL Toys Limited	–	778

Notes:

(a) This transaction constitutes a continuing connected transaction and is disclosed in the Report of the Directors under the section headed "Continuing Connected Transaction" as required by the Listing Rules. This continuing connected transaction was exempt from independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

(b) This transaction, constitutes a continuing connected transaction, was exempt from reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

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 13.1.

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 2013.

29 Financial Risk Management and Fair Value Measurement

29.1 Categories of financial instruments

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	411,831	177,304
Deposits paid and other receivables	2,443	805
Cash and bank balances	519,563	161,452
	933,837	339,561
Financial liabilities at amortised cost		
Trade payables	58,963	46,367
Other payables and accrued charges	145,165	49,123
	204,128	95,490

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.

Notes to the Financial Statements

For the year ended 31 December 2013

29 Financial Risk Management and Fair Value Measurement (Continued)

29.2 Financial risk factors (Continued)

29.2.2 **Credit risk** *(Continued)*

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:

	2013	2012
Sales		
– the largest customer	28%	29%
– five largest customers in aggregate	76%	83%

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.

	2013				
	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	**58,963**	**–**	**–**	**58,963**	**58,963**
Other payables and accrued charges	**145,165**	**–**	**–**	**145,165**	**145,165**
	204,128	**–**	**–**	**204,128**	**204,128**

	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

Notes to the Financial Statements

For the year ended 31 December 2013

29 Financial Risk Management and Fair Value Measurement (Continued)

29.3 Financial assets and liabilities measured at fair value

As at 31 December 2013 and 2012 and during the year ended 31 December 2013, the Group did not have any financial assets and liabilities measured at fair value.

29.4 Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2013 and 2012.

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:

	2013 *HK$'000*	2012 *HK$'000*	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*
Revenue	**1,658,527**	371,615	44,947	148,219	636,440
Profit/(Loss) before income tax	**539,657**	43,881	(90,308)	(93,598)	(45,315)
Income tax expense	**(6,283)**	(486)	(213)	(2,085)	(41,389)
Profit/(Loss) for the year attributable to equity holders of the Company	**533,374**	43,395	(90,521)	(95,683)	(86,704)
Total assets	**1,045,376**	380,424	244,408	221,270	264,746
Total liabilities	**(293,633)**	(189,066)	(150,124)	(42,598)	(259,380)
Net assets	**751,743**	191,358	94,284	178,672	5,366

Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
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