



2015 ANNUAL REPORT

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## Corporate Information

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### **Directors**

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

### **Company Secretary**

NG Ka Yan

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Principal Office**

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

### **Auditors**

Grant Thornton Hong Kong Limited  
*Certified Public Accountants*

### **Legal Advisors**

Conyers Dill & Pearman  
Deacons

### **Principal Bankers**

The Bank of East Asia, Limited  
Citigroup  
Hang Seng Bank Limited  
UBS AG

### **Principal Share Registrars**

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

### **Branch Share Registrars**

Tricor Abacus Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Stock Code**

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

### **Website**

[www.playmates.net](http://www.playmates.net)

## **Statement from the Chairman**

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I am pleased to report that in 2015 we were once again able to achieve the intended results, despite a challenging operating environment.

Our property investments and associated businesses remains stable in revenue and operating profit before revaluation surplus. Reported segment operating profit was lower than 2014 due to significantly lower revaluation surplus, reflecting the prevailing local property market condition. We will continue to adjust the balance of our portfolio of investment properties to achieve the strategic objective of seeking long term growth in asset value as well as recurring income.

As expected and foretold, Playmates Toys' lower level of performance in 2015 compared to the prior year reflected a year without the benefit of a movie driver; formidable competition from other action adventure franchises, and weakened international markets due to the relative strength of the US currency.

In 2016, Playmates Toys expects challenges and uncertainties in the business environment to persist. Nevertheless, the **Teenage Mutant Ninja Turtles** ("**TMNT**") business will again benefit from the twin drivers of the popular Nickelodeon TV show and the blockbuster movie sequel from Paramount, **Teenage Mutant Ninja Turtles: Out of the Shadows**.

The results Playmates Toys has achieved in recent years have strengthened and reaffirmed its position in the trade as a leading toy company in the action figure category. Such recognition is vital in its continuing effort to invest in new licenses for well-established brands or top quality new properties from major licensors.

Playmates Toys has signed on as the global master toy partner for several new properties over the past twelve months, including **Ben 10**, **Voltron** and **Mysticons**, all backed by significant entertainment contents from major animation studios. Development works for these new brands are well under way in preparation for toys to be launched in 2017 and beyond.

The Playmates Group was founded fifty years ago in 1966. As we celebrate our golden anniversary, we are thankful to the many people who have contributed to the successes of Playmates we have enjoyed. I look forward to working with our business partners, colleagues and associates to further build upon our strong foundation in the years to come.

**CHAN Chun Hoo, Thomas**  
*Chairman of the board*

Hong Kong, 24 March 2016

# Management Discussion and Analysis

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## Group Overview

Playmates Holdings group global revenue for the year ended 31 December 2015 was HK\$1,791.2 million (2014: HK\$2,397.5 million); reflected a decrease of 25.3% compared to the prior year. The Group reported an operating profit of HK\$718.9 million (2014: HK\$1,231.9 million) and net profit attributable to shareholders was HK\$413.7 million (2014: HK\$757.7 million). Basic earnings per share was HK\$1.84 (2014: HK\$3.30).

## Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2015 was HK\$235.3 million (2014: HK\$235.3 million). Revenue from the property investments and property management businesses increased 5.2% to HK\$210.2 million (2014: HK\$199.8 million), while revenue from the food and beverage business decreased by 29.6% to HK\$25.0 million (2014: HK\$35.5 million), mainly due to the closure of Fandango Spanish Restaurant during the year. The Group's investment properties were revalued by independent professional surveyors at the fair value of HK\$5.8 billion (2014: HK\$5.3 billion). A revaluation surplus of HK\$172.5 million (2014: HK\$437.0 million) was reported in the consolidated income statement of the Group. Segment operating profit was HK\$339.3 million including revaluation surplus, compared to HK\$584.8 million for 2014.

### (a) Property Investments

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes a number of overseas investment properties in the United Kingdom, the United States of America and Japan, which accounted for 7.9% of the fair value of the Group's overall investment property portfolio (2014: 4.1%).

Aggregate rental income generated from the investment properties of the Group was HK\$193.7 million, an increase of 5.4% from prior year (2014: HK\$183.7 million), with an overall occupancy rate of 89% (2014: 90%).

#### (i) Commercial

The Group's investments in commercial properties consist of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With the opening of the Apple flagship store on the podium floors of the building in July 2015, The Toy House reaffirmed its position as a landmark on the premier shopping destination that is Canton Road.

#### (ii) Residential

The Group's principal investments in residential properties include a number of units in Hillview on Macdonnell Road, Mid-Levels, Hong Kong. The demand for luxury residential units in Hong Kong Mid-Levels continued to be challenged during 2015. Over the longer term, we remain optimistic that Hillview will benefit from resilient demand for and limited supply of up-market residential properties in Mid-Levels.

We are also exploring leasing opportunities for our overseas residential properties.

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(iii) *Industrial*

The Group's investments in industrial properties consist of Playmates Factory Building in Tuen Mun, New Territories, Hong Kong. We are optimistic that this investment will benefit from further developments in Tuen Mun.

(b) **Property Management**

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

Income generated from the property management business segment was HK\$16.5 million, an increase of 2.5% from prior year (2014: HK\$16.1 million).

(c) **Food & Beverage Business**

Revenue generated from the food and beverage business in 2015 decreased by 29.6% to HK\$25.0 million (2014: HK\$35.5 million). The decrease was mainly due to the closure of Fandango Spanish Restaurant during the year. The Group continued to operate two restaurants in The Toy House. We will continue to improve the quality and variety of the menus of these restaurants.

While we maintain a favorable long term view of our property investments and associated businesses, we will continue to adjust the balance of our property portfolio to achieve our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

**Playmates Toys**

Playmates Toys group worldwide turnover for the year ended 31 December 2015 was HK\$1,551 million (2014: HK\$2,160 million), a decrease of 28% compared to the prior year. The decrease in turnover was driven by stronger competitions, weaker sales particularly in markets outside the US, as well as the disparate comparison against the prior year period, which benefited from the blockbuster *TMNT* movie from Paramount Pictures.

The US continued to be Playmates Toys' biggest market in 2015, contributing 76% of its revenue. Europe as a whole contributed 14%, the rest of the Americas 5% and 4% came from Asia Pacific. During the year, the US market continued its recovery. According to The NPD Group, the leading provider of toys point-of-sale market research data, in 2015 US retail dollar sales of toys were up by about 6.7% year-on-year, marking one of the strongest performances the industry has seen in a number of years<sup>1</sup>. A number of major action adventure movies prompted strong competitions among boy's action toys. On the other hand, Playmates Toys' key international markets, in particular those in Europe, were impacted by the continued weaknesses of most currencies against the US Dollar, as well as economic and political uncertainties in certain territories.

Gross profit ratio on toy sales was 61.6% (2014: 61.9%). The slight decrease in gross profit ratio was attributable to higher level of development and tooling expenses related to new product introductions, partially offset by a higher percentage of overall sales generated in the US market. Recurring operating expenses decreased by 19% from the prior year period, reflecting lower selling, royalty and overhead expenses, but increased promotional expenses.

<sup>1</sup> Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2015.

# **Management Discussion and Analysis**

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## **Playmates Toys (Continued)**

Playmates Toys group reported an operating profit for 2015 of HK\$396 million, a decrease of 38.9% compared to prior year (2014: HK\$648 million).

In 2016, Playmates Toys group expects challenges and uncertainties in its business environment to persist. Nevertheless, Playmates Toys is encouraged that its **TMNT** business will again benefit from the twin drivers of the popular Nickelodeon TV show and the blockbuster movie sequel from Paramount, **Teenage Mutant Ninja Turtles: Out of the Shadows**.

## **Portfolio Investments**

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

As at 31 December 2015, fair market value of the Group's investment portfolio was HK\$112.1 million (2014: HK\$57.7 million). The Group reported a net loss from investments of HK\$14.6 million in 2015, compared to a net gain of HK\$3.4 million in 2014. In 2015, dividend and interest income generated from portfolio investments were HK\$4.5 million (2014: HK\$2.0 million) and have been included in the revenue of the Group.

In light of continued uncertainties in the major global economies and securities markets, the Group will remain vigilant in monitoring and balancing the investment portfolio.

## ***Directors and Senior Management***

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Biographical details of directors are shown below:

### **CHAN Chun Hoo, Thomas**

*Chairman and Executive Director*

Mr. Chan, age 65, joined the Group in 1967. He has been the principal driving force behind the growth, global expansion and diversification of the Group's business activities into multiple segments and markets spanning consumer products, real properties and other investments. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan was appointed Chairman of the board in 1997. He is also the chairman of the board of Playmates Toys Limited.

### **CHENG Bing Kin, Alain**

*Executive Director*

Mr. Cheng, age 53, was appointed a director of the Company in March 2006. He is the Group Legal Counsel and also an executive director of Playmates Toys Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and in England and Wales in 1997. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

### **IP Shu Wing, Charles**

*Independent Non-executive Director*

Mr. Ip, age 65, was appointed a director of the Company in 1999. Mr. Ip has 40 years of experience in business management and has held a number of key management positions in various multi-national corporations. He has been re-designated from a Non-executive Director to an Independent Non-executive Director of the Company with effect from 25 March 2011.

### **LEE Peng Fei, Allen**

*Independent Non-executive Director*

Dr. Lee, age 75, was appointed a director of the Company in 1993. He holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He was a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

## **Directors and Senior Management**

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### **LO Kai Yiu, Anthony**

*Independent Non-executive Director*

Mr. Lo, age 67, was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 12 years of professional accounting experience, he has over 33 years of experience in investment banking and other financial services. Mr. Lo serves as a director of a number of public and private companies.

### **TO Shu Sing, Sidney**

*Executive Director*

Mr. To, age 58, joined the Group in 1986. Prior to joining the Group, he had 9 years working experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He joined the board of directors of the Company in 1997. Mr. To is also an executive director of Playmates Toys Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

### **TSIM Tak Lung**

*Deputy Chairman and Non-executive Director*

Mr. Tsim, age 69, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

### **YU Hon To, David**

*Independent Non-executive Director*

Mr. Yu, age 67, was appointed a director of the Company in 1995. He is a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is an independent non-executive director of listed companies in Hong Kong including Bracell Limited, China Renewable Energy Investment Limited, China Resources Gas Group Limited, Great China Holdings Limited, Haier Electronics Group Co., Limited, Keck Seng Investments (Hong Kong) Limited, Media Chinese International Limited, New Century Asset Management Limited (as manager of New Century Real Estate Investment Trust), One Media Group Limited and Synergis Holdings Limited. He resigned as an independent non-executive director of Crown International Corporation Limited (formerly known as VXL Capital Limited), TeleEye Holdings Limited and China Datang Corporation Renewable Power Co., Limited on 27 May 2014, 25 October 2013 and 20 August 2013 respectively.

# **Report of the Directors**

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The directors submit their annual report together with the audited financial statements for the year ended 31 December 2015.

## ***Principal Activities and Geographical Analysis of Operations***

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

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

## ***Business Review***

Information about a fair review of, and an indication of likely future development in, the Group's business is set out in the "Statement from the Chairman" and "Management Discussion and Analysis" of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year, if any, can also be found in the abovementioned sections and the notes to the financial statements. An analysis of the financial key performance indicators is set out in the "Management Discussion and Analysis" and the "Five Year Financial Summary" of this annual report.

Principal risks and uncertainties facing the Group are set out in the "Statement from the Chairman" and "Management Discussion and Analysis" of this annual report. For details of the Group's financial risks, please refer to note 35.2 to the financial statements.

## ***Relationships with stakeholders***

Our business requires that we collaborate with an array of stakeholders including customers, licensors, suppliers and employees. We strive to deal fairly with our stakeholders and to establish a long-standing and close relationship with them. We expect our stakeholders to work with us on the basis of a shared commitment to integrity, legal and ethical behaviour and mutual trust.

### *Customers*

We consider customers as one of the most important stakeholders. Our commitment to and continued vigilance over quality and safety are essential in maintaining the trust of our consumers. In the U.S., we sell directly to various customers including national mass merchandise retailers and national toy specialty stores. Outside the U.S., we sell to over 60 countries, primarily in Europe, North America, Latin America and Asia Pacific including Australia. Our international sales and distribution efforts are managed through our network of independent distributors.

### *Licensors*

The entertainment industry and toy invention and design community are major sources of concepts and ideas for the creation and development of new products. We maintain close working relationships or contacts with major entertainment licensors and the toy invention and design community worldwide. These relationships or contacts help us gain access to licensed rights in entertainment properties, technologies and toy inventions.

# Report of the Directors

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## **Business Review (Continued)**

### **Relationships with stakeholders (Continued)**

#### *Suppliers*

Supply chain is a critical part of our operations. Our suppliers must meet our selection criteria, which include security, safety, cost and delivery. Our selection criteria of suppliers are also based on their reliability and quality of products, and with whom we can build long-term relationships. We require all of our suppliers to comply with relevant manufacturing requirements and safety standards of the industry.

#### *Employees*

Employees are important to our sustainable development. We are committed to providing equal employment opportunity and a safe and harassment-free working environment. Employees are encouraged to attend trainings including professional development programs offered by professional organizations so as to refresh their skills and knowledge. We also strive to ensure that the employees are reasonably remunerated based on industry practice.

### **Environmental policies**

We are committed to minimizing the environmental impact of our operations and to complying with all applicable environmental laws in the countries in which we conduct business. We also require our suppliers to obtain all necessary permission from the relevant regulators and operate in strict compliance with all applicable environmental laws including the environmental requirements as required by the International Council of Toys Industries CARE Seal of Compliance or other equivalent standards.

### **Compliance with laws and regulations**

Compliance procedures are in place to ensure compliance with applicable laws and regulations. Our professional employees attend on-going professional development programs in order to keep them abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary. The Company complies with the relevant laws and regulations that have a significant impact on the Company including the Companies Ordinance, Securities and Futures Ordinance (“SFO”) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

### **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	21%
– five largest suppliers in aggregate	79%
Sales	
– the largest customer	29%
– five largest customers in aggregate	74%

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.

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## **Results and Appropriations**

The results of the Group for the year are set out in the consolidated income statement on page 34.

The directors have declared a first interim dividend of HK\$0.075 per ordinary share, totalling HK\$16,769,000, which was paid on 30 September 2015.

The directors have declared a second interim dividend of HK\$0.075 per ordinary share and a special interim dividend of HK\$0.13 per ordinary share, totally HK\$44,280,000, which is calculated on the basis of 216,000,000 ordinary shares in issue at the date of board meeting held on 24 March 2016.

## **Reserves**

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 40 to 41. Movements in the reserves of the Company during the year are set out in note 30.2 to the financial statements.

Distributable reserves of the Company at 31 December 2015, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$1,581,626,000 (2014: HK\$1,515,662,000).

## **Financial Analysis**

### **Analysis of bank loans and other borrowings**

Particulars of the Group's utilised banking facilities are set out in note 23 to the financial statements.

### **Liquidity and financial resources**

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2015, trade receivables related to toy operation were HK\$311,020,000 (2014: HK\$529,727,000) and inventories related to toy operation were at a seasonal low level of HK\$28,242,000 (2014: HK\$44,165,000) or 1.8% (2014: 2.0%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 96% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2015. Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2015, the Group's financial assets at fair value through profit or loss amounted to HK\$143,145,000 (31 December 2014: HK\$57,670,000) of which HK\$31,078,000 was held by Playmates Toys for treasury investments (31 December 2014: HK\$nil).

# **Report of the Directors**

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## **Financial Analysis (Continued)**

### **Liquidity and financial resources (Continued)**

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2015 was 6.8% compared to 5.7% at 31 December 2014. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.2 at 31 December 2015 compared to 2.4 at 31 December 2014.

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 2015, the Group's cash and bank balances were HK\$1,160,738,000 (2014: HK\$1,233,585,000), of which HK\$848,782,000 (2014: HK\$1,030,617,000) was denominated in United States dollar, HK\$4,152,000 (2014: HK\$4,549,000) in British pound and the remaining balance was mainly denominated in Hong Kong dollar.

### **Employees**

As at 31 December 2015, the Group had a total of 121 employees in Hong Kong, the United States of America and the United Kingdom. This compares to 125 employees as at 31 December 2014.

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

### **Financial Guarantee**

Details of the Company's financial guarantee contracts are set out in note 23 to the financial statements.

### **Bank Loans**

Details of the Group's bank loans as at 31 December 2015 are set out in note 23 to the financial statements.

### **Donations**

Charitable and other donations made by the Group during the year amounted to HK\$2,863,000 (2014: HK\$3,619,000).

### **Fixed Assets**

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

### **Principal Properties**

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

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## **Share Capital**

Details of the movements in share capital of the Company are set out in note 30.1 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 102.

## **Purchase, Sale or Redemption of Shares**

During the year, 8,102,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$7.76 to HK\$9.70 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 30.1 to the financial statements.

## **Directors**

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

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

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Ip Shu Wing, Charles, Mr. To Shu Sing, Sidney and Mr. Yu Hon To, David 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 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 Transactions, Arrangements and Contracts**

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any director of the Company or a connected entity of the 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.

# Report of the Directors

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## **Permitted Indemnity Provision**

Pursuant to the Bye-laws of the Company, the directors are entitled to be indemnified out of the Company's assets against actions and damages in connection with execution of their duties. Pursuant to a code provision of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, the Company has also arranged appropriate director and officer liability insurance policy covering potential legal actions that might be taken against its directors.

## **Share Options**

### **Share Options of the Company**

Share options of the Company are granted to directors, employees and other eligible participants specified under a Share Option Scheme ("Scheme") approved by shareholders of the Company at the special general meetings held on 28 June 2002. 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 24 March 2016	:	531,350 ordinary shares, representing 0.25% of the issued capital.

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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	:	<p>Determined by the directors and shall not be less than the highest of:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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</li> <li>(iii) the nominal value of an ordinary share on the date of grant.</li> </ul>
The remaining life of the Scheme	:	Remained in force until 27 June 2012.

## Report of the Directors

### Share Options (Continued)

#### Share Options of the Company (Continued)

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

Participant	Date of grant	Exercise price HK\$	Number of share options		
			Balance at 1 January 2015	Lapsed during the year	Balance at 31 December 2015
CHENG Bing Kin, Alain <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	62,500 37,500	62,500 –	– 37,500
IP Shu Wing, Charles <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	100,000 37,600	100,000 –	– 37,600
LEE Peng Fei, Allen <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	100,000 75,000	100,000 –	– 75,000
LO Kai Yiu, Anthony <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	100,000 75,000	100,000 –	– 75,000
TO Shu Sing, Sidney <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	150,000 37,500	150,000 –	– 37,500
TSIM Tak Lung <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	100,000 75,000	100,000 –	– 75,000
YU Hon To, David <i>Director</i>	22 September 2005 4 May 2006	12.06 9.10	100,000 75,000	100,000 –	– 75,000
<i>Continuous Contract Employees, excluding Directors</i>	22 September 2005 4 May 2006	12.06 9.10	271,620 118,750	271,620 –	– 118,750

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

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### **Share Options of Playmates Toys Limited (“PTL”)**

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

- |   |   |   |
|---|---|---|
| Purpose   | : | (i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of PTL and its subsidiaries (“PTL Group”); and   |
|   |   | (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the PTL Group.   |
| Participants  | : | (i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL Group holds an interest or a subsidiary of such company; or   |
|   |   | (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or   |
|   |   | (iii) A company beneficially owned by any person/party mentioned in (i) above.  |
| Total number of ordinary shares available for issue under the PTL Scheme and the percentage of issued share capital of PTL that it represents as at 24 March 2016 | : | 20,366,500 ordinary shares, representing 1.68% of the issued capital of PTL.  |
| Maximum entitlement of each participant   | : | Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL. |

## Report of the Directors

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### **Share Options (Continued)**

#### **Share Options of PTL (Continued)**

The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK\$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: <ul style="list-style-type: none"><li>(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;</li><li>(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</li><li>(iii) the nominal value of an ordinary share on the date of grant.</li></ul>
The remaining life of the PTL Scheme	:	Remains in force until 31 January 2018.

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

Participant	Date of grant	Exercise price HK\$	Number of share options			
			Balance at 1 January 2015	Exercised during the year (Notes (1)&(2))	Lapsed during the year	Balance at 31 December 2015
CHENG Bing Kin,	13 April 2012	0.415	250,000	250,000	–	–
Alain	15 May 2013	0.930	900,000	450,000	–	450,000
<i>Director of the Company and PTL</i>						
TO Shu Sing,	13 April 2012	0.415	300,000	300,000	–	–
Sidney	15 May 2013	0.930	971,000	480,000	–	491,000
<i>Director of the Company and PTL</i>						
<i>Other directors of PTL</i>	13 April 2012	0.415	625,000	–	–	625,000
	15 May 2013	0.930	1,575,000	–	–	1,575,000
<i>Continuous Contract Employees of PTL Group, excluding directors of PTL</i>	31 March 2008	0.316	27,000	–	–	27,000
	20 January 2010	0.828	1,098,000	51,000	–	1,047,000
	18 April 2011	0.315	582,000	22,000	–	560,000
	13 April 2012	0.415	3,538,000	2,016,500	–	1,521,500
	15 May 2013	0.930	8,552,500	2,214,000	125,000	6,213,500
<i>Other participants</i>	20 January 2010	0.828	443,000	–	–	443,000
	30 March 2010	0.673	1,110,000	–	–	1,110,000
	18 April 2011	0.315	950,000	200,000	–	750,000
	13 April 2012	0.415	2,737,000	588,000	–	2,149,000
	15 May 2013	0.930	3,992,000	527,500	60,000	3,404,500

**Notes:**

- (1) The weighted average closing prices of the ordinary shares of PTL immediately before the dates on which the share options were exercised by continuous contract employees (excluding directors of PTL) and other participants during the year were HK\$1.82 and HK\$1.90 respectively.
- (2) The weighted average closing price of the ordinary shares of PTL immediately before the dates on which the share options were exercised by the directors of PTL, namely Mr. Cheng Bing Kin, Alain and Mr. To Shu Sing, Sidney during the year was HK\$1.90.

## Report of the Directors

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### Share Options (Continued)

#### Share Options of PTL (Continued)

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

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

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

As at 31 December 2015, the interests of each director and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

#### Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	5.45%
	Corporate (Note (a))	92,000,000 ordinary shares	41.82%
	Associate (Note (e))	11,000,000 ordinary shares	5.00%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.10%
IP Shu Wing, Charles	Personal	294,480 ordinary shares	0.13%
LEE Peng Fei, Allen	Personal	72,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Personal	369,160 ordinary shares	0.17%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.91%
TSIM Tak Lung	Personal	110,016 ordinary shares	0.05%
YU Hon To, David	Personal	132,000 ordinary shares	0.06%
	Corporate (Note (b))	547,200 ordinary shares	0.25%

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**Long positions in underlying shares of the Company**

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
CHENG Bing Kin, Alain	Personal	37,500 share options	37,500 shares	0.02%
IP Shu Wing, Charles	Personal	37,600 share options	37,600 shares	0.02%
LEE Peng Fei, Allen	Personal	75,000 share options	75,000 shares	0.03%
LO Kai Yiu, Anthony	Personal	75,000 share options	75,000 shares	0.03%
TO Shu Sing, Sidney	Personal	37,500 share options	37,500 shares	0.02%
TSIM Tak Lung	Personal	75,000 share options	75,000 shares	0.03%
YU Hon To, David	Personal	75,000 share options	75,000 shares	0.03%

**Long positions in shares of PTL**

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate (Note (c))	600,000,000 ordinary shares	49.59%
CHENG Bing Kin, Alain	Personal	1,207,000 ordinary shares	0.10%
IP Shu Wing, Charles	Personal	2,487,026 ordinary shares	0.21%
LEE Peng Fei, Allen	Personal	244,000 ordinary shares	0.02%
LO Kai Yiu, Anthony	Personal	376,000 ordinary shares	0.03%
TO Shu Sing, Sidney	Personal	9,380,000 ordinary shares	0.78%
TSIM Tak Lung	Personal	587,632 ordinary shares	0.05%
YU Hon To, David	Personal Corporate (Note (d))	176,000 ordinary shares 1,065,600 ordinary shares	0.01% 0.09%

## Report of the Directors

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

#### **Long positions in underlying shares of PTL**

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	450,000 share options	450,000 shares	0.04%
TO Shu Sing, Sidney	Personal	491,000 share options	491,000 shares	0.04%

#### *Notes:*

- (a) 92,000,000 ordinary shares of the Company were beneficially owned by TGC Assets Limited ("TGC"). All the issued share capital of TGC is wholly-owned by Mr. Chan Chun Hoo, Thomas ("Mr. Chan").
- (b) 547,200 ordinary shares of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.
- (c) Mr. Chan is the beneficial owner of all of the issued share capital of TGC. Since TGC directly owns approximately 41.82% of the shareholding of the Company and is deemed to be interested in the 600,000,000 shares of PTL in aggregate which the Company is interested in, Mr. Chan is also deemed to be interested in the 600,000,000 shares of PTL in aggregate which the Company is interested in.
- (d) 1,065,600 ordinary shares of PTL were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.
- (e) 11,000,000 shares of the Company were owned by Mr. Chan's wife and Mr. Chan is therefore deemed to be interested in those shares.

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2015.

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

As at 31 December 2015, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2015, no person (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO.

### ***Pre-emptive Rights***

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

### ***Audit Committee***

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently amended in 2005, 2009, 2012 and 2015.

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

### ***Sufficiency of Public Float***

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

### ***Auditors***

Grant Thornton Hong Kong Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting. There was no change in auditors of the Company in any of the preceding three years.

On behalf of the board  
**TO Shu Sing, Sidney**  
*Director*

Hong Kong, 24 March 2016

# Corporate Governance Report

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## **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 2015, 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*)

IP Shu Wing, Charles (*Independent Non-executive Director*)

LEE Peng Fei, Allen (*Independent Non-executive Director*)

LO Kai Yiu, Anthony (*Independent Non-executive Director*)

TO Shu Sing, Sidney (*Executive Director*)

TSIM Tak Lung (*Deputy Chairman and Non-executive Director*)

YU Hon To, David (*Independent Non-executive Director*)

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

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

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

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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 Group'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 policy covering 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

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## **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 2015. 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.

Directors	Board	Meetings attended/held			AGM
		Audit Committee	Compensation Committee	Nomination Committee	
CHAN Chun Hoo, Thomas	3/4	N/A	N/A	1/1	1/1
CHENG Bing Kin, Alain	4/4	N/A	N/A	N/A	1/1
IP Shu Wing, Charles	4/4	N/A	N/A	N/A	1/1
LEE Peng Fei, Allen	4/4	2/2	1/1	1/1	1/1
LO Kai Yiu, Anthony	4/4	2/2	1/1	1/1	1/1
TO Shu Sing, Sidney	3/4	N/A	N/A	N/A	0/1
TSIM Tak Lung	4/4	2/2	1/1	N/A	1/1
YU Hon To, David	4/4	2/2	N/A	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 1999 and its current members include:

LO Kai Yiu, Anthony-Committee Chairman (*Independent Non-executive Director*)

LEE Peng Fei, Allen (*Independent Non-executive Director*)

TSIM Tak Lung (*Deputy Chairman and Non-executive Director*)

YU Hon To, David (*Independent Non-executive Director*)

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The majority of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee exceeds the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference of the Audit Committee are 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 2015.

At the meeting held on 24 March 2016, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2015 together with the annual results announcement, with a recommendation to the board of directors for approval.

### **Compensation Committee**

The Compensation Committee was established in 2004 and its current members include:

LEE Peng Fei, Allen-Committee Chairman (*Independent Non-executive Director*)

LO Kai Yiu, Anthony (*Independent Non-executive Director*)

TSIM Tak Lung (*Deputy Chairman and Non-executive Director*)

The majority of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The written terms of reference of the Compensation Committee are posted on the websites of the Company and the Stock Exchange.

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

# Corporate Governance Report

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## **Board Committees (Continued)**

### **Compensation Committee (Continued)**

#### *Remuneration Policy for Non-executive Directors and Executive Directors*

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

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 14.1 to the financial statements.

### **Nomination Committee**

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

CHAN Chun Hoo, Thomas-Committee Chairman (*Chairman*)

LEE Peng Fei, Allen (*Independent Non-executive Director*)

LO Kai Yiu, Anthony (*Independent Non-executive Director*)

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 are 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.

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## **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 in 2004. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2015. The Model Code also applies to other specified senior management of the Group.

## **DIRECTORS' INTERESTS**

Details of directors' interests in the securities of the Company are set out in pages 20 to 22 of this annual report.

## **INTERNAL CONTROLS**

The board has overall responsibility for maintaining an adequate system of internal controls of the Group 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 Group's accounting and financial reporting function, and their training programmes and budget.

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

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

# Corporate Governance Report

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## **INTERNAL CONTROLS (Continued)**

### **Control Effectiveness**

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

There was no internal audit function within the Group during the year. 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. The board has appointed an external independent professional to perform the internal audit function for the Group for 2016.

### **AUDITORS' REMUNERATION**

For the year ended 31 December 2015, 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\$1,760,000. 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 2015. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 32 to 33 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.

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## **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*

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

We have audited the consolidated financial statements of Playmates Holdings Limited (the “Company”) and its subsidiaries set out on pages 34 to 101, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## ***Directors' responsibility for the consolidated financial statements***

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

## ***Auditors' responsibility***

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

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

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

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



### ***Opinion***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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

24 March 2016

**Chan Tze Kit**

Practising Certificate No.: P05707

## Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 US\$'000 (Note 34)	2015 HK\$'000	2014 HK\$'000
<b>Revenue</b>	4	<b>231,123</b>	<b>1,791,204</b>	2,397,522
Cost of sales		(79,558)	(616,571)	(845,815)
<b>Gross profit</b>		<b>151,565</b>	<b>1,174,633</b>	1,551,707
Marketing expenses		(41,855)	(324,374)	(398,729)
Selling and distribution expenses		(11,754)	(91,095)	(130,709)
Administration expenses		(25,563)	(198,117)	(230,706)
Net (loss)/gain on financial assets at fair value through profit or loss	6	(1,882)	(14,588)	3,367
Revaluation surplus on investment properties		22,252	172,455	436,965
<b>Operating profit</b>		<b>92,763</b>	<b>718,914</b>	1,231,895
Other net income/(loss)	8	57	438	(24,142)
Finance costs	9	(2,343)	(18,156)	(19,134)
Share of profit/(loss) of an associated company		121	939	(5,681)
<b>Profit before income tax</b>	7	<b>90,598</b>	<b>702,135</b>	1,182,938
<b>Income tax expense</b>	10	<b>(19,076)</b>	<b>(147,840)</b>	(169,090)
<b>Profit for the year</b>		<b>71,522</b>	<b>554,295</b>	1,013,848
<b>Profit for the year attributable to:</b>				
Owners of the Company		53,383	413,718	757,665
Non-controlling interests		18,139	140,577	256,183
		<b>71,522</b>	<b>554,295</b>	1,013,848
		US\$	HK\$	HK\$
<b>Earnings per share</b>	12			
Basic		0.24	1.84	3.30
Diluted		0.24	1.84	3.30

The notes on pages 42 to 101 form an integral part of these financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 US\$'000 (Note 34)	2015 HK\$'000	2014 HK\$'000
<b>Profit for the year</b>	<b>71,522</b>	<b>554,295</b>	1,013,848
<b>Other comprehensive income, including reclassification adjustments:</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	(1,772)	(13,728)	8,978
Reclassified to profit or loss on dissolution of foreign subsidiaries	-	-	(531)
<b>Total comprehensive income for the year</b>	<b>69,750</b>	<b>540,567</b>	1,022,295
<b>Total comprehensive income attributable to:</b>			
Owners of the Company	51,611	399,990	766,381
Non-controlling interests	18,139	140,577	255,914
	<b>69,750</b>	<b>540,567</b>	1,022,295

The notes on pages 42 to 101 form an integral part of these financial statements.

## Consolidated Statement of Financial Position

As at 31 December 2015

	Note	2015 US\$'000 (Note 34)	2015 HK\$'000	2014 HK\$'000
<b>Non-current assets</b>				
Fixed assets				
– Investment properties	15	742,519	5,754,525	5,329,580
– Other property, plant and equipment	15	26,752	207,324	210,969
		769,271	5,961,849	5,540,549
Goodwill	16	771	5,976	5,976
Interest in an associated company	18	781	6,053	5,114
Deferred tax assets	28	4,535	35,143	49,309
		775,358	6,009,021	5,600,948
<b>Current assets</b>				
Inventories	19	3,670	28,443	44,332
Trade receivables	20	40,240	311,857	530,530
Deposits paid, other receivables and prepayments	21	11,077	85,843	74,331
Taxation recoverable		6,952	53,881	593
Financial assets at fair value through profit or loss	22	18,470	143,145	57,670
Cash and bank balances	31.2	149,773	1,160,738	1,233,585
		230,182	1,783,907	1,941,041
<b>Current liabilities</b>				
Bank loans	23	63,830	494,680	363,800
Trade payables	24	6,493	50,318	80,596
Deposits received, other payables and accrued charges	25	25,417	196,986	245,519
Loan from an associated company	26	752	5,831	–
Provisions	27	6,314	48,930	45,819
Taxation payable		461	3,570	88,052
		103,267	800,315	823,786
<b>Net current assets</b>		126,915	983,592	1,117,255
<b>Total assets less current liabilities</b>		902,273	6,992,613	6,718,203

	<i>Note</i>	<b>2015</b> <b>US\$'000</b> <i>(Note 34)</i>	<b>2015</b> <b>HK\$'000</b>	2014 <i>HK\$'000</i>
<b>Non-current liabilities</b>				
Bank loans	23	4,465	34,600	66,400
Deferred tax liabilities	28	3,926	30,427	22,939
		<b>8,391</b>	<b>65,027</b>	89,339
<b>Net assets</b>		<b>893,882</b>	<b>6,927,586</b>	6,628,864
<b>Equity</b>				
Share capital	30.1	2,839	22,000	22,822
Reserves		817,278	6,333,910	6,081,299
<b>Equity attributable to the owners of the Company</b>		<b>820,117</b>	<b>6,355,910</b>	6,104,121
<b>Non-controlling interests</b>		<b>73,765</b>	<b>571,676</b>	524,743
<b>Total equity</b>		<b>893,882</b>	<b>6,927,586</b>	6,628,864

On behalf of the board

**CHENG Bing Kin, Alain**  
*Director*

**TO Shu Sing, Sidney**  
*Director*

The notes on pages 42 to 101 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2015

	Note	2015 US\$'000 (Note 34)	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	31.1	83,164	644,512	649,849
Interest paid		(1,306)	(10,120)	(8,828)
Interest received		77	597	984
Dividends received from financial assets at fair value through profit or loss		502	3,889	1,058
Hong Kong profits tax paid		(24,518)	(190,014)	(35,534)
Hong Kong profits tax refunded		17	133	360
Overseas tax paid		(9,479)	(73,466)	(55,299)
<b>Net cash generated from operating activities</b>		<b>48,457</b>	<b>375,531</b>	<b>552,590</b>
<b>Cash flows from investing activities</b>				
Capitalised subsequent expenditure on investment properties		(653)	(5,058)	(16,147)
Acquisition of investment properties		(30,049)	(232,883)	–
Purchases of other property, plant and equipment		(4,824)	(37,383)	(32,345)
Proceeds from disposal of other property, plant and equipment		–	–	503
Purchases of financial assets at fair value through profit or loss		(6,906)	(53,523)	–
Proceeds from disposal of financial assets at fair value through profit or loss		2,241	17,366	–
Loan from an associated company		752	5,831	–
Dividends received from financial assets at fair value through profit or loss		68	525	–
Interest received		256	1,982	2,742
<b>Net cash used in investing activities</b>		<b>(39,115)</b>	<b>(303,143)</b>	<b>(45,247)</b>

	<i>Note</i>	<b>2015</b> <i>US\$'000</i> <i>(Note 34)</i>	<b>2015</b> <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Cash flows from financing activities</b>				
Issue of shares of the Company		–	–	104
Issue of shares of a listed subsidiary		<b>624</b>	<b>4,836</b>	16,789
Repurchase of shares of the Company		<b>(8,722)</b>	<b>(67,597)</b>	(35,392)
Repurchase of its own shares by a listed subsidiary		<b>(675)</b>	<b>(5,234)</b>	–
Purchase of additional shares of a listed subsidiary		<b>(696)</b>	<b>(5,392)</b>	–
Disposal of shares of a listed subsidiary		–	–	288,957
New bank loans		<b>26,446</b>	<b>204,960</b>	15,000
Repayment of bank loans		<b>(13,574)</b>	<b>(105,200)</b>	(55,800)
Dividends paid to owners of the Company		<b>(10,255)</b>	<b>(79,475)</b>	(120,120)
Dividends paid to non-controlling interests		<b>(11,853)</b>	<b>(91,857)</b>	(121,062)
<b>Net cash used in financing activities</b>		<b>(18,705)</b>	<b>(144,959)</b>	(11,524)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(9,363)</b>	<b>(72,571)</b>	495,819
<b>Cash and cash equivalents at 1 January</b>		<b>159,172</b>	<b>1,233,585</b>	739,098
<b>Effect of foreign exchange rate changes</b>		<b>(36)</b>	<b>(276)</b>	(1,332)
<b>Cash and cash equivalents at 31 December</b>	<i>31.2</i>	<b>149,773</b>	<b>1,160,738</b>	1,233,585

The notes on pages 42 to 101 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company										Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share repurchase reserve HK\$'000	Reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
At 1 January 2014	23,200	1,196,115	4,499	(5,106)	(46,038)	(5,228)	18,033	4,053,837	5,239,312	320,031	5,559,343
Profit for the year	-	-	-	-	-	-	-	757,665	757,665	256,183	1,013,848
Other comprehensive income:											
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	-	8,978	-	-	8,978	-	8,978
Reclassified to profit or loss on dissolution of foreign subsidiaries	-	-	-	-	-	(262)	-	-	(262)	(269)	(531)
Total comprehensive income for the year	-	-	-	-	-	8,716	-	757,665	766,381	255,914	1,022,295
Disposal of shares of a listed subsidiary	-	-	-	-	-	-	-	236,673	236,673	52,284	288,957
Share option scheme											
- value of services	-	-	-	-	-	-	2,890	-	2,890	2,960	5,850
- shares issued	1	126	-	-	14,675	-	(6,403)	-	8,399	8,494	16,893
- share options lapsed	-	-	-	-	-	-	(261)	261	-	-	-
Share premium reduction (Note 30.3)	-	(1,160,386)	-	-	1,160,386	-	-	-	-	-	-
Repurchase of shares of the Company	(379)	(33,999)	379	3,551	(4,565)	-	-	(379)	(35,392)	-	(35,392)
2013 second interim dividend paid	-	-	-	-	(11,440)	-	-	-	(11,440)	-	(11,440)
2013 special dividend paid	-	-	-	-	(91,520)	-	-	-	(91,520)	-	(91,520)
2014 first interim dividend paid	-	-	-	-	(17,160)	-	-	-	(17,160)	-	(17,160)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(121,062)	(121,062)
Tax benefits arising from share option scheme in overseas tax jurisdiction	-	-	-	-	5,978	-	-	-	5,978	6,122	12,100
Transactions with owners	(378)	(1,194,259)	379	3,551	1,056,354	-	(3,774)	236,555	98,428	(51,202)	47,226
At 31 December 2014	22,822	1,856	4,878	(1,555)	1,010,316	3,488	14,259	5,048,057	6,104,121	524,743	6,628,864

	Attributable to owners of the Company										
	Share capital	Share premium	Capital redemption reserve	Share repurchase reserve	Reserve on consolidation	Exchange reserve	Share-based compensation reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	22,822	1,856	4,878	(1,555)	1,010,316	3,488	14,259	5,048,057	6,104,121	524,743	6,628,864
Profit for the year	-	-	-	-	-	-	-	413,718	413,718	140,577	554,295
Other comprehensive income:											
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	-	(13,728)	-	-	(13,728)	-	(13,728)
Total comprehensive income for the year	-	-	-	-	-	(13,728)	-	413,718	399,990	140,577	540,567
Repurchase of shares of the Company	(822)	-	822	834	(67,609)	-	-	(822)	(67,597)	-	(67,597)
Repurchase of its own shares by a listed subsidiary	-	-	-	-	(2,595)	-	-	-	(2,595)	(2,639)	(5,234)
Purchase of additional shares of a listed subsidiary	-	-	-	-	(2,357)	-	-	-	(2,357)	(3,035)	(5,392)
Share option scheme											
- value of services	-	-	-	-	-	-	1,123	-	1,123	1,142	2,265
- shares issued	-	-	-	-	4,097	-	(1,699)	-	2,398	2,438	4,836
- share options lapsed	-	-	-	-	-	-	(560)	560	-	-	-
2014 second interim dividend paid	-	-	-	-	(17,102)	-	-	-	(17,102)	-	(17,102)
2014 special interim dividend paid	-	-	-	-	(45,604)	-	-	-	(45,604)	-	(45,604)
2015 first interim dividend paid	-	-	-	-	(16,769)	-	-	-	(16,769)	-	(16,769)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(91,857)	(91,857)
Tax benefits arising from share option scheme in overseas tax jurisdiction	-	-	-	-	302	-	-	-	302	307	609
Transactions with owners	(822)	-	822	834	(147,637)	-	(1,136)	(262)	(148,201)	(93,644)	(241,845)
At 31 December 2015	22,000	1,856	5,700	(721)	862,679	(10,240)	13,123	5,461,513	6,355,910	571,676	6,927,586

The notes on pages 42 to 101 form an integral part of these financial statements.

# Notes to the Financial Statements

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For the year ended 31 December 2015

## 1 GENERAL INFORMATION

The Company was incorporated in Bermuda on 10 October 1991. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 23/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The financial statements for the year ended 31 December 2015 were approved for issue by the board of directors on 24 March 2016.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These financial statements 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"), accounting principles generally accepted in Hong Kong 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 amendments to the Listing Rules relating to financial information with reference to Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance came into effect for the first time during the current financial year and the main impact is on the presentation and disclosure of certain information in these financial statements.

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

The financial statements have been prepared under the historical cost basis except for investment properties and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on the Group's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.7 "Inventories", note 2.11 "Provisions" and note 2.20 "Current taxation" to the financial statements.

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## **2.2 Basis of consolidation**

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

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

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

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

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

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

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

# Notes to the Financial Statements

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For the year ended 31 December 2015

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **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 statement of financial position, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost 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 end of the reporting period. 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 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.

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 assets 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 the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associated company. At the end of each reporting period, 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 of disposal) of the associated company and its carrying amount.

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## 2.5 **Fixed assets**

### *Investment properties*

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

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

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

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

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

### *Other property, plant and equipment*

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Fixed assets (Continued)

*Other property, plant and equipment (Continued)*

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

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

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

### 2.6 Goodwill

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

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

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

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

### 2.7 Inventories

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

The Group reviews the condition of inventories at the end of each reporting period, 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.

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## 2.8 **Financial assets**

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

### *Trade and other receivables*

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses and allowance for customer concession.

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 the end of each reporting period, trade and other receivables are reviewed to determine whether there is any objective evidence of impairment.

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

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

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

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

# Notes to the Financial Statements

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For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Financial assets (Continued)

#### *Trade and other receivables (Continued)*

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

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

#### *Financial assets at fair value through profit or loss*

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

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

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

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

## **2.9 Impairment of non-financial assets**

Goodwill with indefinite useful life is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Other property, plant and equipment and 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 of disposal and value in use.

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

For the purposes of assessing impairment, where an asset does not generate cash inflows which are largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which the goodwill is monitored for internal management purpose.

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

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

# Notes to the Financial Statements

For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial liabilities

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

#### *Trade and other payables and loan from an associated company*

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

#### *Bank loans*

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

### 2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Provisions are reviewed at the end of each reporting period 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.

A portion 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.

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(ii) *Cooperative advertising*

The Group participates in customer advertising programmes and allows certain customers to take a percentage of sales deduction, which is negotiated on an individual basis. In addition, the Group contributes toward specific expenses of the customers for in-store sales promotions and advertising circulars.

In the case of fixed percentage, the amounts are negotiated and documented in the terms of trade with the respective customer. In the case of all special programs, the program application, limits and amounts are offered on a case by case basis by the Group. Some of the programs are set for defined periods of time or limited to a maximum number of units sold, and confirming data is provided by the retailer to finalise the actual program cost.

Claims for cooperative advertising may be received up to two years after the relevant reporting period end and, in certain cases, later. The Group reviews the provisions periodically and any unrequired amount will be reversed when determined.

(iii) *Cancellation charges*

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

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

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

All provisions are established for specific exposures.

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best 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.

# Notes to the Financial Statements

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For the year ended 31 December 2015

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.12 Share capital**

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

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

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

### **2.13 Financial guarantee contracts**

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

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

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

### **2.14 Revenue recognition**

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

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

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

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Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

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

- (i) demonstration of technical feasibility of completing the product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

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

# Notes to the Financial Statements

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For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors.

#### *Operating lease charges as the lessee*

Related rental payments are charged to profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

#### *Assets leased out under operating leases as the lessor*

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

### 2.17 Employee benefits

#### 2.17.1 Employee leave entitlements

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

#### 2.17.2 Pension obligations

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

#### 2.17.3 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At the end of each reporting period, 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).

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

### **2.18 Borrowing costs**

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

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

### **2.19 Deferred taxation**

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period 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 associated company, 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.

For investment properties measured using the fair value model in accordance with the accounting policy above, the measurement of the related deferred tax liability or asset reflects the tax consequences of recovering the carrying amount of the investment properties entirely through sale.

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 end of the reporting period.

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.

# Notes to the Financial Statements

For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Deferred taxation (Continued)

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

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 2.20 Current taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. 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.

The Group is subject to income taxes in certain jurisdictions other than Hong Kong. The Group engages tax professionals to calculate provisions for income taxes. Judgment is required in such calculations. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period which such determination is made.

### 2.21 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the end of the reporting period, 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 end of the reporting period 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.

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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 end of the reporting period. Income and expenses have been converted into the Hong Kong dollar at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

When a foreign operation is sold or closed, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified from equity to profit or loss as part of the gain or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

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

## **2.22 Cash and cash equivalents**

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

## **2.23 Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's senior executive management for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. Based on the internal reports reviewed by the senior executive management of the Group that are used to make strategic decision, the Group has presented the following three reportable segments.

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2015

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Segment reporting (Continued)

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

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

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

### 2.24 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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### **3 ADOPTION OF NEW OR AMENDED HKFRSs**

The HKICPA has issued the following 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:

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The following new standards and amendments which have been issued by the HKICPA as of 31 December 2015 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2015:

*Effective for the annual period beginning on or after 1 January 2016*

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Disclosure initiative
- Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation

*Effective for the annual period beginning on or after 1 January 2018*

- HKFRS 15, Revenue from contracts with customers
- HKFRS 9, Financial instruments

The above standards and amendments, 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 and amendments but is not yet in a position to ascertain their impact on its results of operations and financial position.

# Notes to the Financial Statements

For the year ended 31 December 2015

## 4 REVENUE

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management, restaurant operation and investment holding. Turnover of the Group is the revenue from these activities.

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

	2015 HK\$'000	2014 HK\$'000
Sale of toys	1,551,464	2,160,206
Rental income from investment properties	193,713	183,696
Property management income	16,530	16,112
Restaurant income	25,011	35,466
Dividend income	3,889	1,058
Interest income	597	984
Total revenue	1,791,204	2,397,522

## 5 SEGMENT INFORMATION

### 5.1 Segment results, assets and liabilities

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

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

The segment results for the year ended 31 December 2015 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Gross segment revenue	247,180	4,486	1,551,464	1,803,130
Inter-segment revenue	(11,926)	–	–	(11,926)
Revenue from external customers	235,254	4,486	1,551,464	1,791,204
Segment profit/(loss) before depreciation	350,895	(11,194)	397,868	737,569
Depreciation	(11,623)	–	(1,814)	(13,437)
Segment operating profit/(loss)	339,272	(11,194)	396,054	724,132
Other net income/(loss)	679	–	(241)	438
Finance costs	(10,684)	(68)	(7,157)	(17,909)
Share of profit of an associated company	–	–	939	939
	(10,005)	(68)	(6,459)	(16,532)
Segment profit/(loss) before income tax	329,267	(11,262)	389,595	707,600
Unallocated corporate expenses				(5,465)
Profit before income tax				702,135
Interest income	–	597	1,982	
Revaluation surplus on investment properties	172,455	–	–	
Net loss on financial assets at fair value through profit or loss	–	(14,588)	(5,079)	

# Notes to the Financial Statements

For the year ended 31 December 2015

## 5 SEGMENT INFORMATION (Continued)

### 5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2014 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Gross segment revenue	246,458	2,042	2,160,206	2,408,706
Inter-segment revenue	(11,184)	–	–	(11,184)
Revenue from external customers	235,274	2,042	2,160,206	2,397,522
Segment profit before depreciation	596,246	5,409	649,186	1,250,841
Depreciation	(11,456)	–	(948)	(12,404)
Segment operating profit	584,790	5,409	648,238	1,238,437
Other net income	–	–	2,742	2,742
Finance costs	(9,554)	(56)	(9,387)	(18,997)
Share of loss of an associated company	–	–	(5,681)	(5,681)
	(9,554)	(56)	(12,326)	(21,936)
Segment profit before income tax	575,236	5,353	635,912	1,216,501
Unallocated corporate expenses				(33,563)
Profit before income tax				1,182,938
Interest income	–	984	2,742	
Revaluation surplus on investment properties	436,965	–	–	
Allowance for impairment of trade receivables	–	–	(2,004)	
Net gain on financial assets at fair value through profit or loss	–	3,367	–	

The segment assets and liabilities as at 31 December 2015 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets (including cash and bank balances)	6,048,475	357,907	1,291,779	7,698,161
Interest in an associated company	-	-	6,053	6,053
<b>Total reportable segment assets</b>	<b>6,048,475</b>	<b>357,907</b>	<b>1,297,832</b>	<b>7,704,214</b>
Inter-segment elimination	(53)	-	(1,578)	(1,631)
Deferred tax assets				35,143
Taxation recoverable				53,881
Unallocated assets				1,321
<b>Total assets</b>				<b>7,792,928</b>
Reportable segment liabilities	579,567	-	251,761	831,328
Inter-segment elimination	(1,578)	-	(53)	(1,631)
Deferred tax liabilities				30,427
Taxation payable				3,570
Unallocated liabilities				1,648
<b>Total liabilities</b>				<b>865,342</b>
Capital expenditure	271,608	-	3,716	

# Notes to the Financial Statements

For the year ended 31 December 2015

## 5 SEGMENT INFORMATION (Continued)

### 5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2014 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Reportable segment assets (including cash and bank balances)	5,613,181	489,835	1,383,582	7,486,598
Interest in an associated company	–	–	5,114	5,114
<b>Total reportable segment assets</b>	<b>5,613,181</b>	<b>489,835</b>	<b>1,388,696</b>	<b>7,491,712</b>
Inter-segment elimination	(2)	–	(1,570)	(1,572)
Deferred tax assets				49,309
Taxation recoverable				593
Unallocated assets				1,947
<b>Total assets</b>				<b>7,541,989</b>
Reportable segment liabilities	483,392	–	316,776	800,168
Inter-segment elimination	(1,570)	–	(2)	(1,572)
Deferred tax liabilities				22,939
Taxation payable				88,052
Unallocated liabilities				3,538
<b>Total liabilities</b>				<b>913,125</b>
Capital expenditure	44,377	–	4,115	

## 5.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, goodwill and interest in an associated company ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of fixed assets, the location of operation to which they are allocated in case of goodwill, and the location of operation in case of interest in an associated company.

	Revenue from external customers		Specified non-current assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong (place of domicile)	<b>237,703</b>	239,196	<b>5,441,354</b>	5,282,709
Americas				
– U.S.A.	<b>1,179,366</b>	1,563,541	<b>199,233</b>	2,645
– Others	<b>78,081</b>	126,627	–	–
Europe	<b>221,984</b>	366,586	<b>252,469</b>	266,285
Asia Pacific other than Hong Kong	<b>62,583</b>	91,124	<b>80,822</b>	–
Others	<b>11,487</b>	10,448	–	–
	<b>1,553,501</b>	2,158,326	<b>532,524</b>	268,930
	<b>1,791,204</b>	2,397,522	<b>5,973,878</b>	5,551,639

## 5.3 Major customers

The Group's customer base is diversified and includes three (2014: 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\$513,229,000, HK\$280,128,000 and HK\$225,976,000 (2014: HK\$634,302,000, HK\$415,404,000 and HK\$265,346,000) respectively.

## Notes to the Financial Statements

For the year ended 31 December 2015

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

	2015 HK\$'000	2014 HK\$'000
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(12,826)	3,367
Net realised loss on financial assets at fair value through profit or loss	(1,762)	–
	<b>(14,588)</b>	<b>3,367</b>

### 7 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting) the following:

	2015 HK\$'000	2014 HK\$'000
Cost of inventories sold	548,962	775,488
Write-down of inventories	355	720
Product development costs	10,758	7,062
Royalties paid	207,909	287,295
Direct operating expenses arising from investment properties that generate rental income	4,791	4,581
Direct operating expenses arising from investment properties that did not generate rental income	828	325
Provision for consumer returns, cooperative advertising and cancellation charges (Note 27)	61,478	90,737
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges (Note 27)	(1,344)	(296)
Depreciation of other property, plant and equipment	13,844	12,819
Directors' and staff remunerations (Note 13)	120,459	146,754
Allowance for impairment of trade receivables (Note 20)	–	2,004
Allowance for customer concession (Note 20)	2,361	–
Operating leases expense on office and warehouse facilities	2,383	2,121
Loss/(Gain) on disposal of other property, plant and equipment	2	(192)
Auditors' remuneration	1,760	1,680

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**8 OTHER NET INCOME/(LOSS)**

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Net foreign exchange gain/(loss)	<b>679</b>	(26,884)
Others	<b>(241)</b>	2,742
	<b>438</b>	(24,142)

**9 FINANCE COSTS**

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans wholly repayable within five years	<b>10,120</b>	8,828
Bank charges	<b>8,036</b>	10,306
	<b>18,156</b>	19,134

**10 INCOME TAX EXPENSE**

10.1 Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Overseas taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Current taxation		
Hong Kong profits tax	<b>58,916</b>	104,992
Overseas taxation	<b>61,748</b>	53,894
Under provision in prior years – overseas	<b>4,879</b>	2,592
Under/(Over) provision in prior years – Hong Kong	<b>34</b>	(48)
	<b>125,577</b>	161,430
Deferred taxation		
Origination and reversal of temporary differences	<b>22,263</b>	7,660
Income tax expense	<b>147,840</b>	169,090

## Notes to the Financial Statements

For the year ended 31 December 2015

### 10 INCOME TAX EXPENSE (Continued)

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit before income tax	<b>702,135</b>	1,182,938
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	<b>162,204</b>	230,805
Tax effect of:		
Non-taxable income	<b>(28,559)</b>	(74,334)
Non-deductible expenses	<b>8,745</b>	12,175
Utilisation of previously unrecognised tax losses	–	(2,226)
Unrecognised tax losses	<b>665</b>	126
Recognition of previously unrecognised temporary differences	<b>(128)</b>	–
Under provision in prior years	<b>4,913</b>	2,544
Income tax expense	<b>147,840</b>	169,090

## 11 DIVIDENDS

### 11.1 Dividends attributable to the year

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
First interim dividend of HK\$0.075 (2014: HK\$0.075) per share	<b>16,769</b>	17,160
Second interim dividend of HK\$0.075 (2014: HK\$0.075) per share	<b>16,200</b>	17,102
Special interim dividend of HK\$0.13 (2014: HK\$0.20) per share	<b>28,080</b>	45,604
	<b>61,049</b>	79,866

At a meeting held on 21 August 2015, the board of directors declared a first interim dividend of HK\$0.075 per share, which was paid on 30 September 2015.

At a meeting held on 24 March 2016, the board of directors declared a second interim dividend of HK\$0.075 per share and a special interim dividend of HK\$0.13 per share to be paid on 28 April 2016 to shareholders whose names appear on the Company's register of members on 14 April 2016. This second interim dividend and special interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2015.

### 11.2 Dividends attributable to previous financial year and paid during the year

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK\$0.075 (2014: HK\$0.05) per share	<b>17,102</b>	11,440
Special interim dividend of HK\$0.20 (2014: HK\$nil) per share	<b>45,604</b>	–
Special dividend of HK\$nil (2014: HK\$0.40) per share	–	91,520
	<b>62,706</b>	102,960

## Notes to the Financial Statements

For the year ended 31 December 2015

### 12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$413,718,000 (2014: HK\$757,665,000) and the weighted average number of ordinary shares of 225,418,000 shares (2014: 229,288,000 shares) in issue during the year.

Diluted earnings per share for the year ended 31 December 2015 equals to the basic earnings per share as the potential ordinary shares on exercise of share options were not included in the calculation of diluted earnings per share because they are anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2014 is based on the profit attributable to owners of the Company of HK\$757,665,000 and the weighted average number of ordinary shares of 229,311,000 shares in issue during the year, adjusted for the effects of 23,000 dilutive potential shares on exercise of share options.

The dilutive effect of the share options issued by the Group's listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2015 and 2014.

### 13 DIRECTORS' AND STAFF REMUNERATIONS

	2015 HK\$'000	2014 HK\$'000
Wages, salaries and other benefits	116,132	139,514
Share-based compensation	1,931	4,847
Employer's contributions to provident fund	2,396	2,393
	<b>120,459</b>	146,754

## 14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### 14.1 Directors' emoluments

The emoluments of each director disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name of director	Fee 2015 HK\$'000	Salary 2015 HK\$'000	Bonus 2015 HK\$'000	Share-based compensation 2015 HK\$'000	Other benefits 2015 HK\$'000 (Note)	Employer's contribution to provident fund 2015 HK\$'000	Total 2015 HK\$'000
CHAN Chun Hoo, Thomas	20	7,752	12,450	-	198	10	20,430
CHENG Bing Kin, Alain	20	2,289	445	157	77	18	3,006
IP Shu Wing, Charles	200	-	-	-	-	-	200
LEE Peng Fei, Allen	360	-	-	-	-	-	360
LO Kai Yiu, Anthony	360	-	-	-	-	-	360
TO Shu Sing, Sidney	20	2,360	470	159	85	18	3,112
TSIM Tak Lung	300	-	-	-	-	-	300
YU Hon To, David	260	-	-	-	-	-	260
	1,540	12,401	13,365	316	360	46	28,028

Name of director	Fee 2014 HK\$'000	Salary 2014 HK\$'000	Bonus 2014 HK\$'000	Share-based compensation 2014 HK\$'000	Other benefits 2014 HK\$'000 (Note)	Employer's contribution to provident fund 2014 HK\$'000	Total 2014 HK\$'000
CHAN Chun Hoo, Thomas	20	7,125	28,370	-	274	17	35,806
CHENG Bing Kin, Alain	20	2,217	830	391	75	17	3,550
IP Shu Wing, Charles	160	-	-	-	10	-	170
LEE Peng Fei, Allen	241	-	-	-	107	-	348
LO Kai Yiu, Anthony	241	-	-	-	107	-	348
TO Shu Sing, Sidney	20	2,282	920	400	83	17	3,722
TSIM Tak Lung	211	-	-	-	69	-	280
YU Hon To, David	190	-	-	-	50	-	240
	1,103	11,624	30,120	791	775	51	44,464

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2015 and 2014.

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

## Notes to the Financial Statements

For the year ended 31 December 2015

### 14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### 14.2 Five highest paid individuals

Three (2014: three) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other two (2014: two) highest paid individuals are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, other allowances and benefits in kind	4,719	5,394
Bonuses	4,832	7,138
Share-based compensation	248	616
Employer's contributions to provident fund	127	131
	<b>9,926</b>	<b>13,279</b>

The emoluments of these two (2014: two) individuals are within the following bands:

	Number of individuals	
HK\$	2015	2014
4,500,001 – 5,000,000	1	–
5,000,001 – 5,500,000	1	1
8,000,001 – 8,500,000	–	1
	<b>2</b>	<b>2</b>

## 15 FIXED ASSETS

	Land and buildings HK\$'000	Vehicle, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
<b>Cost or valuation</b>						
At 1 January 2015	188,200	77,412	30,544	296,156	5,329,580	5,625,736
Exchange fluctuation	-	(2,495)	-	(2,495)	(10,298)	(12,793)
Additions	-	33,770	3,613	37,383	232,883	270,266
Capitalised subsequent expenditure	-	-	-	-	5,058	5,058
Revaluation surplus	-	-	-	-	172,455	172,455
Reclassification	(32,400)	-	-	(32,400)	24,847	(7,553)
Disposals	-	(228)	(5,049)	(5,277)	-	(5,277)
<b>At 31 December 2015</b>	<b>155,800</b>	<b>108,459</b>	<b>29,108</b>	<b>293,367</b>	<b>5,754,525</b>	<b>6,047,892</b>
<b>Accumulated depreciation</b>						
At 1 January 2015	35,964	20,761	28,462	85,187	-	85,187
Exchange fluctuation	-	(160)	-	(160)	-	(160)
Charge for the year	6,558	6,271	1,015	13,844	-	13,844
Reclassification	(7,553)	-	-	(7,553)	-	(7,553)
Disposals	-	(226)	(5,049)	(5,275)	-	(5,275)
<b>At 31 December 2015</b>	<b>34,969</b>	<b>26,646</b>	<b>24,428</b>	<b>86,043</b>	<b>-</b>	<b>86,043</b>
<b>Net book value</b>						
<b>At 31 December 2015</b>	<b>120,831</b>	<b>81,813</b>	<b>4,680</b>	<b>207,324</b>	<b>5,754,525</b>	<b>5,961,849</b>

Revaluation surplus of investment properties is recognised in the line item "revaluation surplus on investment properties" on the face of the consolidated income statement.

Exchange fluctuation of investment properties is recognised in other comprehensive income in "exchange reserve".

## Notes to the Financial Statements

For the year ended 31 December 2015

### 15 FIXED ASSETS (Continued)

	Land and buildings HK\$'000	Vehicle, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
<b>Cost or valuation</b>						
At 1 January 2014	188,200	53,677	28,684	270,561	4,889,650	5,160,211
Exchange fluctuation	–	(1,568)	–	(1,568)	(12,600)	(14,168)
Additions	–	30,368	1,977	32,345	–	32,345
Capitalised subsequent expenditure	–	–	–	–	16,147	16,147
Revaluation surplus	–	–	–	–	436,965	436,965
Reclassification	–	582	–	582	(582)	–
Disposals	–	(5,647)	(117)	(5,764)	–	(5,764)
At 31 December 2014	188,200	77,412	30,544	296,156	5,329,580	5,625,736
<b>Accumulated depreciation</b>						
At 1 January 2014	28,734	20,965	28,194	77,893	–	77,893
Exchange fluctuation	–	(72)	–	(72)	–	(72)
Charge for the year	7,230	5,215	374	12,819	–	12,819
Disposals	–	(5,347)	(106)	(5,453)	–	(5,453)
At 31 December 2014	35,964	20,761	28,462	85,187	–	85,187
<b>Net book value</b>						
At 31 December 2014	152,236	56,651	2,082	210,969	5,329,580	5,540,549

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

	2015		2014	
	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>
In Hong Kong, held under:				
Long term leases	–	608,000	–	600,000
Medium term leases	120,831	4,694,000	152,236	4,512,500
Outside Hong Kong:				
Freehold	–	452,525	–	217,080
	<b>120,831</b>	<b>5,754,525</b>	152,236	5,329,580

### ***Fair value measurement of investment properties***

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations : Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations : Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations : Fair value measured using significant unobservable inputs

## Notes to the Financial Statements

For the year ended 31 December 2015

### 15 FIXED ASSETS (Continued)

#### Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

	2015			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Recurring fair value measurement:</b>				
Investment properties in Hong Kong	–	–	5,302,000	5,302,000
Investment properties outside Hong Kong	–	–	452,525	452,525
	–	–	5,754,525	5,754,525
	2014			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Recurring fair value measurement:</b>				
Investment properties in Hong Kong	–	–	5,112,500	5,112,500
Investment properties outside Hong Kong	–	–	217,080	217,080
	–	–	5,329,580	5,329,580

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The investment properties in Hong Kong were revalued as at 31 December 2015. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Royal Institution of Chartered Surveyors with recent experience in the location and category of the properties being valued.

The investment properties outside Hong Kong were revalued as at 31 December 2015. The valuations were carried out by independent firms of surveyors, Savills Advisory Services Limited, Cushman & Wakefield, Inc. and Savills Japan Co., Ltd., who have among their staff members of the Royal Institution of Chartered Surveyors, Certified General Real Estate Appraisers and Japan Association of Real Estate Appraisers, with recent experience in the location and category of the properties being valued.

The Group's management has discussion with the surveyors on the valuation assumptions when the valuation is performed at each interim and annual reporting period end.

(ii) *Information about Level 3 fair value measurements*

	<b>Valuation technique</b>	<b>Unobservable input</b>	<b>Range/ weighted average</b>
Investment properties in Hong Kong	(i) Income capitalisation approach	Monthly rental per square foot	HK\$37 (2014: HK\$34)
		Capitalisation rate	3.75% to 4.25% (2014: 3.75% to 4.25%)
	(ii) Market comparison approach	Premium/ (discount) on quality, location, view and floor level of the properties	(9.0%) to 7.3% (2014: (5.4%) to 3.9%)
Investment properties outside Hong Kong	Market comparison approach	Premium/ (discount) on location and quality of the properties	(23%) to 52% (2014: (38%) to 22%)

The fair value of investment properties located in Hong Kong is determined using one of the following valuation techniques:

- by capitalising the net income associated with the properties using capitalisation rates. The valuation takes into account the market rental of the respective properties. The capitalisation rates used have been adjusted for the quality and location of the properties. The fair value measurement is positively correlated to the rental, and negatively correlated to the capitalisation rates; or
- by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount mainly specific to the quality, location, view and floor level of the properties compared to the recent sales. The fair value measurement is positively correlated to the quality, location, view and floor level.

# Notes to the Financial Statements

For the year ended 31 December 2015

## 15 FIXED ASSETS (Continued)

### Fair value measurement of investment properties (Continued)

#### (ii) Information about Level 3 fair value measurements (Continued)

The fair value of investment properties located outside Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount mainly specific to the location and quality of the properties compared to the recent sales. The fair value measurement is positively correlated to the location and quality.

Details of the principal properties of the Group as at 31 December 2015 are as follows:

Location	Use	Category of the lease	Group's interest
The Toy House 100 Canton Road Tsimshatsui, Hong Kong	Commercial	Medium term lease	100%
A number of residential flats situated at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel, Hong Kong	Residential	Long term lease	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun, Hong Kong	Industrial	Medium term lease	100%

At 31 December 2015, certain of the Group's investment properties and land and buildings with a net book value of approximately HK\$5,123,300,000 and HK\$120,831,000 (2014: HK\$4,936,300,000 and HK\$152,236,000) respectively were pledged to secure general banking facilities granted to the Group (note 23).

## 16 GOODWILL

HK\$'000

### Gross and net carrying amount

At 1 January 2014, 31 December 2014 and 31 December 2015

5,976

## 17 INTEREST IN SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2015 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
<i>Shares held indirectly:</i>				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US\$1 each	100%	Property investment, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US\$1 each	100%	Investment holding, Hong Kong
Playmates International Company Limited	Hong Kong	1 ordinary share	49.59% (Note)	Toy development, marketing and distribution and related investment activities, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stocks of US\$30 each	49.59% (Note)	Toy marketing and distribution, U.S.A.
Playmates Toys Limited	Bermuda	1,210,000,000 ordinary shares of HK\$0.01 each	49.59% (Note)	Investment holding, Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	100 ordinary shares	70%	Restaurant operation, Hong Kong
Team Green Innovation Inc.	U.S.A.	10 common stocks of US\$0.01 each	49.59% (Note)	Product design and development services, U.S.A.

*Note:* As at 31 December 2015, the Group has 49.59% equity interest in these companies. As the Group is the majority shareholder of these companies and has control over these companies, thus these companies are subsidiaries of the Group.

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

## Notes to the Financial Statements

For the year ended 31 December 2015

### 17 INTEREST IN SUBSIDIARIES (Continued)

The following table lists out the information relating to Playmates Toys Limited, the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015 HK\$'000	2014 HK\$'000
NCI percentage	50.41%	50.59%
Non-current assets	46,399	57,955
Current assets	1,338,987	1,379,243
Current liabilities	(251,761)	(400,837)
Net assets	1,133,625	1,036,361
Carrying amount of NCI	571,497	524,302
Revenue	1,551,464	2,160,206
Profit for the year	276,245	490,672
Total comprehensive income	276,245	490,141
Profit allocated to NCI	140,838	256,055
Dividends paid to NCI	(91,857)	(121,062)
Cash flows generated from operating activities	305,093	491,067
Cash flows used in investing activities	(31,535)	(1,373)
Cash flows used in financing activities	(181,855)	(223,473)

### 18 INTEREST IN AN ASSOCIATED COMPANY

	2015 HK\$'000	2014 HK\$'000
Cost of investment	18,077	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	(12,024)	(12,963)
	6,053	5,114

As at 31 December 2015, the Group held interests in the following associated company:

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Particulars of issued shares</b>	<b>Effective percentage holding</b>
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 operates in Hong Kong. It is an unlisted corporate entity whose market value is not readily 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.

On 31 December 2015, one of the major subsidiaries of Unimax has applied to Hong Kong Companies Registry for voluntary winding up.

***Summarised financial information of the associated company and its subsidiaries is disclosed below:***

	<b>2015</b> <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Gross amounts of the associated company		
Non-current assets	–	–
Current assets	<b>12,364</b>	16,797
Current liabilities	<b>(10)</b>	(6,353)
Non-current liabilities	–	(7)
Equity	<b>12,354</b>	10,437
Group's effective interest	<b>49%</b>	49%
Group's share of net assets of the associated company and carrying amount in the consolidated financial statements	<b>6,053</b>	5,114
Revenue	<b>8,236</b>	42,577
Profit/(Loss) from continuing operations	<b>1,917</b>	(11,594)
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	<b>1,917</b>	(11,594)
Dividend from the associated company	–	–

## Notes to the Financial Statements

For the year ended 31 December 2015

### 19 INVENTORIES

As at 31 December 2015, the carrying amount of inventories after provision for impairment amounted to HK\$28,443,000 (2014: HK\$44,332,000) and the carrying amount of inventories that are carried at net realisable value amounted to HK\$1,180,000 (2014: HK\$1,762,000).

### 20 TRADE RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	316,222	532,534
Less: Allowance for impairment	(2,004)	(2,004)
Less: Allowance for customer concession	(2,361)	–
	<b>311,857</b>	530,530

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

#### 20.1 Aging analysis

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. For property investments and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	303,296	516,210
31 – 60 days	4,585	4,834
Over 60 days	3,976	9,486
	<b>311,857</b>	530,530

## 20.2 Impairment of trade receivables

The movement in the allowance for impairment during the year is as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	2,004	–
Impairment loss recognised	–	2,004
At 31 December	2,004	2,004

At 31 December 2015, trade receivables of HK\$2,647,000 (2014: HK\$2,779,000) were individually determined to be impaired. The individually impaired receivables related to a customer that was in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for impairment of HK\$2,004,000 (2014: HK\$2,004,000) was recognised.

## 20.3 Trade receivables that are not impaired

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

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	301,884	345,758
1 – 90 days past due	6,803	177,971
91 – 180 days past due	351	2,692
Over 180 days past due	2,176	3,334
	9,330	183,997
	311,214	529,755

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, no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances.

## 21 DEPOSIT PAID, OTHER RECEIVABLES AND PREPAYMENTS

Deposit paid, other receivables and prepayments of the Group include receivables related to rent free periods given to tenants of HK\$47,129,000 (2014: HK\$54,259,000), which are amortised over the respective lease terms.

## Notes to the Financial Statements

For the year ended 31 December 2015

### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK\$'000	2014 HK\$'000
Listed equity investment in Hong Kong	51,318	43,163
Listed equity investment outside Hong Kong	82,847	4,927
Unlisted managed funds	8,980	9,580
	<b>143,145</b>	57,670

### 23 BANK LOANS

	2015 HK\$'000	2014 HK\$'000
Secured bank loans repayable		
Within one year	494,680	363,800
In the second year	28,800	31,800
In the third to fifth year	5,800	34,600
	<b>529,280</b>	430,200
Current portion included in current liabilities	<b>(494,680)</b>	(363,800)
Non-current portion	<b>34,600</b>	66,400

All bank loans were denominated in HK dollar and on a floating interest rate basis. The effective interest rate at the end of the reporting period was 1.95% p.a. (2014: 1.96% p.a.).

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

As at 31 December 2015, the Group has banking facilities amounting to HK\$954,400,000 (2014: HK\$780,000,000), of which HK\$529,280,000 (2014: HK\$430,200,000) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK\$5,123,300,000 and HK\$120,831,000 (2014: HK\$4,936,300,000 and HK\$152,236,000) respectively of the Group at 31 December 2015.

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK\$360,000,000 (2014: HK\$280,000,000), of which HK\$108,600,000 (2014: HK\$125,000,000) of such banking facilities were utilised as at 31 December 2015. This represents the Company's exposure under the financial guarantee contracts. Under the guarantee contracts, the Company would be liable to pay the banks if the banks are unable to recover the loans. No provision for the Company's obligation under the financial guarantee contracts has been made as it was not probable that the repayment of loans would be in default.

## 24 TRADE PAYABLES

The following is an aging analysis of trade payables based on the invoice date at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
0 – 30 days	42,648	78,760
31 – 60 days	2,082	547
Over 60 days	5,588	1,289
	50,318	80,596

## 25 DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUED CHARGES

	2015 HK\$'000	2014 HK\$'000
Deposits from customers, distributors and tenants	63,870	62,433
Accrued product development, sales, marketing and distribution expenses	15,402	19,148
Accrued royalties	49,465	90,326
Accrued directors' and staff remunerations	34,117	49,722
Withholding tax payable	22,783	11,525
Other accrued expenses	11,349	12,365
	196,986	245,519

## 26 LOAN FROM AN ASSOCIATED COMPANY

The loan from Unimax is unsecured, interest free and repayable on demand without a fixed repayment term.

## 27 PROVISIONS

	Consumer returns HK\$'000	Cooperative advertising HK\$'000	Cancellation charges HK\$'000	Total HK\$'000
At 1 January 2015	16,671	28,303	845	45,819
Additional provisions made	13,513	47,760	205	61,478
Provisions utilised	(13,749)	(43,274)	–	(57,023)
Reversal of unutilised provisions	(863)	(473)	(8)	(1,344)
<b>At 31 December 2015</b>	<b>15,572</b>	<b>32,316</b>	<b>1,042</b>	<b>48,930</b>

## Notes to the Financial Statements

For the year ended 31 December 2015

### 28 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2014: 16.5%) in Hong Kong, and federal and state tax rates of 35% (2014: 35%) and 8.84% (2014: 8.84%) respectively in the U.S..

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	(26,370)	(21,930)
Charged to profit or loss	22,263	7,660
Credited directly to equity	(609)	(12,100)
At 31 December	(4,716)	(26,370)

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

	Investment properties revaluation surplus HK\$'000	Accelerated tax depreciation HK\$'000	Other temporary differences HK\$'000 (Note (a))	Employee benefits HK\$'000 (Note (b))	Total HK\$'000
At 1 January 2014	–	18,374	(28,327)	(11,977)	(21,930)
Charged/(Credited) to profit or loss	–	3,216	(16,204)	20,648	7,660
Credited directly to equity	–	–	–	(12,100)	(12,100)
At 31 December 2014 and 1 January 2015	–	21,590	(44,531)	(3,429)	(26,370)
Charged to profit or loss	7,377	2,064	12,385	437	22,263
Credited directly to equity	–	–	–	(609)	(609)
At 31 December 2015	7,377	23,654	(32,146)	(3,601)	(4,716)

Notes:

- (a) Other temporary differences mainly represent the provisions, foreign tax credits and unrealised profits on inventories.
- (b) Employee benefits represents share-based compensation.

The amounts recognised in the consolidated statement of financial position are as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 <i>HK\$'000</i>
Deferred tax assets	<b>(35,143)</b>	(49,309)
Deferred tax liabilities	<b>30,427</b>	22,939
	<b>(4,716)</b>	(26,370)

#### ***Deferred tax assets not recognised***

The Group has not recognised tax losses of HK\$85,467,000 (2014: HK\$81,468,000). The tax losses do not expire under respective current tax legislation.

#### ***Deferred tax liabilities not recognised***

As at 31 December 2015, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK\$494,675,000 (2014: HK\$394,667,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

## **29 EQUITY SETTLED SHARE-BASED TRANSACTIONS**

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

	<b>2015</b>		2014	
	<b>Weighted average exercise price HK\$</b>	<b>Number of options '000</b>	Weighted average exercise price HK\$	Number of options '000
At 1 January	<b>11.02</b>	<b>1,516</b>	11.52	1,907
Exercised ( <i>Note</i> )	–	–	9.10	(11)
Lapsed	<b>12.06</b>	<b>(984)</b>	13.60	(380)
At 31 December	<b>9.10</b>	<b>532</b>	11.02	1,516
Exercisable at 31 December	<b>9.10</b>	<b>532</b>	11.02	1,516

*Note:* The weighted average closing price of the ordinary shares of the Company immediately before the date on which the share options were exercised during the year ended 31 December 2014 was HK\$9.84.

# Notes to the Financial Statements

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For the year ended 31 December 2015

## **29 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)**

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

The share options outstanding at 31 December 2015 had a weighted average remaining contractual life of 0.34 year (2014: 0.94 year).

No share-based compensation expense has been included in the consolidated income statement for 2015 and 2014. No liabilities were recognised due to share-based payment transactions.

### **Equity settled share-based transactions of Playmates Toys Limited (“PTL”)**

At the special general meeting of the Company held on 25 January 2008, the shareholders of the Company approved the share option scheme of PTL, an indirectly non-wholly owned subsidiary of the Company (the “PTL Scheme”). Certain directors, employees and other participants of PTL were granted options at a nominal consideration of HK\$10 or US\$1.5 on acceptance of the option offered. Details of the PTL Scheme and movements in the number of share options outstanding during the year are set out in the Report of the Directors and the annual report of PTL for the year ended 31 December 2015.

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

The share options outstanding at 31 December 2015 had a weighted average remaining contractual life of 6.65 years (2014: 7.65 years).

In total, HK\$2,265,000 of share-based compensation expense has been included in the consolidated income statement of PTL for 2015 (2014: HK\$5,850,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

## 30 EQUITY – GROUP AND COMPANY

### 30.1 Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
<b>At 31 December 2014 and 2015</b>	<b>3,000,000,000</b>	<b>300,000</b>

	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2014	232,004,500	23,200
Exercise of share options	11,450	1
Cancellation of repurchased shares ( <i>Note</i> )	(3,795,950)	(379)
<b>At 31 December 2014 and 1 January 2015</b>	<b>228,220,000</b>	<b>22,822</b>
Cancellation of repurchased shares ( <i>Note</i> )	<b>(8,220,000)</b>	<b>(822)</b>
<b>At 31 December 2015</b>	<b>220,000,000</b>	<b>22,000</b>

*Note:*

During the year, the Company repurchased a total of 8,102,000 shares of the Company on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$'000
March 2015	636,000	7.90	7.76	4,980
April 2015	6,000	7.90	7.90	47
June 2015	378,000	9.70	9.61	3,660
July 2015	1,400,000	8.30	7.87	11,364
August 2015	98,000	8.00	7.99	784
September 2015	2,902,000	8.20	7.92	23,326
October 2015	626,000	8.80	8.16	5,398
November 2015	982,000	8.80	8.78	8,641
December 2015	1,074,000	8.80	8.65	9,397

# Notes to the Financial Statements

For the year ended 31 December 2015

## 30 EQUITY – GROUP AND COMPANY (Continued)

### 30.1 Share capital (Continued)

Note (Continued):

Save and except the 82,000 shares repurchased in December 2015 which were cancelled in January 2016, all the above repurchased shares were cancelled during the year. The 200,000 shares repurchased in December 2014 were also cancelled during the year. The issued capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or the contributed surplus account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

### 30.2 Reserves

#### Company

	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Share repurchase reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	1,194,259	8,249	(5,106)	4,499	-	442,274	1,644,175
Profit for the year	-	-	-	-	-	32,927	32,927
Share option scheme							
– shares issued	126	(23)	-	-	-	-	103
– share options lapsed	-	(261)	-	-	-	261	-
Share premium							
reduction (Note 30.3)	(1,160,386)	-	-	-	1,160,386	-	-
Repurchase of shares	(33,999)	-	3,551	379	(4,565)	(379)	(35,013)
2013 second interim							
dividend paid	-	-	-	-	(11,440)	-	(11,440)
2013 special dividend paid	-	-	-	-	(91,520)	-	(91,520)
2014 first interim							
dividend paid	-	-	-	-	(17,160)	-	(17,160)
At 31 December 2014	-	7,965	(1,555)	4,878	1,035,701	475,083	1,522,072
At 1 January 2015	-	7,965	(1,555)	4,878	1,035,701	475,083	1,522,072
Profit for the year	-	-	-	-	-	212,547	212,547
Share option scheme							
– share options lapsed	-	(501)	-	-	-	501	-
Repurchase of shares	-	-	834	822	(67,609)	(822)	(66,775)
2014 second interim							
dividend paid	-	-	-	-	(17,102)	-	(17,102)
2014 special interim							
dividend paid	-	-	-	-	(45,604)	-	(45,604)
2015 first interim							
dividend paid	-	-	-	-	(16,769)	-	(16,769)
At 31 December 2015	-	7,464	(721)	5,700	888,617	687,309	1,588,369

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

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### **30.3 Share premium reduction**

At the Annual General Meeting of the Company held on 19 May 2014, the shareholders of the Company approved that HK\$1,160,386,000 being the entire amount standing to the credit of the share premium account of the Company as at the date of the meeting be reduced to HK\$nil and the credit arising therefrom be transferred to the contributed surplus account of the Company during the year ended 31 December 2014.

### **30.4 Capital management**

The Group's capital management is primarily to provide a reasonable return for owners of the Company and benefits for other stakeholders and to safeguard the Group's ability to continue as a going concern.

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

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2015 and 2014.

# Notes to the Financial Statements

For the year ended 31 December 2015

## 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### 31.1 Reconciliation of profit before income tax to cash generated from operations

	2015 HK\$'000	2014 HK\$'000
Profit before income tax	702,135	1,182,938
Interest income	(2,579)	(3,726)
Interest on bank loans	10,120	8,828
Dividend income from financial assets at fair value through profit or loss	(4,414)	(1,058)
Depreciation of other property, plant and equipment	13,844	12,819
Share-based compensation	2,265	5,850
Revaluation surplus on investment properties	(172,455)	(436,965)
Loss/(Gain) on disposal of other property, plant and equipment	2	(192)
Net loss/(gain) on financial assets at fair value through profit or loss	19,667	(3,367)
Unrealised exchange (gain)/loss	(1,502)	24,405
Gain on dissolution of foreign subsidiaries	–	(531)
Share of (profit)/loss of an associated company	(939)	5,681
Operating profit before working capital changes	566,144	794,682
Decrease/(Increase) in inventories	15,890	(6,943)
Decrease/(Increase) in trade receivables, deposits paid, other receivables and prepayments	207,162	(148,608)
Increase in financial assets at fair value through profit or loss	(68,985)	(24,869)
(Decrease)/Increase in trade payables, deposits received, other payables and accrued charges and provisions	(75,699)	35,587
Cash generated from operations	644,512	649,849

### 31.2 Analysis of cash and cash equivalents

	2015 HK\$'000	2014 HK\$'000
Cash and bank balances	1,160,738	1,233,585

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## 32 COMMITMENTS

### 32.1 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	22,743	21,968
In the second to fifth years	116,715	29,062
After five years	3,875	–
	<b>143,333</b>	51,030

### 32.2 Operating lease commitments

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

#### 32.2.1 As lessee

At 31 December 2015, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	2,587	1,403
In the second to fifth years	11,147	–
	<b>13,734</b>	1,403

# Notes to the Financial Statements

For the year ended 31 December 2015

## 32 COMMITMENTS (Continued)

### 32.2 Operating lease commitments (Continued)

#### 32.2.2 As lessor

At 31 December 2015, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	197,998	184,566
In the second to fifth years	672,479	647,683
After five years	347,158	513,191
	<b>1,217,635</b>	<b>1,345,440</b>

## 33 RELATED PARTY TRANSACTIONS

During the years ended 31 December 2015 and 2014, the Group did not enter into significant transactions with related parties.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 14.1.

## 34 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 2015.

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## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

### 35.1 Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
<b>Financial assets</b>		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	311,857	530,530
Deposits paid and other receivables	1,744	1,498
Cash and bank balances	1,160,738	1,233,585
Financial assets at fair value through profit or loss	143,145	57,670
	<b>1,617,484</b>	<b>1,823,283</b>
<b>Financial liabilities at amortised cost</b>		
Bank loans	529,280	430,200
Trade payables	50,318	80,596
Other payables and accrued charges	175,504	218,476
Loan from an associated company	5,831	–
	<b>760,933</b>	<b>729,272</b>

### 35.2 Financial risk factors

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

#### 35.2.1 Market risk

(i) Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency different from domestic currencies used to fund the operations of the relevant group companies. 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 may have an impact on consolidated earnings.

# Notes to the Financial Statements

For the year ended 31 December 2015

## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 35.2 Financial risk factors (Continued)

#### 35.2.1 Market risk (Continued)

(ii) Interest rate risk

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

At 31 December 2015, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and equity by approximately HK\$2,646,000 (2014: HK\$2,151,000).

(iii) Price risk

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

At 31 December 2015, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and equity by approximately HK\$7,157,000 (2014: HK\$2,884,000).

#### 35.2.2 Credit risk

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

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

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and receivable agencies. The factoring and receivable processing agents would analyse 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 agents so as to mitigate credit exposure of the Group. Direct shipments to customers who are located outside the United States are normally secured by letters of credit or advance payment as credit is only extended to a limited number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position as summarised in note 35.1 above.

*Concentrations of credit risk*

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

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

	<b>2015</b>	2014
Sales		
– the largest customer	<b>29%</b>	26%
– five largest customers in aggregate	<b>74%</b>	70%

## Notes to the Financial Statements

For the year ended 31 December 2015

### 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

#### 35.2 Financial risk factors (Continued)

##### 35.2.3 Liquidity risk

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

The analysis of the Group's contractual maturities of its financial liabilities as at the end of the reporting period below is based on the undiscounted cash flows of the financial liabilities.

	2015				Carrying amount HK\$'000
	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	
Bank loans	495,978	29,266	5,828	531,072	529,280
Trade payables	50,318	–	–	50,318	50,318
Other payables and accrued charges	175,504	–	–	175,504	175,504
Loan from an associated company	5,831	–	–	5,831	5,831
	<b>727,631</b>	<b>29,266</b>	<b>5,828</b>	<b>762,725</b>	<b>760,933</b>

  

	2014				Carrying amount HK\$'000
	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	
Bank loans	365,698	32,854	35,099	433,651	430,200
Trade payables	80,596	–	–	80,596	80,596
Other payables and accrued charges	218,476	–	–	218,476	218,476
	<b>664,770</b>	<b>32,854</b>	<b>35,099</b>	<b>732,723</b>	<b>729,272</b>

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### 35.3 Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

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	2015			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurement</b>				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	51,318	–	–	51,318
Listed equity investment outside Hong Kong	82,847	–	–	82,847
Unlisted managed funds	–	8,980	–	8,980
	<b>134,165</b>	<b>8,980</b>	–	<b>143,145</b>

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# Notes to the Financial Statements

For the year ended 31 December 2015

## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

### 35.3 Financial assets and liabilities measured at fair value (Continued)

	2014			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Recurring fair value measurement</b>				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	43,163	–	–	43,163
Listed equity investment outside Hong Kong	4,927	–	–	4,927
Unlisted managed funds	–	9,580	–	9,580
	48,090	9,580	–	57,670

The fair values of unlisted managed funds in Level 2 have been determined by reference to the reported net asset value at the end of the reporting period.

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### 35.4 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, bank loans, other payables and accrued charges and loan from an associated company carried at amortised cost) approximate their fair values as at 31 December 2015 and 2014.

## 36 DISPOSAL OF SHARES OF A LISTED SUBSIDIARY

During the year ended 31 December 2015, there was no disposal of shares of the Group's listed subsidiary.

On 23 January 2014, the Group disposed of 82,000,000 shares of its listed subsidiary, Playmates Toys Limited ("PTL") at HK\$3.60 per share to third parties. The net proceeds were HK\$288,957,000. As the disposal did not result in PTL ceasing to be a subsidiary of the Company, the financial results of PTL continues to be consolidated in the accounts of the Company. The effect on the equity attributable to owners of Company on this disposal was shown in the consolidated statement of changes in equity during the year ended 31 December 2014.

### 37 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 US\$'000 (Note 34)	2015 HK\$'000	2014 HK\$'000
<b>Non-current assets</b>				
Interest in subsidiaries		207,938	1,611,519	1,392,480
<b>Current assets</b>				
Prepayments		34	264	302
Taxation recoverable		–	–	138
Cash and bank balances		47	362	155,491
		81	626	155,931
<b>Current liabilities</b>				
Other payables and accrued charges		210	1,627	3,517
Taxation payable		19	149	–
		229	1,776	3,517
<b>Net current (liabilities)/assets</b>		<b>(148)</b>	<b>(1,150)</b>	152,414
<b>Net assets</b>		<b>207,790</b>	<b>1,610,369</b>	1,544,894
<b>Equity</b>				
Share capital	30.1	2,839	22,000	22,822
Reserves	30.2	204,951	1,588,369	1,522,072
<b>Total equity</b>		<b>207,790</b>	<b>1,610,369</b>	1,544,894

On behalf of the board

**CHENG Bing Kin, Alain**  
Director

**TO Shu Sing, Sidney**  
Director

## 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:

	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Revenue</b>	<b>1,791,204</b>	2,397,522	1,880,818	490,399	163,077
Profit before income tax	<b>702,135</b>	1,182,938	1,433,375	1,195,730	695,171
Income tax expense	<b>(147,840)</b>	(169,090)	(26,295)	(6,345)	(7,240)
<b>Profit for the year</b>	<b>554,295</b>	1,013,848	1,407,080	1,189,385	687,931
<b>Profit for the year attributable to:</b>					
Owners of the Company	<b>413,718</b>	757,665	1,177,727	1,170,133	732,525
Non-controlling interests	<b>140,577</b>	256,183	229,353	19,252	(44,594)
	<b>554,295</b>	1,013,848	1,407,080	1,189,385	687,931
Total assets	<b>7,792,928</b>	7,541,989	6,406,567	4,971,737	3,787,342
Total liabilities	<b>(865,342)</b>	(913,125)	(847,224)	(774,771)	(702,796)
<b>Net assets</b>	<b>6,927,586</b>	6,628,864	5,559,343	4,196,966	3,084,546

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