

Notes to the Financial Statements

For the year ended 31 December 2009

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 21/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 2009 were approved by the board of directors on 26 March 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements on pages 38 to 103 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

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

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

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

Minority interest represents the portion of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group’s financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented in the consolidated income statement as an allocation of the Group’s results. Where losses applicable to the minority exceeds the minority interests in the subsidiary’s equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group’s interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority’s share of losses previously absorbed by the Group has been recovered.

2.3 Subsidiaries

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

In the Company’s balance sheet, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date. All dividends whether received out of the investee’s pre or post-acquisition profits are recognised in the Company’s profit or loss.

2.4 *Associated companies and jointly controlled entities*

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

A jointly controlled entity is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic entity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Fixed assets

Investment properties

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

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

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

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in income statement in the period in which they arise.

Other property, plant and equipment

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

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 expensed in the income statement 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 is recognised in the income statement.

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

Buildings	40 years
Machinery, vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

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

Prepaid premium on leasehold land held for own use under an operating lease

Upfront payments made to acquire land held under an operating lease are stated at cost less accumulated amortisation and any accumulated impairment losses. Prepaid premium on leasehold land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

2.6 Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

The cost of business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

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

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary over the cost of the business combination is recognised in profit or loss.

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 or 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 estimated selling expenses.

The Group reviews the condition of inventories at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

2.8 Financial assets

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less impairment losses and allowance for customer concession. Amortised cost is taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Trade and other receivables (Continued)

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

- Significant financial difficulty of the debtor; and
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

2.9 Impairment of non-financial assets

Other property, plant and equipment, prepaid premium on leasehold land and investments in subsidiaries, associated company and jointly controlled entity are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

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

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

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

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 or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements

For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial liabilities

The Group's financial liabilities include bank loans, trade payables and other payables. They are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Bank loans

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

Trade and other payables

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

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. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. All provisions are current in nature and therefore the effect of the time value of money is not material. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group continually assesses potential exposures to customer and supplier claims and, where necessary, establishes provisions for any such exposures as described below:

(i) Consumer returns

The Group uses agreed customer allowances based on a percentage of sales and information on actual consumer returns of goods to estimate return percentages. The provision is calculated based on these factors and is adjusted for any fluctuations in the returns expected by management as of each period end.

Most of the Group's retail customers receive a fixed percentage of sales as their allowance. Some of these customers receive a higher percentage rate on certain electronic products. The allowance for each retail customer is agreed and documented in the terms of trade. Certain customers receive an allowance based on their actual consumer return experience.

In evaluating the adequacy of the prior year provision, the Group prepares an analysis to determine the reasons for unclaimed deductions. If the analysis determines that some carry forward provision amounts were no longer appropriate based on actual claims experience, the proper adjustments will be made to release the over-accrued portion.

(ii) *Cooperative advertising*

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

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

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

(iii) *Cancellation charges*

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

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

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

All provisions are established for specific exposures.

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

For the year ended 31 December 2009

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.

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 interest, dividends and rental income, 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, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

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

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

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

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

All other product development costs are charged to the income statement as incurred.

2.16 Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits

2.17.1 Employee leave entitlements

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

2.17.2 Pension obligations

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

2.17.3 Share-based compensation

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

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

2.18 Borrowing costs

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

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

2.19 Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit 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 investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

Notes to the Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current taxation

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

2.21 Foreign currency translation

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

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

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars 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, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2.22 Cash and cash equivalents

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

2.23 Segment reporting

The Group manages its business by operating divisions, which are organised by services, products and investments. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments.

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

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

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

Each of these reportable segments is managed separately as each of the product and service lines requires different resources. All inter-segment transfers are carried out at arms 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 or amortisation of assets attributable to those segments.

2.24 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

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For the year ended 31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties (Continued)

- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

3 ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various – Annual Improvements to HKFRSs 2008	

Other than as noted below, the adoption of these new HKFRSs had no material impact on how the results and financial position for the current and prior period have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and presentation of some items within the primary financial statements. A third balance sheet as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'.

Comparatives have been restated to conform with the revised standard. However, the changes to the comparatives have not affected the consolidated or parent company balance sheet at 1 January 2008 and accordingly the third balance sheet as at 1 January 2008 is not presented.

HKFRS 8 Operating Segments

Upon the adoption of HKFRS 8, reportable segment information is now based on internal management reporting information that is regularly reviewed by the Group's senior executive management. In the previous annual financial statements, according to the predecessor standard, HKAS 14 "Segment Reporting", "business segments" were identified by reference to the nature of the products and services provided by the Group. Comparatives have been restated on a basis consistent with the new standard.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the balance sheet. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of these new requirements.

Annual Improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses of investments in associates and jointly controlled entities accounted for under the equity method. The amendment to HKAS 38 Intangible Assets has changed the Group's accounting policies on advertising and marketing expenses.

(i) *Impairment of investment in associate and jointly controlled entity accounted for under equity method*

The amendment clarifies that an investment in associate and jointly controlled entity accounted for under the equity method is a single asset for the purposes of impairment testing. Any impairment loss recognised by the investor after applying the equity method is not allocated to individual assets including goodwill included in the investment balance. The new accounting policy has been applied prospectively as permitted by the amendment. The amendment did not have any impact on the current period results and financial position.

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For the year ended 31 December 2009

3 ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Annual Improvements to HKFRSs 2008 (Continued)

(ii) Advertising and marketing expenses

The adoption of the amendment to HKAS 38 has changed the Group's accounting policies on advertising and marketing expenses. In previous years, production costs of commercials and related programme costs are deferred and expensed in the year the commercial is first aired. Under the amendment, an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services, all the advertising and marketing expenses are therefore expensed as incurred. This amendment has been applied retrospectively but did not have material impact on the results and financial position for any period presented.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors do not expect the standard to have a material effect on the Group's financial statements.

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

4 **REVENUE**

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investment, 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:

	2009	2008
	HK\$'000	HK\$'000
Sales of toys	636,440	703,596
Rental income from investment properties	67,587	62,465
Property management income	10,856	11,052
Restaurant income	20,159	24,626
Dividend income	4,890	7,110
Interest income	703	4,358
Total revenue	740,635	813,207

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 charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

Notes to the Financial Statements

For the year ended 31 December 2009

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2009 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>
Gross segment revenue	108,945	5,593	636,440	750,978
Inter-segment revenue	(10,343)	–	–	(10,343)
Revenue from external customers	98,602	5,593	636,440	740,635
Segment profit before depreciation and amortisation	301,297	48,077	(31,767)	317,607
Depreciation and amortisation	(3,680)	–	(3,164)	(6,844)
Segment operating profit/(loss)	297,617	48,077	(34,931)	310,763
Other income	5	–	137	142
Finance costs	(2,650)	(102)	(6,509)	(9,261)
Share of profit of an associated company	–	–	116	116
Share of loss of a jointly controlled entity	–	–	(3,950)	(3,950)
	(2,645)	(102)	(10,206)	(12,953)
Segment profit/(loss) before income tax	294,972	47,975	(45,137)	297,810
Unallocated corporate expenses				(9,558)
Profit before income tax				288,252
Bank interest income	5	703	137	
Revaluation surplus on investment properties	230,488	–	–	
Net unrealised gain on financial assets at fair value through profit or loss	–	36,238	–	
Impairment of a jointly controlled entity	–	–	(1,720)	

The segment results for the year ended 31 December 2008 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>
Gross segment revenue	106,417	11,468	703,596	821,481
Inter-segment revenue	(8,274)	–	–	(8,274)
Revenue from external customers	98,143	11,468	703,596	813,207
Segment loss before depreciation and amortisation	(55,675)	(294,338)	(135,929)	(485,942)
Depreciation and amortisation	(4,773)	–	(2,765)	(7,538)
Segment operating loss	(60,448)	(294,338)	(138,694)	(493,480)
Other income	225	–	844	1,069
Finance costs	(5,026)	(1,209)	(5,058)	(11,293)
Share of profit of an associated company	–	–	523	523
Share of loss of a jointly controlled entity	–	–	(1,313)	(1,313)
	(4,801)	(1,209)	(5,004)	(11,014)
Segment loss before income tax	(65,249)	(295,547)	(143,698)	(504,494)
Unallocated corporate expenses				(10,085)
Loss before income tax				(514,579)
Bank interest income	225	4,358	844	
Revaluation deficit on investment properties	(117,687)	–	–	
Net unrealised loss on financial assets at fair value through profit or loss	–	(79,917)	–	

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For the year ended 31 December 2009

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2009 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Reportable segment assets	1,961,415	430,491	229,695	2,621,601
Interest in an associated company	-	-	25,729	25,729
Interest in a jointly controlled entity	-	-	3,162	3,162
Total reportable segment assets	1,961,415	430,491	258,586	2,650,492
Inter-segment elimination	-	-	(489)	(489)
Deferred tax assets				678
Taxation recoverable				6,320
Unallocated assets				8,920
Total assets				2,665,921
Reportable segment liabilities	424,095	-	103,773	527,868
Inter-segment elimination	(489)	-	-	(489)
Deferred tax liabilities				167,909
Taxation payable				2,637
Unallocated liabilities				2,950
Total liabilities				700,875
Capital expenditure	211,582	-	1,365	

The segment assets and liabilities as at 31 December 2008 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	1,545,312	455,361	233,344	2,234,017
Interest in an associated company	–	–	25,613	25,613
Interest in a jointly controlled entity	–	–	8,534	8,534
Total reportable segment assets	1,545,312	455,361	267,491	2,268,164
Inter-segment elimination	(505)	–	(355)	(860)
Deferred tax assets				46,202
Taxation recoverable				4,011
Unallocated assets				<u>7,717</u>
Total assets				<u>2,325,234</u>
Reportable segment liabilities	189,586	–	222,012	411,598
Inter-segment elimination	(355)	–	(505)	(860)
Deferred tax liabilities				128,785
Taxation payable				3,651
Unallocated liabilities				<u>2,543</u>
Total liabilities				<u>545,717</u>
Capital expenditure	30,187	–	7,295	

Notes to the Financial Statements

For the year ended 31 December 2009

5 SEGMENT INFORMATION (Continued)

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 interests in an associated company and a jointly controlled entity ("specified non-current assets"). The geographical location of customers 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 interests in an associated company and a jointly controlled entity.

	Revenue from external customers		Specified non-current assets	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Hong Kong (place of domicile)	101,584	106,348	1,977,535	1,564,671
Americas				
– U.S.A.	425,278	460,203	2,799	14,515
– Others	35,588	50,641	–	–
Europe	131,894	166,199	–	–
Asia Pacific other than Hong Kong	44,686	17,867	–	152
Others	1,605	11,949	–	–
	639,051	706,859	2,799	14,667
	740,635	813,207	1,980,334	1,579,338

5.3 Major customer

The Group's customer base is diversified and includes three (2008: two) customers of the toy business with each of whom transactions have exceeded 10% of the Group's total revenue. Aggregate revenue from sales to these customers amounted to approximately HK\$324 million (2008: HK\$239 million).

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

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net realised gain/(loss) on financial assets at fair value through profit or loss	6,246	(225,889)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	36,238	(79,917)
	42,484	(305,806)

7 OPERATING PROFIT/(LOSS)

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

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	302,019	382,747
Write-down of inventories	4,862	3,803
Product development costs	13,927	15,798
Royalties paid	94,783	74,204
Direct operating expenses arising from investment properties that generate rental income	3,142	1,944
Direct operating expenses arising from investment properties that did not generate rental income	1,727	1,404
Provision for customer concession	10,824	5,380
Reversal of unutilised provision for customer concession	(1,240)	(1,761)
Provision for customer returns, cooperative advertising and cancellation charges (<i>Note 25</i>)	26,728	28,346
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges (<i>Note 25</i>)	(3,039)	(6,328)
Depreciation and amortisation of fixed assets	7,571	8,212
Employee benefit expense, including directors' remuneration (<i>Note 13</i>)	88,819	107,432
Operating leases expense on office and warehouse facilities	7,764	8,562
Loss on disposal of other property, plant and equipment	3,416	55
Auditors' remuneration	1,780	2,150

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For the year ended 31 December 2009

8 FINANCE COSTS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest on bank loans and overdrafts, wholly repayable within five years	5,174	7,093
Bank charges	4,143	4,257
	9,317	11,350

9 INCOME TAX EXPENSE

9.1 Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	7,546	7,018
(Over)/under provision in prior years	(3,866)	12
	3,680	7,030
Deferred taxation		
Origination and reversal of temporary differences	84,354	29,217
Decrease in tax rate	–	(8,767)
	84,354	20,450
Income tax expense	88,034	27,480

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

	2009	2008
	HK\$'000	HK\$'000
Profit/(loss) before income tax	288,252	(514,579)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	35,639	(121,811)
Tax effect of:		
Non-taxable income	(8,332)	(3,134)
Non-deductible expenses	3,224	32,774
Unrecognised temporary differences	(717)	(541)
Utilisation of previously unrecognised tax losses	(1,940)	(345)
Unrecognised tax losses	18,162	82,899
Reversal of previously recognised tax losses	36,147	46,356
Reversal of previously recognised temporary differences	9,440	–
Decrease in tax rate	–	(8,767)
Prior years (over)/under provision	(3,866)	12
Others	277	37
Income tax expense	88,034	27,480

10 PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) for the year attributable to equity holders of the Company includes a profit of HK\$142,453,000 (2008: HK\$336,834,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 December 2009

11 DIVIDENDS

11.1 Dividends attributable to the year

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2008: HK\$0.10) per share	11,095	22,372
Second interim dividend of HK\$0.05 (2008: HK\$0.02) per share	11,341	4,376
Special interim dividend in specie of HK\$0.37 (2008: HK\$nil) per share	83,921	–
	106,357	26,748

At a meeting held on 21 August 2009, the directors declared a first interim dividend of HK\$0.05 per share, which was paid on 22 September 2009.

At a meeting held on 26 March 2010, the directors declared:

- (i) a second interim dividend of HK\$0.05 per share on the basis of 226,814,751 shares in issue as at the date of the meeting; and
- (ii) a special interim dividend in specie of the shares of Playmates Toys Limited (“PTL Shares”), a subsidiary of the Company and the holding company of the Group’s toy business, in the proportion of one PTL Share for every two shares of Company held by the shareholders of the Company. 113,407,375 PTL Shares will be distributed on the basis of 226,814,751 shares of the Company in issue as at the date of the meeting, and based on the closing price per PTL Share as traded on the Stock Exchange on 25 March 2010 of HK\$0.74, the total amount of the distribution is approximately HK\$83,921,000, which represents a distribution of approximately HK\$0.37 per share.

The second and special interim dividends declared after the balance sheet date have not been recognised as liabilities in the financial statements, but reflected as an appropriation of retained profits for the year ended 31 December 2009.

11.2 Dividends attributable to previous year and paid during the year

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Final dividend of HK\$nil (2008: HK\$0.25) per share	–	55,931
Special dividend in specie of HK\$nil (2008: HK\$0.57) per share	–	128,571
Second interim dividend of HK\$0.02 (2008: HK\$nil) per share	4,376	–
	4,376	184,502

12 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK\$239,408,000 (2008: loss of HK\$454,773,000) and on the weighted average number of ordinary shares of 220,557,000 (2008: 223,239,000) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2009 of HK\$239,408,000 and the weighted average number of ordinary shares of 229,865,000 shares in issue during the year, adjusted for the effects of 9,308,000 dilutive potential shares.

Diluted loss per share for the year ended 31 December 2008 was not presented because the impact of the exercise of the share options was anti-dilutive.

13 EMPLOYEE BENEFIT EXPENSE

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Wages, salaries and other benefits	82,597	99,403
Share-based compensation	573	2,921
Employer's contributions to provident fund	2,365	2,986
Termination benefits	3,284	2,122
	88,819	107,432

Notes to the Financial Statements

For the year ended 31 December 2009

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee	Salary	Share-based	Other	Employer's	Total
	2009	2009	compen- sation	benefits	contribution to provident fund	
	HK\$'000	HK\$'000	2009 HK\$'000	2009 HK\$'000	2009 HK\$'000	2009 HK\$'000
				(Note)		
CHAN Chun Hoo, Thomas	20	120	–	156	7	303
CHENG Bing Kin, Alain	10	1,644	28	365	12	2,059
IP Shu Wing, Charles	120	–	8	25	–	153
LEE Peng Fei, Allen	120	–	8	160	–	288
LO Kai Yiu, Anthony	120	–	8	190	–	318
TO Shu Sing, Sidney	20	2,040	28	69	12	2,169
TSIM Tak Lung	120	–	8	185	–	313
YU Hon To, David	120	–	8	115	–	243
	650	3,804	96	1,265	31	5,846

Name of director	Fee	Salary	Share-based	Other	Employer's	Total
	2008	2008	compen- sation	benefits	contribution to provident fund	
	HK\$'000	HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000
				(Note)		
CHAN Chun Hoo, Thomas	15	120	–	203	7	345
CHENG Bing Kin, Alain	5	1,644	103	398	12	2,162
IP Shu Wing, Charles	110	–	65	25	–	200
LEE Peng Fei, Allen	110	–	65	173	–	348
LO Kai Yiu, Anthony	110	–	65	188	–	363
TO Shu Sing, Sidney	11	2,040	126	62	12	2,251
TSIM Tak Lung	110	–	65	203	–	378
YU Hon To, David	110	–	65	128	–	303
	581	3,804	554	1,380	31	6,350

Note: Other benefits include medical allowance (2008: insurance premium), club membership and housing allowance for executive directors, and committee work and meeting attendance allowance for non-executive directors.

14.2 Five highest paid individuals

Two (2008: two) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (2008: three) highest paid individuals are as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, other allowances and benefits in kind	8,801	9,197
Share-based compensation	330	1,391
Employer's contribution to provident fund	226	324
	9,357	10,912

The emoluments of these three (2008: three) individuals are within the following bands:

	Number of individuals	
	2009	2008
HK\$		
2,000,001 – 2,500,000	2	1
2,500,001 – 3,000,000	–	1
4,500,001 – 5,000,000	1	–
5,500,001 – 6,000,000	–	1
	3	3

The employees, whose emoluments are disclosed above, include senior executives who were also directors of subsidiaries during the year.

Notes to the Financial Statements

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15 FIXED ASSETS – GROUP

	Buildings HK\$'000	Machinery, vehicle, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Prepaid premium on leasehold land held for own use under an operating lease HK\$'000	Total HK\$'000
Cost or valuation							
At 1 January 2008	27,077	31,351	30,733	89,161	1,539,800	50,974	1,679,935
Additions	-	7,545	2,051	9,596	29,987	-	39,583
Revaluation deficit	-	-	-	-	(117,687)	-	(117,687)
Reclassification	9,020	-	-	9,020	(26,000)	16,980	-
Disposals	-	(1,681)	(64)	(1,745)	-	-	(1,745)
At 31 December 2008	36,097	37,215	32,720	106,032	1,426,100	67,954	1,600,086
At 1 January 2009	36,097	37,215	32,720	106,032	1,426,100	67,954	1,600,086
Exchange fluctuation	-	(86)	(162)	(248)	-	-	(248)
Additions	-	5,323	596	5,919	207,062	-	212,981
Revaluation surplus	-	-	-	-	230,488	-	230,488
Reclassification	11,240	-	-	11,240	(32,400)	21,160	-
Disposals	-	(4,744)	(1,993)	(6,737)	(23,000)	-	(29,737)
At 31 December 2009	47,337	37,708	31,161	116,206	1,808,250	89,114	2,013,570
Accumulated amortisation and depreciation							
At 1 January 2008	1,953	21,756	27,303	51,012	-	2,377	53,389
Charge for the year	1,085	4,024	1,793	6,902	-	1,310	8,212
Disposals	-	(667)	(63)	(730)	-	-	(730)
At 31 December 2008	3,038	25,113	29,033	57,184	-	3,687	60,871
At 1 January 2009	3,038	25,113	29,033	57,184	-	3,687	60,871
Exchange fluctuation	-	(64)	(148)	(212)	-	-	(212)
Charge for the year	1,399	2,882	1,614	5,895	-	1,676	7,571
Disposals	-	(1,561)	(1,728)	(3,289)	-	-	(3,289)
At 31 December 2009	4,437	26,370	28,771	59,578	-	5,363	64,941
Net book value							
At 31 December 2009	42,900	11,338	2,390	56,628	1,808,250	83,751	1,948,629
At 31 December 2008	33,059	12,102	3,687	48,848	1,426,100	64,267	1,539,215

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

	2009		2008	
	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:				
Leases of over 50 years	-	361,000	-	315,000
Leases of between 10 and 50 years	126,651	1,251,000	97,326	1,111,100
Outside Hong Kong:				
Freehold	-	196,250	-	-
	126,651	1,808,250	97,326	1,426,100

The investment properties in Hong Kong were revalued as at 31 December 2009 on the market value basis. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar properties in the same location and condition.

The investment properties in United Kingdom were revalued as at 31 December 2009 on the market value basis. The valuations were carried out by an independent firm of surveyors, Adrian Cole & Company Limited, who have among their staff members of the United Kingdom Royal Institute of Chartered Surveyors with recent experience in the location and category of the properties being valued. Fair values were estimated based on recent market transactions for similar in the same location and condition.

At 31 December 2009, certain of the Group's investment properties and land and buildings with a net book value of approximately HK\$1,526 million and HK\$127 million (2008: HK\$1,088 million and HK\$97 million) respectively were pledged to secure certain banking facilities granted to the Group (note 23).

Notes to the Financial Statements

For the year ended 31 December 2009

15 FIXED ASSETS – GROUP (Continued)

Details of the principal properties of the Group as at 31 December 2009 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui, Hong Kong	Commercial	2049	107,400 sq. ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun, Hong Kong	Industrial	2047	317,100 sq. ft.	100%
A number of residential flats situated at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel, Hong Kong	Residential	2895	42,240 sq. ft.	100%
Great Westwood Bucks Hill, Kings Langley Hertfordshire United Kingdom	Residential	Freehold	44 acres	100%
Pophleys Ranage, Buckinghamshire United Kingdom	Residential	Freehold	13 acres	100%

16 GOODWILL – GROUP

HK\$'000

Gross and net carrying amount

At 1 January 2008, 31 December 2008 and 31 December 2009

5,976

17 INTEREST IN SUBSIDIARIES – COMPANY

	2009 HK\$'000	2008 HK\$'000
Amounts due from subsidiaries, net of provisions	1,791,707	1,662,714

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK\$786,662,000 (2008: HK\$821,480,000) which are interest free, are interest bearing at 0.25% (2008: 0.5%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2009 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 of HK\$10 each	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment, Hong Kong
Great Westwood Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
Okura FNB Limited	Hong Kong	1 ordinary share of HK\$1	70%	Restaurant operation, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding, Hong Kong
PIL Investments Limited	The British Virgin Islands	100 ordinary shares of US\$1 each	100%	Investment holding, Hong Kong
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK\$1	54.8%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	54.8%	Toy development, marketing and distribution, U.S.A.

Notes to the Financial Statements

For the year ended 31 December 2009

17 INTEREST IN SUBSIDIARIES – COMPANY (Continued)

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>				
Playmates Toys Limited	Bermuda	495,500,000 ordinary shares of HK\$0.01 each	54.8%	Investment holding, Hong Kong
Pophleys Limited	The British Virgin Islands	1 ordinary share	100%	Property investment, United Kingdom
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	1 ordinary share of HK\$1	70%	Restaurant operation, Hong Kong

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

18 INTEREST IN AN ASSOCIATED COMPANY – GROUP

	2009 HK\$'000	2008 HK\$'000
Share of net assets	25,729	25,613

As at 31 December 2009, the Group held interests in the following associated company:

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

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

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

Summary of financial information of the associated company

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Equity <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Profit <i>HK\$'000</i>
2009					
100 per cent	66,553	14,045	52,508	100,557	236
Group's effective interest	32,611	6,882	25,729	49,273	116
2008					
100 per cent	71,593	19,321	52,272	111,296	1,067
Group's effective interest	35,080	9,467	25,613	54,535	523

19 INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Share of net assets	1,720	5,707
Advances to jointly controlled entity	3,162	2,827
Less: Impairment (<i>Note</i>)	4,882 (1,720)	8,534 –
	3,162	8,534

Note: The Group's interest in the jointly controlled entity was ceased on 1 January 2010. The interest in the jointly controlled entity as at 31 December 2009 has been written down to recoverable amount, which was fully settled in February 2010.

Notes to the Financial Statements

For the year ended 31 December 2009

19 INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP (Continued)

As at 31 December 2009, the Group held interests in the following jointly controlled entity:

Name of company	Place of incorporation	Percentage of interest held
Playmates GP, LLC (“LLC”)	U.S.A.	45%

The jointly controlled entity is held indirectly by the Company and it operates in U.S.A..

LLC is principally engaged in the business of marketing, sales and distribution of a line of boys’ action figure products.

The amounts advanced to the jointly controlled entity is unsecured, has no fixed term of repayment and except for the amount of HK\$837,000 (2008: HK\$487,000) which are interest free, is interest bearing at LIBOR.

Summary of financial information of the jointly controlled entity – Group’s effective interest

	2009	2008
	HK\$’000	HK\$’000
Current assets	23,234	17,381
Current liabilities	(14,539)	(4,654)
Non-current liabilities	(6,975)	(7,020)
Net assets	1,720	5,707
Income	24,808	1,637
Expenses	(28,758)	(2,950)
Loss for the year	(3,950)	(1,313)

20 INVENTORIES – GROUP

As at 31 December 2009, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,486,000 (2008: HK\$8,328,000).

21 TRADE RECEIVABLES – GROUP

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables	84,763	84,700
Less: Allowance for customer concession	(6,799)	(5,800)
	77,964	78,900

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 30 days	75,937	71,659
31 – 60 days	632	1,986
Over 60 days	1,395	5,255
	77,964	78,900

Notes to the Financial Statements

For the year ended 31 December 2009

21 TRADE RECEIVABLES – GROUP (Continued)

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Neither past due nor impaired	74,944	74,085
1 – 90 days past due	3,005	3,453
91 – 180 days past due	7	772
Over 180 days past due	8	590
	77,964	78,900

Receivables that were neither past due nor impaired related to a wide range of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances.

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Listed equity investment in Hong Kong	123,743	61,930
Listed equity investment outside Hong Kong	115,402	89,225
Unlisted managed funds	11,476	33,857
	250,621	185,012

23 *BANK LOANS – GROUP*

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Secured bank loans repayable		
Within one year	335,000	160,000
In the second year	15,000	–
In the third to fifth year	45,000	–
	395,000	160,000
Unsecured bank loans repayable within one year	–	41,721
	395,000	201,721
Current portion included in current liabilities	(335,000)	(201,721)
Non-current portion	60,000	–

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was 1.06% p.a. (2008: 1.41% p.a.).

The fair value of non-current bank loans with a carrying amount of HK\$60,000,000 was HK\$58,443,000 at the balance sheet date. The fair value has been calculated by discounting the expected future cash flow at prevailing interest rate.

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

As at 31 December 2009, the Group has banking facilities amounting to HK\$715 million (2008: HK\$615 million), of which HK\$395 million (2008: HK\$201 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK\$1,526 million and HK\$127 million (2008: HK\$1,088 million and HK\$97 million) respectively of the Group at 31 December 2009.

24 *TRADE PAYABLES – GROUP*

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 30 days	18,334	74,527
31 – 60 days	2,083	20,385
Over 60 days	2,017	2,797
	22,434	97,709

Notes to the Financial Statements

For the year ended 31 December 2009

25 PROVISIONS – GROUP

The summary of changes in provisions during the year is as follows:

	Consumer returns HK\$'000	Cooperative advertising HK\$'000	Cancellation charges HK\$'000	Total HK\$'000
At 1 January 2009	6,376	18,571	4,573	29,520
Exchange fluctuation	(41)	(119)	(29)	(189)
Additional provisions made	5,480	18,408	2,840	26,728
Provisions utilised	(6,043)	(17,999)	(4,074)	(28,116)
Reversal of unutilised provisions	(986)	(2,053)	–	(3,039)
At 31 December 2009	4,786	16,808	3,310	24,904

The Group cannot reliably estimate the amounts that will eventually be settled after more than 12 months from the balance sheet date. Thus, the whole amount was classified as current.

26 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2008: 16.5%) in Hong Kong, and federal and state tax rates of 34% (2008: 34%) and 8.84% (2008: 8.84%) respectively in the U.S..

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

	2009 HK\$'000	2008 HK\$'000
At 1 January	82,583	62,133
Exchange fluctuation	294	–
Charged to income statement	84,354	20,450
At 31 December	167,231	82,583

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

Deferred tax liabilities	Accelerated tax depreciation		Revaluation of properties		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
At 1 January	24,636	21,318	104,477	134,025	129,113	155,343
Charged/(credited) to income statement	431	3,318	37,887	(29,548)	38,318	(26,230)
At 31 December	25,067	24,636	142,364	104,477	167,431	129,113

Deferred tax assets	Tax losses		Employees benefits		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(37,029)	(84,296)	(9,501)	(8,914)	(46,530)	(93,210)
Exchange fluctuation	233	–	61	–	294	–
Charged/(credited) to income statement	36,596	47,267	9,440	(587)	46,036	46,680
At 31 December	(200)	(37,029)	–	(9,501)	(200)	(46,530)

Notes: As at 31 December 2009, deferred tax assets of HK\$nil (2008: HK\$45,881,000) in relation to unused tax losses and temporary differences in respect of employee benefits relating to share-based compensation for U.S. subsidiaries of the Group has been recognised in the balance sheet. The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The management evaluates at each balance sheet date whether the operations of the subsequent fiscal years are expected to produce profitable results or whether losses should be anticipated. The management, having considered the trends of the toys industry, current market condition and global economy, concluded that it is uncertain that future taxable profits will be available against which the unused tax losses and temporary differences in respect of employee benefits can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2009	2008
	HK\$'000	HK\$'000
Deferred tax assets	(678)	(46,202)
Deferred tax liabilities	167,909	128,785
	167,231	82,583

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

The Group has unrecognised deferred tax assets of HK\$181 million (2008: HK\$129 million) in respect of tax losses as it is not probable that future taxable profits against which the losses can be utilised. Of the unrecognised deferred tax assets on unused tax losses, HK\$162 million (2008: HK\$108 million) expires at various dates up to and including 2029 and the remaining balance has no expiry dates under respective current tax legislation.

Notes to the Financial Statements

For the year ended 31 December 2009

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

	2009		2008	
	Weighted average exercise price HK\$	Number of options '000	Weighted average exercise price HK\$	Number of options '000
At the beginning of the year	11.07	6,698	9.91	8,324
Exercised	–	–	3.30	(1,202)
Lapsed	9.36	(960)	10.43	(424)
At the end of the year (Note)	11.33	5,738	11.07	6,698

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

Expiry date	Exercise price HK\$	Number of options		Exercisable and vested number of options	
		2009 '000	2008 '000	2009 '000	2008 '000
Directors					
8 August 2012	1.99	25	25	25	25
6 January 2014	13.60	179	179	179	179
21 September 2015	12.06	712	712	712	712
3 May 2016	9.10	413	413	413	281
		1,329	1,329	1,329	1,197
Other employees					
26 May 2009	5.06	–	25	–	25
21 July 2010	6.26	47	80	47	80
20 May 2011	2.97	18	44	18	44
8 August 2012	1.99	32	135	32	135
9 March 2013	5.50	123	212	123	212
6 January 2014	13.60	676	893	676	893
18 March 2014	12.40	1,100	1,100	1,100	1,100
21 September 2015	12.06	1,459	1,706	1,459	1,706
8 January 2016	10.30	–	50	–	37
3 May 2016	9.10	954	1,124	954	836
		4,409	5,369	4,409	5,068
		5,738	6,698	5,738	6,265

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 2009 had a weighted average remaining contractual life of 5.19 years (2008: 6.08 years).

In total, HK\$196,000 of share-based compensation expense has been included in the consolidated income statement for 2009 (2008: HK\$1,580,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

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.

Subject to the waiver or variation by the Board of PTL 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 2009 had a weighted average remaining contractual life of 8.25 years (2008: 9.26 years).

In total, HK\$377,000 of share-based compensation expense has been included in the consolidated income statement of PTL for 2009 (2008: HK\$1,341,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2009

28 EQUITY – GROUP AND COMPANY

28.1 Share capital

	Authorised Ordinary Shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2008 and 2009	3,000,000,000	300,000

	Issued and Fully Paid Ordinary Shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2008	2,225,232,569	222,523
Exercise of share options	12,017,000	1,202
Capital reorganisation	(2,013,524,613)	(201,353)
Repurchase of shares	(4,924,956)	(492)
At 1 January 2009	218,800,000	21,880
Exercise of warrants 2010 (<i>Note (i)</i>)	8,381,637	838
Repurchase of shares (<i>Note (ii)</i>)	(2,560,000)	(256)
At 31 December 2009	224,621,637	22,462

Notes:

- (i) On 9 April 2009, 43,760,000 warrants were issued pursuant to the board resolution passed at the board meeting of the Company held on 13 March 2009 on the basis of a bonus issue of one warrant for every five shares held by the shareholders. These warrants are exercisable from 15 April 2009 to 14 October 2010 at an initial subscription price of HK\$0.9 per share (subject to adjustment). As at 31 December 2009, 35,378,363 warrants issued on 9 April 2009 remained unexercised.
- (ii) During the year, 2,560,000 shares were repurchased by the Company on the Stock Exchange at prices ranging from HK\$1.80 to HK\$2.37 each as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$'000
June 2009	1,126,000	1.96	1.80	2,087
July 2009	418,000	1.85	1.80	771
September 2009	1,016,000	2.37	2.01	2,201

1,544,000 shares, 596,000 shares and 420,000 shares were redeemed and cancelled on 29 July 2009, 22 September 2009 and 12 October 2009 respectively and accordingly the issued capital of the Company diminished by the nominal value of those shares. The premium paid on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve (note 28.2).

Notes to the Financial Statements

For the year ended 31 December 2009

28 EQUITY – GROUP AND COMPANY (Continued)

28.2 Reserves

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2008	1,067,427	1,116	28,746	150,216	1,247,505
Profit for the year	–	–	–	336,834	336,834
2007 final dividend paid	–	–	–	(55,931)	(55,931)
2007 special dividend in specie	–	–	–	(66,653)	(66,653)
2008 first interim dividend paid	–	–	–	(22,372)	(22,372)
Capital reorganisation	201,353	–	–	–	201,353
Repurchase of shares	(3,289)	492	–	(492)	(3,289)
Share option scheme					
– value of services	–	–	1,580	–	1,580
– shares issued	3,021	–	(259)	–	2,762
– options lapsed	–	–	(1,273)	1,273	–
At 31 December 2008	1,268,512	1,608	28,794	342,875	1,641,789
At 1 January 2009	1,268,512	1,608	28,794	342,875	1,641,789
Profit for the year	–	–	–	142,453	142,453
2008 second interim dividend paid	–	–	–	(4,376)	(4,376)
2009 first interim dividend paid	–	–	–	(11,095)	(11,095)
Issue of shares	6,705	–	–	–	6,705
Share issuing expenses	(387)	–	–	–	(387)
Repurchase of shares	(4,803)	256	–	(256)	(4,803)
Share option scheme					
– value of services	–	–	196	–	196
– options lapsed	–	–	(3,532)	3,532	–
At 31 December 2009	1,270,027	1,864	25,458	473,133	1,770,482

Nature and purpose of reserves

Company

- (i) Share premium and capital redemption reserve

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

- (ii) Share-based compensation reserve

Share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees recognised in accordance with the accounting policy adopted for share-based compensation in note 2.17.3.

Group

- (iii) Reserve on consolidation

Reserve on consolidation arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993 which also created an amount of HK\$1,856,000 included in the share premium of the Group of HK\$1,271,883,000 as at 31 December 2009.

28.3 Capital management

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

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

The net debt to equity ratio defined and calculated by the Group as total bank borrowings less cash and cash equivalents expressed as a percentage of total equity, at 31 December 2009 was 4.5% compared to nil at 31 December 2008.

Notes to the Financial Statements

For the year ended 31 December 2009

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

29.1 Reconciliation of profit/(loss) before income tax to cash generated from operations

	2009 HK\$'000	2008 HK\$'000
Profit/(loss) before income tax	288,252	(514,579)
Bank interest income	(845)	(5,427)
Interest on bank loans and overdrafts, wholly repayable within five years	5,174	7,093
Dividend income from financial assets at fair value through profit or loss	(4,890)	(7,110)
Depreciation and amortisation of fixed assets	7,571	8,212
Share-based compensation	573	2,921
Revaluation (surplus)/deficit on investment properties	(230,488)	117,687
Loss on disposal of other property, plant and equipment	3,416	55
Unrealised (gain)/loss on financial assets at fair value through profit or loss	(36,238)	79,917
Gain on disposal of an investment property	(9,686)	–
Impairment in a jointly controlled entity	1,720	–
Share of profit of an associated company	(116)	(523)
Share of loss of a jointly controlled entity	3,950	1,313
Operating profit/(loss) before working capital changes	28,393	(310,441)
Decrease in inventories	8,812	13,721
Decrease in trade receivables, other receivables, deposits and prepayments	80,501	72,256
Increase/(decrease) in financial assets at fair value through profit or loss	(29,371)	303,014
Decrease in trade payables, other payables and accrued charges and provisions	(76,231)	(60,680)
Cash generated from operations	12,104	17,870

29.2 Analysis of cash and cash equivalents

	2009 HK\$'000	2008 HK\$'000
Cash and bank balances	306,764	303,316

30 **FINANCIAL GUARANTEE CONTRACTS – COMPANY**

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK\$680 million (2008: HK\$520 million), of which HK\$395 million (2008: HK\$160 million) of such banking facilities were utilised as at 31 December 2009. This represents the Company's maximum exposure under the financial guarantee contract. Under the guarantee contract, the Company would be liable to pay the bank if the bank is unable to recover the loan. No provision for the Company's obligation under the financial guarantee contract has been made as it was not probable that the repayment of loan would be in default. According to the terms of the bank loans, the earliest repayment date of the bank loans would be in year 2010.

31 **COMMITMENTS – GROUP**

31.1 **Licensing commitments**

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop and 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:

	2009	2008
	HK\$'000	HK\$'000
Within one year	28,323	16,414
In the second to fifth years	78,275	16,731
After five years	46,500	–
	153,098	33,145

Notes to the Financial Statements

For the year ended 31 December 2009

31 COMMITMENTS – GROUP (Continued)

31.2 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:

31.2.1 As lessee

At 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2009 HK\$'000	2008 HK\$'000
Within one year	4,699	9,761
In the second to fifth years inclusive	6,719	13,748
	11,418	23,509

31.2.2 As lessor

At 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2009 HK\$'000	2008 HK\$'000
Within one year	65,334	58,023
In the second to fifth years inclusive	39,721	50,939
	105,055	108,962

The Company did not have any commitment at 31 December 2009 and 2008.

32 RELATED PARTY TRANSACTIONS

32.1 Apart from those balances with related parties disclosed elsewhere in this financial statements, the Group entered into the following significant transactions with related parties:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Service fee received from a jointly controlled entity, Playmates GP, LLC	10,509	1,014
Interest income received from a jointly controlled entity, Playmates GP, LLC	64	6

32.2 Compensation for key management personnel of the Group

Remuneration for key management personnel, including amounts paid to the Company's executive directors and the highest paid employees as disclosed in note 14, is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Salaries and other short-term employee benefits	4,444	10,979
Employer's contributions to provident fund	31	143
Share-based compensation	56	1,396
	4,531	12,518

Total remuneration is included in "employee benefit expense" (note 13).

33 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 2009.

34 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (Revised 2007) "Presentation of Financial Statements" and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

35 FINANCIAL RISK MANAGEMENT

35.1 Categories of financial instruments

	2009 HK\$'000	2008 HK\$'000
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	77,964	78,900
Other receivables, deposits and prepayments	6,017	32,836
Cash and bank balances	306,764	303,316
Financial assets at fair value through profit or loss	250,621	185,012
	641,366	600,064
Financial liabilities at amortised cost		
Bank loans	395,000	201,721
Trade payables	22,434	97,709
Other payables and accrued charges	87,991	84,331
	505,425	383,761

35.2 Financial risk factors

Exposure to market (including currency, interest rate and price risks), credit and liquidity risks 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 other than the functional currency of the operations of certain subsidiaries to which they relate. The currency giving rise to this risk is United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

(ii) Interest rate risk

The Group's bank loans at floating rates are principally exposed to interest rate risk. The Group maintains revolving credit facility with commercial banks that is used as the primary source of financing for the short term seasonal working capital requirement. As such, risk of changes in interest rate is not significant.

At 31 December 2009, it is estimated that a sensitivity to a reasonable general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year by approximately HK\$1,975,000 (2008: increase/decrease the Group's loss by approximately HK\$1,009,000).

(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 balance sheet as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities and managed funds, the Group diversifies its portfolio.

At 31 December 2009, it is estimated that a sensitivity to a reasonable general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and net assets by approximately HK\$12,531,000 (2008: decrease/increase the Group's loss and increase/decrease net assets by approximately HK\$9,251,000).

35.2.2 *Credit risk*

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

35 FINANCIAL RISK MANAGEMENT (Continued)

35.2 Financial risk factors (Continued)

35.2.2 Credit risk (Continued)

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

Concentrations of credit risk

The Group places its cash investments in highly rated financial institutions which limits the amount of credit exposure to any one financial institution.

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:

Sales	
– the largest customer	19%
– five largest customers in aggregate	52%

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.

Analysed below is the Group's remaining contractual maturities for its non-derivative and derivative financial liabilities as at 31 December 2009. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	2009				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	335,865	15,583	45,784	397,232	395,000
Trade payables	22,434	–	–	22,434	22,434
Other payables and accrued charges	87,991	–	–	87,991	87,991
	446,290	15,583	45,784	507,657	505,425

The Group's financial liabilities at 31 December 2008 were settled within 3 months.

35.3 Fair value estimation

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

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

- Level 1 : quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	2009			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	123,743	–	–	123,743
Listed equity investment outside Hong Kong	115,402	–	–	115,402
Unlisted managed funds	–	11,476	–	11,476
	239,145	11,476	–	250,621

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

36 EVENTS AFTER THE BALANCE SHEET DATE

Disposal of interest in a jointly controlled entity

The Group's interest in the jointly controlled entity was ceased on 1 January 2010. The recoverable amount recorded as at 31 December 2009 has been fully settled in February 2010.