

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 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"). In the opinion of the directors, the ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

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

The financial statements for the year ended 31 December 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 99 have been prepared in accordance with all applicable 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 on the historical cost basis except for derivative financial instrument (including conversion options embedded in convertible bonds) which is stated at fair value. The measurement basis is fully described in the accounting policies below.

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

2.2 Basis of consolidation

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

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

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

2.3 Subsidiaries

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

In the Company's balance sheet, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 *Summary of Significant Accounting Policies (Continued)*

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.

2.5 Property, plant and equipment

All 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 the cost less their residual values over their estimated useful lives, as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 *Summary of Significant Accounting Policies (Continued)*

2.6 *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.

2.7 *Financial assets*

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.

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.

2.8 Impairment of non-financial assets

Property, plant and equipment, 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 as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 *Summary of Significant Accounting Policies (Continued)*

2.8 *Impairment of non-financial assets (Continued)*

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.

2.9 *Financial liabilities*

The Group's financial liabilities include bank loans, convertible bonds, trade payables, other payables and amount due to a fellow subsidiary. 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.

Convertible bonds

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

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

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

2.10 Derivative financial instruments

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

The fair values of the derivative financial instruments are determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The valuation model requires the input of subjective assumptions. Changes in subjective input assumptions can materially affect the fair value estimate.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 *Summary of Significant Accounting Policies (Continued)*

2.11 Provisions (Continued)

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 the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 Summary of Significant Accounting Policies (Continued)

2.15 Advertising and marketing expenses, advanced royalties and product development costs (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 *Summary of Significant Accounting Policies (Continued)*

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2 Summary of Significant Accounting Policies (Continued)

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 divisions, which are organised by services and products. 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, no reportable segment analysis is presented as there is only a single business division focusing on design, development, marketing and distribution of toys and family entertainment activity products.

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;
- (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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3 *Adoption of New or Amended HKFRSs (Continued)*

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. The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group.

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.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3 *Adoption of New or Amended HKFRSs (Continued)*

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.

4 Revenue

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

Revenue recognised during the year ended 31 December 2009 from sales of toys was HK\$636,440,000 (2008: HK\$703,596,000).

5 Segment Information

5.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, and 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 property, plant and equipment, and the location of operation in case of interests in an associated company and a jointly controlled entity.

	Revenue		Specified non-current assets	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Hong Kong (place of domicile)	–	–	27,759	29,591
Americas				
– U.S.A.	423,747	458,776	2,799	14,515
– Others	35,588	50,021	–	–
Europe	130,944	165,603	–	–
Asia Pacific other than Hong Kong	44,556	17,254	–	152
Others	1,605	11,942	–	–
	636,440	703,596	2,799	14,667
	636,440	703,596	30,558	44,258

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

5 Segment Information (Continued)

5.2 Major customer

The Group's customer base is diversified and includes three (2008: three) customers 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\$314 million).

6 Operating Loss

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

	2009 HK\$'000	2008 HK\$'000
Cost of inventories sold	295,238	374,659
Write-down of inventories	4,862	3,803
Product development costs	13,927	15,798
Royalties paid	94,783	74,204
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 (Note 22)	26,728	28,346
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges (Note 22)	(3,039)	(6,328)
Depreciation of property, plant and equipment	3,164	2,765
Employee benefit expense, including directors' remuneration (Note 11)	69,214	87,699
Operating leases expense on office and warehouse facilities	9,492	9,301
Loss on disposal of property, plant and equipment	3,415	61
Auditors' remuneration	1,000	1,600

7 Finance Costs

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest on bank loans and overdrafts, wholly repayable within five years	3,069	1,999
Interest on convertible bond	178	–
Bank charges	3,440	3,059
	6,687	5,058

8 Income Tax Expense

8.1 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, mainly the U.S., 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. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profit. The tax rate for federal tax is 34% (2008: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2008: 8.84%).

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	162	1,446
Over provision in prior years – Hong Kong	(167)	(71)
Over provision in prior years – overseas	(3,836)	(208)
	(3,841)	1,167
Deferred taxation		
Origination and reversal of temporary differences	45,230	45,659
Decrease in tax rate	–	(8)
	45,230	45,651
Income tax expense	41,389	46,818

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

8 Income Tax Expense (Continued)

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

	2009 HK\$'000	2008 HK\$'000
Loss before income tax	45,315	143,698
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	(19,400)	(60,464)
Tax effect of:		
Non-taxable income	(656)	(1,551)
Non-deductible expenses	533	799
Unrecognised temporary differences	1,251	(763)
Unrecognised tax losses	17,786	63,174
Reversal of previously recognised tax losses	36,147	46,356
Reversal of previously recognised temporary differences	9,440	–
Decrease in tax rate	–	(8)
Prior years over provision	(4,003)	(279)
Others	291	(446)
Income tax expense	41,389	46,818

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

The consolidated loss for the year attributable to equity holders of the Company includes a loss of HK\$154,719,000 (2008: HK\$6,803,000) which has been dealt with in the financial statements of the Company.

10 Loss Per Share

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of HK\$86,704,000 (2008: HK\$190,516,000) and on the weighted average number of ordinary shares of 495,044,000 (2008: 495,000,000) in issue during the year.

Diluted loss per share for the year ended 31 December 2009 was not presented because the impacts of the exercise of the share options and conversion of convertible bond were anti-dilutive.

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.

11 Employee Benefit Expense

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Wages, salaries and other benefits	63,725	81,818
Share-based compensation	377	1,341
Employer's contributions to provident fund	1,828	2,418
Termination benefits	3,284	2,122
	69,214	87,699

Total employee benefit expenses include directors' remuneration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

12 Directors' Remuneration and Senior Management's Emoluments

12.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee 2009 HK\$'000	Salary 2009 HK\$'000	Share- based compen- sation 2009 HK\$'000	Other benefits 2009 HK\$'000 (Note(1))	Employer's contribution to provident fund 2009 HK\$'000	Total 2009 HK\$'000
CHAN Chun Hoo, Thomas	10	-	-	-	-	10
CHOW Yu Chun, Alexander	120	-	17	190	-	327
LEE Ching Kwok, Rin	120	-	17	165	-	302
NOVAK, Lou Robert	10	3,953	206	285	114	4,568
TO Shu Sing, Sidney	10	-	21	-	-	31
YANG, Victor	120	-	17	190	-	327
	390	3,953	278	830	114	5,565

Name of director	Fee 2008 HK\$'000	Salary 2008 HK\$'000	Share- based compen- sation 2008 HK\$'000	Other benefits 2008 HK\$'000 (Note(1))	Employer's contribution to provident fund 2008 HK\$'000	Total 2008 HK\$'000
CHAN Chun Hoo, Thomas	10	-	-	-	-	10
CHOW Yu Chun, Alexander	120	-	37	200	-	357
LEE Ching Kwok, Rin	120	-	37	165	-	322
NOVAK, Lou Robert	10	3,949	454	866	108	5,387
SOONG, Ronnie (Note (2))	3	926	58	37	4	1,028
TO Shu Sing, Sidney	6	-	46	-	-	52
YANG, Victor	120	-	37	195	-	352
	389	4,875	669	1,463	112	7,508

Notes:

- (1) Other benefits include insurance premium for executive directors and committee work and meeting attendance allowance for non-executive directors.
- (2) Mr. Soong, Ronnie passed away on 23 April 2008.

12.2 Five highest paid individuals

One (2008: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2008: four) highest paid individuals are as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries, other allowances and benefits in kind	8,591	8,439
Share-based compensation	76	443
Employer's contribution to provident fund	310	322
	8,977	9,204

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13 Property, Plant and Equipment – Group

	Leasehold improvements HK\$'000	Machinery, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Total HK\$'000
Cost				
At 1 January 2008	4,176	9,736	26,818	40,730
Additions	2,790	2,477	2,028	7,295
Disposals	(68)	(67)	(64)	(199)
At 31 December 2008	6,898	12,146	28,782	47,826
At 1 January 2009	6,898	12,146	28,782	47,826
Exchange fluctuation	(24)	(62)	(162)	(248)
Additions	261	675	429	1,365
Disposals	(1,564)	(3,180)	(1,993)	(6,737)
At 31 December 2009	5,571	9,579	27,056	42,206
Accumulated depreciation				
At 1 January 2008	3,416	8,016	23,656	35,088
Charge for the year	603	496	1,666	2,765
Disposals	(14)	(61)	(63)	(138)
At 31 December 2008	4,005	8,451	25,259	37,715
At 1 January 2009	4,005	8,451	25,259	37,715
Exchange fluctuation	(22)	(42)	(148)	(212)
Charge for the year	1,174	483	1,507	3,164
Disposals	(785)	(777)	(1,728)	(3,290)
At 31 December 2009	4,372	8,115	24,890	37,377
Net book value				
At 31 December 2009	1,199	1,464	2,166	4,829
At 31 December 2008	2,893	3,695	3,523	10,111

14 Interest in Subsidiaries – Company

	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	147,380	147,380
Less: Provision for impairment	(146,040)	–
Interest in subsidiaries	1,340	147,380

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>				
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK\$1	100%	Provision of services, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	100%	Toy development, marketing and distribution, U.S.A.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

15 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 HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Revenue HK\$'000	Profit HK\$'000
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

16 Interest in a Jointly Controlled Entity – Group

	2009 HK\$'000	2008 HK\$'000
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.

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 is interest free, is interest bearing at LIBOR.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

16 Interest in a Jointly Controlled Entity – Group (Continued)

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

	2009 HK\$'000	2008 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)

17 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).

18 Trade Receivables – Group

	2009 HK\$'000	2008 HK\$'000
Trade receivables	83,361	83,040
Less: Allowance for customer concession	(6,799)	(5,800)
	76,562	77,240

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. 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	74,761	70,257
31 – 60 days	422	1,738
Over 60 days	1,379	5,245
	76,562	77,240

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	74,761	73,912
1 – 90 days past due	1,801	1,975
91 – 180 days past due	–	771
Over 180 days past due	–	582
	76,562	77,240

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

19 Amounts due from/to Related Companies – Group and Company

The amounts due from/to related companies are unsecured, interest free and have no fixed term of repayment. The carrying amounts of amount due from/to related companies approximate their fair value.

20 Borrowings – Group and Company

20.1 Bank loans

	2009 HK\$'000	2008 HK\$'000
Unsecured bank loan repayable within one year	–	41,721

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was nil (2008: 2.64% p.a.).

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\$35 million (2008: HK\$95 million), of which HK\$nil (2008: HK\$41 million) were utilised.

20.2 Convertible bond

The Company issued a US\$20 million (equivalent to HK\$155 million) 2% per annum convertible bond to its immediate holding company, PIL Toys Limited (“PIL Toys”) on 11 December 2009. The bond matures in five years from the issue date at its nominal value of US\$20 million or can be converted into shares at the holder’s option at any time from the date of issue and up to the maturity date of the bond at the rate of 1 share per US\$0.10.

The carrying values of the liability component and derivative component of the convertible bond are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Liability component – classified as non-current liability		
Net carrying amount on initial recognition	91,403	–
Interest expense	178	–
Net carrying amount at 31 December	91,581	–

The initial carrying amount of the liability component is the residual value after deducting the fair value of the derivative component as at 11 December 2009, and is subsequently carried at amortised cost.

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 3.4% to the liability component.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Derivative component – classified as current liability		
Net carrying amount on initial recognition and at 31 December	63,597	–

The conversion option derivative component is stated at fair value at date of initial recognition and at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

21 Trade Payables – Group

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

	2009 HK\$'000	2008 HK\$'000
0 – 30 days	16,637	73,051
31 – 60 days	1,066	19,994
Over 60 days	1,980	2,797
	19,683	95,842

22 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.

23 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 assets/(liabilities) account during the year is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1 January	45,856	91,507
Exchange fluctuation	(294)	–
Charged to income statement	(45,230)	(45,651)
At 31 December	332	45,856

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	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1 January	(25)	(143)
Credited to income statement	357	118
At 31 December	332	(25)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

23 Deferred Taxation – Group (Continued)

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	36,380	82,736	9,501	8,914	45,881	91,650
Exchange fluctuation (Charged)/credited to income statement	(233)	–	(61)	–	(294)	–
	(36,147)	(46,356)	(9,440)	587	(45,587)	(45,769)
At 31 December	–	36,380	–	9,501	–	45,881

Note: 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	332	45,856
Deferred tax liabilities	–	–
	332	45,856

The Group has unrecognised deferred tax assets of HK\$164 million (2008: HK\$110 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.

24 Equity Settled Share-based Transactions

A Share Option Scheme of the Company (“Scheme”) was adopted on 25 January 2008. A nominal consideration at HK\$10 or US\$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Scheme within ten years after the date of grant. The number and weighted average exercise price of share options 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	0.346	14,677	–	–
Granted	–	–	0.346	16,322
Exercised (<i>Note (a)</i>)	0.290	(500)	–	–
Lapsed	0.343	(4,015)	0.350	(1,645)
At the end of the year (<i>Note (b)</i>)	0.350	10,162	0.346	14,677

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

24 Equity Settled Share-based Transactions (Continued)

Notes:

- (a) These share options were exercised on 30 November 2009 at exercise price of HK\$0.29 per share. The closing price per share of the Company immediately before the dates on which the options were exercised was HK\$0.915.
- (b) 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					
30 March 2018	0.35	6,650	7,025	3,325	2,038
		6,650	7,025	3,325	2,038
Employees					
30 March 2018	0.35	2,562	5,702	1,281	1,425
22 June 2018	0.29	–	1,000	–	250
		2,562	6,702	1,281	1,675
Other participants					
30 March 2018	0.35	950	950	475	238
		950	950	475	238
		10,162	14,677	5,081	3,951

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 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 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.

25 Equity – Group and Company

25.1 Share capital

	Authorised Ordinary Shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2008 and 2009	3,000,000,000	30,000
	Issued and Fully Paid Ordinary Shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2008, 31 December 2008 and 1 January 2009	495,000,000	4,950
Exercise of share options (<i>Note 24</i>)	500,000	5
At 31 December 2009	495,500,000	4,955

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

25 Equity – Group and Company (Continued)

25.2 Reserves

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2008	-	142,523	-	(16,525)	125,998
Loss for the year	-	-	-	(6,803)	(6,803)
Share option scheme - value of services	-	-	1,341	-	1,341
At 31 December 2008	-	142,523	1,341	(23,328)	120,536
At 1 January 2009	-	142,523	1,341	(23,328)	120,536
Loss for the year	-	-	-	(154,719)	(154,719)
Share option scheme - value of services	-	-	377	-	377
- shares issued	204	-	(64)	-	140
- options lapsed	-	-	(297)	297	-
At 31 December 2009	204	142,523	1,357	(177,750)	(33,666)

Nature and purpose of reserves

Company

(i) Contributed surplus

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

(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, employees and other participants recognised in accordance with the accounting policy adopted for share-based compensation in note 2.17.3.

Group

(iii) *Capital reserve*

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

25.3 Capital management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

26 Notes to the Consolidated Cash Flow Statement

26.1 Reconciliation of loss before income tax to cash used in operations

	2009 HK\$'000	2008 HK\$'000
Loss before income tax	(45,315)	(143,698)
Bank interest income	(137)	(844)
Interest on bank loans and overdrafts, wholly repayable with five years	3,069	1,999
Interest on convertible bond	178	–
Depreciation of property, plant and equipment	3,164	2,765
Share-based compensation	377	1,341
Loss on disposal of property, plant and equipment	3,415	61
Impairment of 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 loss before working capital changes	(29,695)	(137,586)
Decrease in inventories	9,288	13,805
Decrease in trade receivables, other receivables, deposits and prepayments	53,334	98,003
Decrease in trade payables, other payables and accrued charges and provisions	(76,518)	(20,277)
Decrease in due from/to related companies	(872)	(7,942)
Cash used in operations	(44,463)	(53,997)

26.2 Analysis of cash and cash equivalents

	2009 HK\$'000	2008 HK\$'000
Cash and bank balances	113,194	48,939

27 *Contingent Liabilities – Company*

The Company has guaranteed the due performance of Playmates Toys Inc. (“PTI”), an indirect wholly-owned subsidiary of the Company, under a licensing agreement to secure its rights to design, develop, market and distribute certain toys.

28 *Financial Guarantee Contracts – Company*

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK\$35 million (2008: HK\$95 million), of which HK\$nil (2008: HK\$41 million) of such banking facilities were utilised as at 31 December 2009.

29 *Commitments – Group*

29.1 *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 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
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

29 Commitments – Group (Continued)

29.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. 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	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,139	11,201
In the second to fifth years inclusive	7,679	16,148
	13,818	27,349

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

30 Related Party Transactions

30.1 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
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	1,938	889
Compliance services fee and licence fee paid to a fellow subsidiary, PIL Finance Limited	867	1,272
Interest expense paid to the immediate holding company, PIL Toys Limited	178	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30 Related Party Transactions (Continued)

30.2 Compensation of 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 12, is as follows:

	2009 HK\$'000	2008 HK\$'000
Director's fee	30	29
Salaries and other short-term employee benefits	4,238	11,571
Employer's contributions to provident fund	114	328
Share-based compensation	227	828
	4,609	12,756

Total remuneration is included in "employee benefit expense" (note 11).

30.3 Trademark

A fellow subsidiary had provided the right for the use of certain trademark by PTI at nil consideration during the year.

31 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.

32 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.

33 Financial Risk Management

33.1 Categories of financial instruments

	2009 HK\$'000	2008 HK\$'000
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	76,562	77,240
Other receivables, deposits and prepayments	4,037	4,023
Cash and bank balances	113,194	48,939
	193,793	130,202
Financial liabilities		
At amortised cost:		
Bank loans	–	41,721
Convertible bond	91,581	–
Trade payables	19,683	95,842
Other payables and accrued charges	59,186	54,929
Amount due to a fellow subsidiary	231	1,103
	170,681	193,595
At fair value:		
Derivative financial instrument	63,597	–
	234,278	193,595

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

33 Financial Risk Management (Continued)

33.2 Financial risk factors

Exposure to market (including currency and interest rate 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:

33.2.1 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 increase/decrease the Group's loss for year by approximately HK\$nil (2008: HK\$209,000).

33.2.2 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.

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	23%
– five largest customers in aggregate	61%

33.2.3 Liquidity risk

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available. The convertible bond which is to be matured on 10 December 2014 have been fully converted into equity shares subsequent to the balance sheet date (note 34.1). Except for the convertible bond, the Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

33 Financial Risk Management (Continued)

33.3 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 from prices); and
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	2009			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities:				
Derivative financial instrument	–	63,597	–	63,597

There is no financial assets and financial liabilities measured at fair value at 31 December 2008.

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

34 Events After the Balance Sheet Date

34.1 Conversion of convertible bond

On 22 January 2010, PIL Toys exercised all the conversion rights attached to the convertible bond and on the same day the Company issued 200,000,000 ordinary shares with an aggregate nominal value of HK\$2,000,000 to PIL Toys.

34.2 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.

34.3 Granting of share options

On 20 January 2010, the Company granted 20,300,000 share options at an exercise price of HK\$0.918 per share to certain eligible participants of the Group under the share option scheme adopted by the Company on 25 January 2008.