



2014

ANNUAL REPORT!



CORPORATE INFORMATION

Directors

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

Company Secretary

NG Ka Yan

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

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

Auditors

Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman
Deacons

Principal Bankers

The Bank of East Asia, Limited
Chong Hing Bank Limited
Hang Seng Bank Limited
UBS AG

Principal Share Registrars

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

Branch Share Registrars

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

Stock Code

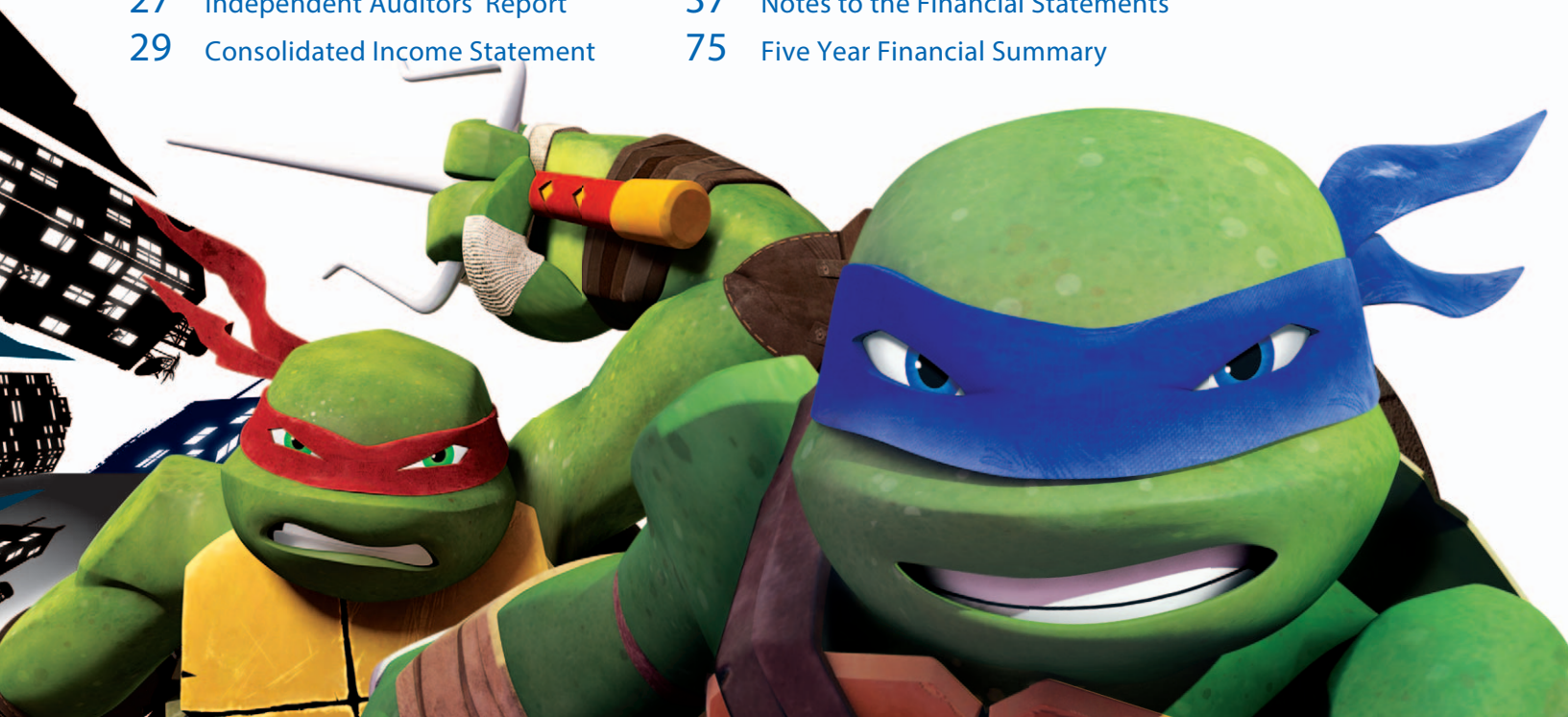
The shares of Playmates Toys Limited are listed
for trading on The Stock Exchange of
Hong Kong Limited
(Stock Code: 869)

Website

www.playmatestoys.com

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STATEMENT FROM THE CHAIRMAN

I have great pleasure to report that we have another successful year in executing our planned programs and achieving the intended results in 2014.

Sales of our leading brand, *Teenage Mutant Ninja Turtles* (“TMNT” or “Turtles” or “Ninja Turtles”), reached new height and continued to maintain its top position in the action figure toy category in the US, driven by continued popularity of the Nickelodeon TV series and the box office success of the Paramount late summer movie. The new *Half-Shell Heroes* product segment launched in the second half of 2014 was very well received by consumers and set to become a significant extension of the brand going forward.

On the other hand, the results we achieved in the non-US markets as a whole were below expectation primarily due to the negative geopolitical developments and weakened economic conditions in Europe. Nevertheless, TMNT remained one of the top action figure brands in all major European markets.

As with any entertainment driven business, we expect a new set of challenges and opportunities in 2015. There will be strong competitive pressure with several major action adventure movies driving competitive brands during the year, whereas the next TMNT movie is planned for summer 2016. On the macro level, the disruptions at the US west coast ports caused by contract negotiations had limited the ability of toy companies, including ourselves, to replenish retail inventories in the early months of the year. Otherwise, the US economic outlook remained positive whereas continued weakness of the European currencies will impact the European markets and may exacerbate the ongoing adverse business conditions in Europe.

We will continue with the proven strategy of focusing our resources and efforts to manage our established brands for long term profitability while actively but selectively identify and acquire new investment opportunities.

I must once again express my gratitude to our many business associates, shareholders and partners for their trust and support and to my fellow board members and colleagues for their commitment and contributions.

CHAN Chun Hoo, Thomas
Chairman of the board
Hong Kong, 20 March 2015

BUSINESS & PROSPECTS REVIEW

Playmates Toys group worldwide turnover for the year ended 31 December 2014 was HK\$2,160 million (2013: HK\$1,659 million), an increase of 30.2% compared to the prior year. The significant increase in revenue was mainly attributed to strong sales of TMNT products throughout the whole year, especially in the US market, driven by strong TV entertainment, a blockbuster movie from Paramount Pictures, and introduction of new product segments. Sales of TMNT products contributed over 95% of our revenue in 2014.

The US continued to be our biggest market in 2014, contributing 72% of revenue (2013: 67%). Europe as a whole contributed 17% (2013: 22%), the rest of the Americas 6% (2013: 5%), 3% Australasia (2013: 4%) and 2% (2013: 1%) came from Asia. During the year, the US market exhibited clear signs of economic growth and strengthening employment, rising home prices and stock market gains boosted confidence of consumers. According to NPD, the leading provider of toys point-of-sale market research data, 2014 US retail dollar sales of toys were up by about 4% year-on-year, the biggest growth since 2001.¹ On the other hand, key markets in Europe were impacted by the political uncertainty in the Crimean Peninsula as well as the significant weakening in major European currencies against the US Dollar starting in the second half of 2014.

¹ Source: The NPD Group/Retail Tracking Services; Dollars, 52 weeks vs. YAG (1/5/2014-1/3/2015 vs. 1/6/2013-1/4/2014)





Gross profit ratio on toy sales was 61.9% (2013: 62.8%). The slight decrease in gross profit ratio was primarily attributable to additional development and tooling expenses related to new product introductions. Recurring operating expenses were 31.9% of sales (2013: 29.9%), reflecting incremental marketing and promotional expenses to launch new product segments.

The group reported an operating profit for 2014 of HK\$648 million, an increase of 18.6% compared to prior year (2013: HK\$547 million). Net profit attributable to shareholders was HK\$491 million (2013: HK\$533 million), reflecting the impact of a normalized tax rate in 2014 (22.8%) as tax credits due to accumulated losses in prior years were substantially utilized during 2013. Basic earnings per share was HK Cents 41.44 (2013: HK Cents 45.73).





The Board declared a second interim dividend distribution of HK Cents 5 per share and a special interim dividend of HK Cents 5 per share. Total dividend distribution for the year was HK Cents 15 per share (2013: HK Cents 15).

Brand Overview

Teenage Mutant Ninja Turtles

In 2014, sales of TMNT products reached new height driven by the continued popularity of the Nickelodeon animated TV series throughout Season 2 and the beginning of Season 3. The late summer blockbuster movie from Paramount Pictures also provided a powerful boost to the brand.



The Half-Shell Heroes segment, developed specifically for younger kids, had a successful launch in Fall 2014. In 2014, TMNT continued to rank among the top selling brands in the action figure category not only in the US, but also in Australia, Canada, France, Germany, Italy, Spain, the UK as well as major Latin American markets.

The 2015 TMNT entertainment program will benefit from the introduction of new themes, new environments and new characters in Season 3 and Season 4 of the Nickelodeon TV show. In addition to refreshing and extending the established core product line in tandem with TV content, we are introducing multiple new product segments. With the new Mutations segment, kids can recreate the Turtles' mutation, by transforming the four heroes from pet turtles to Ninja Turtles, or by mixing and matching parts of different figures to create hundreds of different mutations. We are also launching the T-Machines line this year, featuring an all-new collection of vehicles and playsets, offering a unique play environment for kids. In 2015, we are expanding the Half-Shell Heroes segment by introducing foam-based role-play items as well as toys designed for bath tub play.



DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are shown below:

CHAN Chun Hoo, Thomas

Chairman and Executive Director

Mr. Chan, age 64, joined the Group in 1967. He has been the principal driving force behind the growth, global expansion and diversification of the Group's business activities into multiple segments and markets. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 52, was appointed a director of the Company in March 2010. He is the Group Legal Counsel and also an executive director of Playmates Holdings Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and in England and Wales in 1997. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

CHOW Yu Chun, Alexander

Independent Non-executive Director

Mr. Chow, age 67, joined the Group in 2007. He is a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 37 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is currently an independent non-executive director of Sympony Holdings Limited, Top Form International Limited and China Strategic Holdings Limited. He was a non-executive director of New World China Land Limited and resigned on 28 December 2012, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin

Independent Non-executive Director

Mr. Lee, age 66, joined the Group in 2007. He has over 32 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is previously a solicitor qualified to practise in Hong Kong and England and Wales, he now serves as an adviser to a number of private companies and organizations.

TO Shu Sing, Sidney

Executive Director

Mr. To, age 57, joined the Group in 1986. Prior to joining the Group, he had 9 years working experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He was appointed an executive director in May 2008. Mr. To is also an executive director of Playmates Holdings Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada.

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 69, joined the Group in 2007. Mr. Yang holds a Bachelor of Commerce degree and a Juris Doctorate degree from the University of British Columbia, Canada. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong SAR. He has over 40 years experience in legal practice and is a solicitor of the High Court of Hong Kong, a Barrister and Solicitor in British Columbia, Canada and a Solicitor in England and Wales.

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

On 1 April 2014, Mr. Yang was appointed as an independent non-executive director of One Media Group Limited, a company listed on the main board of The Stock Exchange of Hong Kong. China Agri-Industries Holdings Limited, Singamas Container Holdings Limited, Lei Shing Hong Limited, Media Chinese International Limited and One Media Group Limited, all are third parties independent of the Company and connected persons of the Company.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2014.

Principal Activities and Geographical Analysis of Operation

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

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

Major suppliers and customers

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

Purchases

– the largest supplier	26%
– five largest suppliers in aggregate	86%

Sales

– the largest customer	29%
– five largest customers in aggregate	74%

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the major suppliers or customers noted above.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 29.

The directors have declared a first interim dividend of HK\$0.05 per ordinary share, totalling HK\$60,313,000, which was paid on 7 October 2014.

The directors have declared a second interim dividend of HK\$0.05 per ordinary share and a special interim dividend of HK\$0.05 per ordinary share, totalling HK\$120,624,000, which is calculated on the basis of 1,206,249,500 ordinary shares in issue at the date of board meeting held on 20 March 2015.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35. Movements in the reserves of the Company during the year are set out in note 25.2 to the financial statements.

Distributable reserves of the Company at 31 December 2014, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$208,594,000 (2013: HK\$96,605,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

As at 31 December 2014, the Group has no banking facilities (2013: HK\$45 million). As at 31 December 2013, none of such banking facilities were utilised.

Liquidity and financial resources

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2014, trade receivables were HK\$529,727,000 (2013: HK\$411,831,000) and inventories were at a seasonal low level of HK\$44,165,000 or 2.0% of turnover (2013: HK\$36,959,000 or 2.2% of turnover).

The current ratio, calculated as the ratio of current assets to current liabilities, was both 3.4 at 31 December 2014 and at 31 December 2013.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2014, the Group's cash and bank balances were HK\$785,784,000 (2013: HK\$519,563,000), of which HK\$735,687,000 (2013: HK\$476,126,000) was denominated in United States dollar and the remaining balance was denominated in Hong Kong dollar.

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

Employees

As at 31 December 2014, the Group had a total of 62 employees in Hong Kong and the United States of America. This compares to 55 employees as at 31 December 2013.

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

Donations

Charitable donations made by the Group during the year amounted to HK\$3,619,000 which includes committed donations as part of the promotional program for a doll product. Charitable donations made in 2013 was HK\$841,000.

REPORT OF THE DIRECTORS

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Investment in an Associated Company

Details of the investment are set out in note 16 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 25.1 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 75.

Purchase, Sale or Redemption of Shares

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

Directors

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

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

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Lee Ching Kwok, Rin and Mr. To Shu Sing, Sidney, shall retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

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

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and
		(ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or
		(ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or
		(iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 20 March 2015	:	27,650,500 ordinary shares, representing 2.29% of the issued capital.

REPORT OF THE DIRECTORS

Share Options (Continued)

Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK\$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: <ul style="list-style-type: none"> (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Scheme :	:	Remains in force until 31 January 2018.

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

Participant	Date of grant	Exercise price HK\$	Number of share options			
			Balance at 1 January 2014	Exercised during the year (Notes (1)&(2))	Lapsed during the year	Balance at 31 December 2014
CHENG Bing Kin, Alain <i>Director</i>	20 January 2010	0.828	487,000	487,000	–	–
	18 April 2011	0.315	250,000	250,000	–	–
	13 April 2012	0.415	500,000	250,000	–	250,000
	15 May 2013	0.930	1,800,000	900,000	–	900,000
CHOW Yu Chun, Alexander <i>Director</i>	13 April 2012	0.415	250,000	–	–	250,000
	15 May 2013	0.930	525,000	–	–	525,000
LEE Ching Kwok, Rin <i>Director</i>	31 March 2008	0.316	443,000	443,000	–	–
	20 January 2010	0.828	222,000	222,000	–	–
	13 April 2012	0.415	500,000	250,000	–	250,000
	15 May 2013	0.930	700,000	175,000	–	525,000
TO Shu Sing, Sidney <i>Director</i>	20 January 2010	0.828	1,671,000	1,671,000	–	–
	18 April 2011	0.315	300,000	300,000	–	–
	13 April 2012	0.415	600,000	300,000	–	300,000
	15 May 2013	0.930	1,800,000	829,000	–	971,000
YANG, Victor <i>Director</i>	31 March 2008	0.316	443,000	443,000	–	–
	20 January 2010	0.828	222,000	222,000	–	–
	13 April 2012	0.415	500,000	375,000	–	125,000
	15 May 2013	0.930	700,000	175,000	–	525,000
<i>Continuous contract employees, excluding Directors</i>	31 March 2008	0.316	859,000	832,000	–	27,000
	20 January 2010	0.828	3,896,000	2,798,000	–	1,098,000
	18 April 2011	0.315	3,223,500	2,641,500	–	582,000
	24 May 2011	0.428	100,000	100,000	–	–
	13 April 2012	0.415	6,235,000	2,697,000	–	3,538,000
15 May 2013	0.930	11,900,000	3,347,500	–	8,552,500	
<i>Other participants</i>	20 January 2010	0.828	665,000	222,000	–	443,000
	30 March 2010	0.673	3,326,000	2,216,000	–	1,110,000
	18 April 2011	0.315	2,496,000	1,546,000	–	950,000
	13 April 2012	0.415	4,094,000	1,357,000	–	2,737,000
	15 May 2013	0.930	5,441,000	1,449,000	–	3,992,000

REPORT OF THE DIRECTORS

Share Options (Continued)

Notes:

- (1) The weighted average closing prices of the ordinary shares of the Company immediately before the dates on which the share options were exercised by continuous contract employees (excluding directors) and other participants during the year were HK\$3.92 and HK\$3.34 respectively.
- (2) The weighted average closing prices of the ordinary shares of the Company immediately before the dates on which the share options were exercised by the directors, namely Mr. Cheng Bing Kin, Alain, Mr. Lee Ching Kwok, Rin, Mr. To Shu Sing, Sidney and Mr. Yang, Victor during the year were HK\$3.37, HK\$3.59, HK\$2.75 and HK\$2.90 respectively.

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

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

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

As at 31 December 2014, the interests of each director of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate (<i>Note (a)</i>)	596,000,000 ordinary shares	49.41%
CHENG Bing Kin, Alain	Personal	1,887,000 ordinary shares	0.16%
CHOW Yu Chun, Alexander	Personal	2,038,000 ordinary shares	0.17%
LEE Ching Kwok, Rin	Personal	1,090,000 ordinary shares	0.09%
TO Shu Sing, Sidney	Personal	8,600,000 ordinary shares	0.71%
YANG, Victor	Personal	1,215,000 ordinary shares	0.10%

Long positions in underlying shares and debentures of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
CHENG Bing Kin, Alain	Personal	1,150,000 share options	1,150,000 shares	0.10%
CHOW Yu Chun, Alexander	Personal	775,000 share options	775,000 shares	0.06%
LEE Ching Kwok, Rin	Personal	775,000 share options	775,000 shares	0.06%
TO Shu Sing, Sidney	Personal	1,271,000 share options	1,271,000 shares	0.11%
YANG, Victor	Personal	650,000 share options	650,000 shares	0.05%

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

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	12,000,000 ordinary shares	5.26%
	Corporate (Note (b))	92,000,000 ordinary shares	40.31%
	Associate (Note (c))	10,600,000 ordinary shares	4.64%
CHENG Bing Kin, Alain	Personal	228,000 ordinary shares	0.10%
TO Shu Sing, Sidney	Personal	2,000,000 ordinary shares	0.88%

REPORT OF THE DIRECTORS

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

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
CHENG Bing Kin, Alain	Personal	100,000 share options	100,000 shares	0.04%
TO Shu Sing, Sidney	Personal	187,500 share options	187,500 shares	0.08%

Notes:

- (a) Mr. Chan Chun Hoo, Thomas ("Mr. Chan") is the beneficial owner of all of the issued share capital of TGC Assets Limited ("TGC"), since TGC directly owns approximately 40.31% of the shareholding of PHL and is deemed to be interested in the 596,000,000 shares of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 596,000,000 shares of the Company in aggregate which PHL is interested in.
- (b) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 92,000,000 shares of PHL in aggregate which TGC is interested in.
- (c) 10,600,000 shares of PHL were owned by Mr. Chan's wife and Mr. Chan is therefore deemed to be interested in those shares.

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares, underlying shares or debentures the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2014.

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

As at 31 December 2014, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2014, persons (other than the directors of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
TGC	Corporate (<i>Note (i)</i>)	596,000,000 ordinary shares	49.41%
PHL	Corporate (<i>Note (ii)</i>)	596,000,000 ordinary shares	49.41%
PIL Management Limited	Corporate (<i>Note (ii)</i>)	596,000,000 ordinary shares	49.41%
PIL Investments Limited	Corporate (<i>Note (ii)</i>)	596,000,000 ordinary shares	49.41%
PIL Toys Limited	Corporate	596,000,000 ordinary shares	49.41%
The Capital Group Companies, Inc.	Corporate (<i>Note (iii)</i>)	84,432,000 ordinary shares	7.00%
Capital Research and Management Company	Corporate	84,432,000 ordinary shares	7.00%

Notes:

- (i) TGC directly owns approximately 40.31% of the shareholding of PHL and is therefore deemed to be interested in the 596,000,000 shares of the Company in aggregate which PHL is interested in.
- (ii) PIL Management Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of PIL Management Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, PIL Management Limited and PIL Investments Limited are therefore deemed to be interested in the 596,000,000 shares of the Company in aggregate which PIL Toys Limited is beneficial interested in.
- (iii) Capital Research and Management Company is a wholly-owned subsidiary of The Capital Group Companies, Inc. The Capital Group Companies, Inc. is therefore deemed to be interested in the 84,432,000 shares of the Company in aggregate which Capital Research and Management Company is interested in.

REPORT OF THE DIRECTORS

Pre-emptive Rights

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

Audit Committee

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

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

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

Sufficiency of Public Float

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

Auditors

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

Continuing Connected Transaction

On 3 January 2014, Playmates International Company Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Prestige Property Management Limited, an indirect wholly-owned subsidiary of PHL, as agent for landlord, Belmont Limited entered into a tenancy agreement (“Tenancy Agreement”) in respect of the premises known as 11th, 22nd and 23rd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 January 2014 to 31 December 2016 at the rental of HK\$436,600 per month (exclusive of rates, government rent, utilities and other outgoings) and management charges of HK\$65,490 per month (the management charges are subject to review by the landlord). PHL indirectly owns and controls approximately 49.41% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 3 January 2014, was exempt from independent shareholders’ approval requirement pursuant to Chapter 14A of the Listing Rules.

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

The auditors of the Company were engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed by the Group above in accordance with Listing Rule 14A.56. A copy of the auditor’s letter has been provided by the Company to Hong Kong Stock Exchange.

Save and except the transactions disclosed above and in note 28.1 to the financial statements, there is no contract of significance between the Group and our controlling shareholder or any of its subsidiaries.

On behalf of the board
TO Shu Sing, Sidney
Director

Hong Kong, 20 March 2015

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the Corporate Governance Code ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2014, except in respect of one code provision providing for the roles of the chairman and the chief executive officer to be performed by different individuals. The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Board of Directors

Composition and Responsibilities

The board of directors of the Company comprises:

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

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

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

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

In respect of the segregation of the roles of the chairman and chief executive officer, the Group's practice is that the Chairman also acts as chief executive officer. This allows him to focus on Group strategy and at the same time ensure that all key issues are considered by the board in a timely manner. The executive directors supported by the senior executives are delegated with the responsibilities of running the business operations and making operational and business decisions of the Group. The board considers that this structure is suitable and effective in facilitating the operations and business development of the Company and maintaining the checks and balances between the board and the management of the business of the Group. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

Appointment and Re-election

Each of the directors of the Company has entered into a service contract with the Company for a term of three years. However, such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Bye-laws of the Company. In accordance with the relevant provisions in the Bye-laws of the Company, the appointment of directors is considered by the board and newly appointed directors are required to stand for election by shareholders at the first annual general meeting following their appointment. Each director, including the chairman of the board and/or the managing director, shall be subject to retirement by rotation at least once every three years.

Support and Professional Development of Directors

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

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

There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance cover in respect of any potential legal actions that might be taken against its directors.

Board Meetings and Proceedings

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

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

CORPORATE GOVERNANCE REPORT

Board of Directors (Continued)

Board Meetings and Proceedings (Continued)

The board held four meetings in 2014. Details of directors' attendance at the board meetings, other committee meetings and the annual general meeting during the year are set out in the following table.

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

Board Committees

As an integral part of good corporate governance, the board has established the Audit Committee, Compensation Committee and Nomination Committee to oversee particular aspects of the Company's affairs. Each of these Committees comprises a majority of independent non-executive directors with defined written terms of reference.

Audit Committee

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

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

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

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 2014.

At the meeting held on 20 March 2015, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2014 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

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

YANG, Victor – *Committee Chairman*

CHOW Yu Chun, Alexander

LEE Ching Kwok, Rin

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

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

Remuneration Policy for Non-executive Director and Executive Directors

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

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 13.1 to the financial statements.

CORPORATE GOVERNANCE REPORT

Board Committees (Continued)

Nomination Committee

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

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

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

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

Corporate Governance Functions

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

- (i) develop and review the Company's policies and practices on corporate governance;
- (ii) review and monitor the training and continuous professional development of directors and senior management;
- (iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) develop, review and monitor the code of conduct applicable to employees and directors; and
- (v) review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2014. The Model Code also applies to other specified senior management of the Group.

Directors' Interest

Details of directors' interests in the securities of the Company are set out in pages 14 to 16 of this annual report.

Internal Controls

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

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

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

Control Effectiveness

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

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Auditors' Remuneration

For the year ended 31 December 2014, the auditors of the Company only provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK\$1,100,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

CORPORATE GOVERNANCE REPORT

Directors' and Independent Auditors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2014. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 27 to 28 of this annual report.

Communications With Shareholders

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

Shareholders' Rights

Procedures for shareholders to convene a special general meeting ("SGM") and putting forward proposals at general meetings

Pursuant to the Bye-laws of the Company, shareholders holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition to the board or the secretary of the Company, to require a special general meeting to be called by the board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Bermuda Companies Act 1981 ("Act").

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

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

Changes In Constitutional Documents

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

INDEPENDENT AUDITORS' REPORT



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

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 74, which comprise the consolidated and the Company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT



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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

20 March 2015

Chan Tze Kit

Practising Certificate No.: P05707

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 US\$'000 (Note 29)	2014 HK\$'000	2013 HK\$'000
Revenue	4	278,736	2,160,206	1,658,527
Cost of sales		(106,305)	(823,862)	(616,793)
Gross profit		172,431	1,336,344	1,041,734
Marketing expenses		(51,449)	(398,729)	(288,976)
Selling and distribution expenses		(16,866)	(130,709)	(82,299)
Administration expenses		(20,473)	(158,668)	(123,917)
Operating profit	6	83,643	648,238	546,542
Other income		354	2,742	1,555
Finance costs	7	(1,211)	(9,387)	(7,534)
Share of loss of an associated company		(733)	(5,681)	(906)
Profit before income tax		82,053	635,912	539,657
Income tax expense	8	(18,741)	(145,240)	(6,283)
Profit for the year attributable to equity holders of the Company	9	63,312	490,672	533,374
Earnings per share	11	US cents	HK cents	HK cents
Basic		5.35	41.44	45.73
Diluted		5.26	40.75	44.66

The notes on pages 37 to 74 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 <i>US\$'000</i> <i>(Note 29)</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit for the year	63,312	490,672	533,374
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	164
Reclassified to profit or loss on dissolution of foreign subsidiaries	(68)	(531)	–
Total comprehensive income for the year attributable to equity holders of the Company	63,244	490,141	533,538

The notes on pages 37 to 74 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	2014 US\$'000 (Note 29)	2014 HK\$'000	2013 HK\$'000
Non-current assets				
Property, plant and equipment	14	560	4,339	1,172
Interest in an associated company	16	660	5,114	10,795
Deferred tax assets	23	6,258	48,502	44,071
		7,478	57,955	56,038
Current assets				
Inventories	17	5,699	44,165	36,959
Trade receivables	18	68,352	529,727	411,831
Deposits paid, other receivables and prepayments		2,525	19,567	20,985
Cash and bank balances	26.2	101,391	785,784	519,563
		177,967	1,379,243	989,338
Current liabilities				
Trade payables	19	10,030	77,734	58,963
Deposits received, other payables and accrued charges	21	24,932	193,223	197,142
Provisions	22	5,912	45,819	35,329
Taxation payable		10,847	84,061	2,199
		51,721	400,837	293,633
Net current assets		126,246	978,406	695,705
Net assets		133,724	1,036,361	751,743

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	2014 US\$'000 (Note 29)	2014 HK\$'000	2013 HK\$'000
Equity				
Share capital	25.1	1,556	12,062	11,798
Reserves		116,604	903,675	680,673
Declared dividends	10	15,564	120,624	59,272
Total equity		133,724	1,036,361	751,743

On behalf of the board

CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
Director

The notes on pages 37 to 74 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2014

	Note	2014 US\$'000 (Note 29)	2014 HK\$'000	2013 HK\$'000
Non-current assets				
Interest in subsidiaries	15	19,017	147,380	147,380
Current assets				
Other receivables and prepayments		36	277	444
Amounts due from subsidiaries	20	563	4,361	2,450
Cash and bank balances		71,881	557,081	310,927
		72,480	561,719	313,821
Current liabilities				
Other payables and accrued charges	21	199	1,543	2,034
Amount due to subsidiaries	20	60,264	467,044	3,187
		60,463	468,587	5,221
Net current assets		12,017	93,132	308,600
Net assets		31,034	240,512	455,980
Equity				
Share capital	25.1	1,556	12,062	11,798
Reserves	25.2	13,914	107,826	384,910
Declared dividends	10	15,564	120,624	59,272
Total equity		31,034	240,512	455,980

On behalf of the board

CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
Director

The notes on pages 37 to 74 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014 US\$'000 (Note 29)	2014 HK\$'000	2013 HK\$'000
Cash flows from operating activities				
Cash generated from operations	26.1	70,551	546,776	389,801
Overseas tax paid		(7,135)	(55,299)	(48,301)
Hong Kong profits tax refunded		–	–	183
Hong Kong profits tax paid		(53)	(410)	(118)
Net cash generated from operating activities		63,363	491,067	341,565
Cash flows from investing activities				
Purchases of property, plant and equipment		(531)	(4,115)	(621)
Bank interest received		354	2,742	1,555
Net cash (used in)/generated from investing activities		(177)	(1,373)	934
Cash flows from financing activities				
Issue of shares		2,166	16,789	15,612
Dividends paid		(31,001)	(240,262)	–
Net cash (used in)/generated from financing activities		(28,835)	(223,473)	15,612
Net increase in cash and cash equivalents		34,351	266,221	358,111
Cash and cash equivalents at 1 January		67,040	519,563	161,452
Cash and cash equivalents at 31 December	26.2	101,391	785,784	519,563

The notes on pages 37 to 74 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 25.2)	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2013	11,533	300,679	167,613	(181)	20,336	(308,622)	191,358
Profit for the year	-	-	-	-	-	533,374	533,374
Other comprehensive income:							
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	-	164	-	-	164
Total comprehensive income for the year	-	-	-	164	-	533,374	533,538
Share option scheme							
- value of services	-	-	-	-	11,235	-	11,235
- shares issued	265	27,831	-	-	(12,484)	-	15,612
- share options lapsed	-	-	-	-	(20)	20	-
Transactions with owners	265	27,831	-	-	(1,269)	20	26,847
At 31 December 2013	11,798	328,510	167,613	(17)	19,067	224,772	751,743

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 25.2)	Exchange reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	11,798	328,510	167,613	(17)	19,067	224,772	751,743
Profit for the year	-	-	-	-	-	490,672	490,672
Other comprehensive income:							
Reclassified to profit or loss on dissolution of foreign subsidiaries	-	-	-	(531)	-	-	(531)
Total comprehensive income for the year	-	-	-	(531)	-	490,672	490,141
Share option scheme							
- value of services	-	-	-	-	5,850	-	5,850
- shares issued	264	29,437	-	-	(12,912)	-	16,789
Share premium reduction (Note 25.3)	-	(350,096)	350,096	-	-	-	-
2013 first interim dividend paid	-	-	(59,983)	-	-	-	(59,983)
2013 special dividend paid	-	-	(119,966)	-	-	-	(119,966)
2014 first interim dividend paid	-	-	(60,313)	-	-	-	(60,313)
Tax benefits arising from share option scheme in overseas tax jurisdiction	-	-	12,100	-	-	-	12,100
Transactions with owners	264	(320,659)	121,934	-	(7,062)	-	(205,523)
At 31 December 2014	12,062	7,851	289,547	(548)	12,005	715,444	1,036,361

The notes on pages 37 to 74 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1 General Information

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements.

The financial statements for the year ended 31 December 2014 were approved by the board of directors on 20 March 2015.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements on pages 29 to 74 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 accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

The financial statements have been prepared under the historical cost basis. The measurement basis is fully described in the accounting policies below.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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.

2.3 Subsidiaries

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

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

2.4 Associated companies

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

Leasehold improvements	3-10 years
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 Summary of Significant Accounting Policies (Continued)

2.6 Inventories

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

The Group reviews the condition of inventories at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. At the balance sheet date, the carrying amount of inventories after provision for impairment amounted to HK\$44,165,000 (2013: HK\$36,959,000).

2.7 Financial assets

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

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

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

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

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

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

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

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

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

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

2.8 Impairment of non-financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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, if no impairment loss had been recognised.

2.9 Financial liabilities

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

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

2.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. All provisions are current in nature and therefore the effect of the time value of money is not material.

(i) Consumer returns

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

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

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

(ii) Cooperative advertising

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

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

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

(iii) Cancellation charges

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

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

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

All provisions are established for specific exposures. At the balance sheet date, the carrying amount of provisions amounted to HK\$45,819,000 (2013: HK\$35,329,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions (Continued)

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

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

2.11 Share capital

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

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

2.12 Revenue recognition

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

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

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

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

2.13.1 Advertising and marketing expenses are expensed as incurred.

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

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

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

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

2.14 Operating leases

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

2.15 Employee benefits

2.15.1 Employee leave entitlements

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

2.15.2 Pension obligations

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 Summary of Significant Accounting Policies (Continued)

2.15 Employee benefits (Continued)

2.15.3 Share-based compensation

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

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

2.16 Borrowing costs

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

2.17 Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associated company, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

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

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

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

2.18 Current taxation

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

Current tax assets and current tax liabilities are presented in net if, and only if,

- (i) the Group has the legally enforceable right to set off the recognised amounts; and
- (ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 Summary of Significant Accounting Policies (Continued)

2.19 Foreign currency translation

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

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

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

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

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

2.20 Cash and cash equivalents

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

2.21 Segment reporting

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

2.22 Related parties

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3 Adoption of New or Amended HKFRSs

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) 21	Levies

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

The following new standards, amendments and interpretations which have been issued by the HKICPA as of 31 December 2014 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2014:

Effective for the annual period beginning on 1 January 2017 or after

HKFRS 15	Revenue from contracts with customers
HKFRS 9	Financial instruments

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

4 Revenue

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

Revenue recognised during the year ended 31 December 2014 from sales of toys was HK\$2,160,206,000 (2013: HK\$1,658,527,000).

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 interest in an associated company ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of property, plant and equipment, and the location of operation in case of interest in an associated company.

	Revenue		Specified non-current assets	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong (place of domicile)	2,261	1,064	6,808	11,332
Americas				
– U.S.A.	1,563,541	1,114,966	2,645	635
– Others	126,627	84,505	–	–
Europe	366,586	356,293	–	–
Asia Pacific other than				
– Hong Kong	90,743	95,864	–	–
– Others	10,448	5,835	–	–
	2,157,945	1,657,463	2,645	635
	2,160,206	1,658,527	9,453	11,967

5.2 Major customers

The Group's customer base is diversified and includes four (2013: four) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK\$634.3 million, HK\$415.4 million, HK\$265.3 million and HK\$227.5 million (2013: HK\$466.0 million, HK\$295.7 million, HK\$216.1 million and HK\$215.8 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6 Operating Profit

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

	2014 HK\$'000	2013 HK\$'000
Cost of inventories sold	763,993	589,930
Write-down of inventories	720	21
Product development costs	7,062	8,005
Royalties paid	287,295	212,077
Provision for consumer returns, cooperative advertising and cancellation charges (Note 22)	90,737	56,656
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges (Note 22)	(296)	(451)
Depreciation of property, plant and equipment	948	723
Directors' and staff remunerations (Note 12)	105,445	84,115
Allowance for impairment of trade receivables	2,004	–
Operating leases expense on office and warehouse facilities	7,545	3,725
Net foreign exchange gain	(140)	(136)
Auditors' remuneration	1,100	1,000

7 Finance Costs

	2014 HK\$'000	2013 HK\$'000
Bank charges	9,387	7,534

8 Income Tax Expense

- 8.1 Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year. Overseas, mainly the U.S., taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profits. The tax rate for federal tax is 35% (2013: 35%) whilst the tax rate for state tax of California, the principal place of business of the Company's major U.S. subsidiary is 8.84% (2013: 8.84%).

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	81,085	509
Overseas taxation	53,894	49,709
Under provision in prior years – overseas	2,592	–
	137,571	50,218
Deferred taxation		
Origination and reversal of temporary differences	7,669	(43,935)
Income tax expense	145,240	6,283

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit before income tax	635,912	539,657
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	140,542	222,489
Tax effect of:		
Non-taxable income	(316)	(242)
Non-deductible expenses	2,424	485
Unrecognised tax losses	118	1,198
Utilisation of previously unrecognised tax losses	(120)	(180,708)
Recognition of previously unrecognised temporary differences	–	(36,939)
Under provision in prior years	2,592	–
Income tax expense	145,240	6,283

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For the year ended 31 December 2014

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

The consolidated profit for the year attributable to equity holders of the Company includes a profit of HK\$2,155,000 (2013: HK\$260,050,000) which has been dealt with in the financial statements of the Company.

10 Dividends

10.1 Dividends attributable to the year

	2014 HK\$'000	2013 HK\$'000
First interim dividend of HK\$0.05 (2013: HK\$0.05) per share	60,313	59,272
Second interim dividend of HK\$0.05 (2013: HK\$nil) per share	60,312	–
Special interim dividend of HK\$0.05 (2013: HK\$nil) per share	60,312	–
Special dividend of HK\$nil (2013: HK\$0.10) per share	–	118,543
	180,937	177,815

At a meeting held on 29 August 2014, the board of directors declared a first interim dividend of HK\$0.05 per share, which was paid on 7 October 2014.

At a meeting held on 20 March 2015, the board of directors declared a second interim dividend of HK\$0.05 per share and a special interim dividend of HK\$0.05 per share to be paid on 5 May 2015 to shareholders whose names appear on the Company's register of members on 20 April 2015. This second interim dividend and special interim dividend declared after the balance sheet date have not been recognised as liabilities in the financial statements for the year ended 31 December 2014.

10.2 Dividends attributable to the previous financial year and paid during the year

	2014 HK\$'000	2013 HK\$'000
Dividends in respect of the previous financial year and paid during the year:		
First interim dividend of HK\$0.05 (2013: HK\$nil) per share	59,983	–
Special dividend of HK\$0.10 (2013: HK\$nil) per share (Note)	119,966	–
	179,949	–

Note: A special dividend of HK\$0.10 per share was approved at the Annual General Meeting on 19 May 2014 and was paid during the year.

11 Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$490,672,000 (2013: HK\$533,374,000) and the weighted average number of ordinary shares of 1,184,037,000 shares (2013: 1,166,329,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$490,672,000 (2013: HK\$533,374,000) and the weighted average number of ordinary shares of 1,204,219,000 shares (2013: 1,194,206,000 shares) in issue during the year, adjusted for the effects of 20,182,000 (2013: 27,877,000) dilutive potential shares on exercise of share options.

12 Directors' and Staff Remunerations

	2014	2013
	HK\$'000	HK\$'000
Wages, salaries and other benefits	99,055	74,198
Share-based compensation	4,655	8,433
Employer's contributions to provident fund	1,735	1,484
	105,445	84,115

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For the year ended 31 December 2014

13 Directors' Remuneration and Senior Management's Emoluments

13.1 Directors' emoluments

The emoluments of each director are set out below:

Name of director	Fee	Salary	Bonus	Share-based compensation	Other benefits	Employer's contribution to provident fund	Total
	2014 HK\$'000	2014 HK\$'000	2014 HK\$'000	2014 HK\$'000	2014 HK\$'000 (Note)	2014 HK\$'000	2014 HK\$'000
CHAN Chun Hoo, Thomas	10	3,747	16,200	-	59	-	20,016
CHENG Bing Kin, Alain	10	1,109	490	391	7	-	2,007
CHOW Yu Chun, Alexander	226	-	-	154	112	-	492
LEE Ching Kwok, Rin	226	-	-	154	99	-	479
TO Shu Sing, Sidney	10	1,141	550	400	14	-	2,115
YANG, Victor	226	-	-	154	92	-	472
	708	5,997	17,240	1,253	383	-	25,581

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

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2014 and 2013.

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

13.2 Five highest paid individuals

One (2013: one) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other four (2013: four) highest paid individuals are as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Salaries, other allowances and benefits in kind	7,360	7,116
Bonuses	7,688	3,770
Share-based compensation	910	1,725
Employer's contributions to provident fund	290	273
	16,248	12,884

The emoluments of these four (2013: four) individuals are within the following bands:

	Number of individuals	
	2014	2013
HK\$		
2,500,001 – 3,000,000	2	2
3,000,001 – 3,500,000	–	1
4,000,001 – 4,500,000	–	1
5,000,001 – 5,500,000	2	–
	4	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14 Property, Plant and Equipment – Group

	Leasehold improvements HK\$'000	Vehicle, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Total HK\$'000
Cost				
At 1 January 2014	752	1,981	24,800	27,533
Additions	445	1,721	1,949	4,115
At 31 December 2014	1,197	3,702	26,749	31,648
Accumulated depreciation				
At 1 January 2014	453	1,500	24,408	26,361
Charge for the year	320	305	323	948
At 31 December 2014	773	1,805	24,731	27,309
Net book value				
At 31 December 2014	424	1,897	2,018	4,339
Cost				
At 1 January 2013	593	1,848	24,658	27,099
Additions	159	255	207	621
Disposals	–	(122)	(65)	(187)
At 31 December 2013	752	1,981	24,800	27,533
Accumulated depreciation				
At 1 January 2013	307	1,259	24,259	25,825
Charge for the year	146	363	214	723
Disposals	–	(122)	(65)	(187)
At 31 December 2013	453	1,500	24,408	26,361
Net book value				
At 31 December 2013	299	481	392	1,172

15 Interest in Subsidiaries – Company

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Unlisted shares, at cost	147,380	147,380

Details of the principal subsidiaries of the Company as at 31 December 2014 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 International Company Limited	Hong Kong	1 ordinary share	100%	Toy development, marketing and distribution, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stocks of US\$30 each	100%	Toy marketing and distribution, U.S.A.
Team Green Innovation Inc.	U.S.A.	10 common stocks of US\$0.01 each	100%	Product design and development services, U.S.A.

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

16 Interest in an Associated Company – Group

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Cost of investment	18,077	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	(12,963)	(7,282)
	5,114	10,795

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16 Interest in an Associated Company – Group (Continued)

As at 31 December 2014, 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 operates in Hong Kong. It is an unlisted corporate entity whose quoted market price is not available and is accounted for using the equity method in the consolidated financial statements.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys, dolls and die cast models, and which was a strategic investment of the Group at the time of initial investment in 1992.

Summarised financial information of the associated company is disclosed below:

	2014 HK\$'000	2013 HK\$'000
Gross amounts of the associated company		
Non-current assets	–	6,458
Current assets	16,797	26,801
Current liabilities	(6,353)	(11,217)
Non-current liabilities	(7)	(11)
Equity	10,437	22,031
Group's effective interest	49%	49%
Group's share of net assets of the associated company and carrying amount in the consolidated financial statements	5,114	10,795
Revenue	42,577	62,956
Loss from continuing operations	(11,594)	(1,849)
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	(11,594)	(1,849)
Dividend from the associated company	–	–

17 Inventories – Group

As at 31 December 2014, the carrying amount of inventories that are carried at net realisable value amounted to HK\$1,762,000 (2013: HK\$nil).

18 Trade Receivables – Group

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	531,731	411,831
Less: Allowance for impairment	(2,004)	–
	529,727	411,831

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. As at 31 December 2014 and 2013, the amount of allowance for customer concession is HK\$nil.

18.1 Aging analysis

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. The following is an aging analysis of trade receivables based on the invoice date at the balance sheet date:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 30 days	515,580	406,089
31 – 60 days	4,713	3,407
Over 60 days	9,434	2,335
	529,727	411,831

NOTES TO THE FINANCIAL STATEMENTS

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18 Trade Receivables – Group (Continued)

18.2 Impairment of trade receivables

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

	2014 HK\$'000	2013 HK\$'000
At 1 January	–	–
Impairment loss recognised	2,004	–
At 31 December	2,004	–

At 31 December 2014, trade receivables of HK\$2,779,000 (2013: HK\$nil) were individually determined to be impaired. The individually impaired receivables related to a customer that was in financial difficulties and the Group assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for impairment of HK\$2,004,000 (2013: HK\$nil) was recognised.

18.3 Trade receivables that are not impaired

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

	2014 HK\$'000	2013 HK\$'000
Neither past due nor impaired	345,758	307,988
1 – 90 days past due	177,305	102,580
91 – 180 days past due	2,567	454
Over 180 days past due	3,322	809
	183,194	103,843
	528,952	411,831

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to customers that have a good track record of credit with the Group. Based on past experience, no impairment allowance is considered necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances.

19 Trade Payables – Group

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 30 days	76,067	55,998
31 – 60 days	517	2,682
Over 60 days	1,150	283
	77,734	58,963

20 Amounts Due from/to Subsidiaries – Company

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

21 Deposits Received, Other Payables and Accrued Charges – Group and Company

	Group		Company	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Deposits from customers and distributors	27,319	68,437	–	–
Accrued product development, sales, marketing and distribution expenses	19,148	22,839	–	–
Accrued royalties	90,326	73,892	–	–
Accrued directors' and staff remunerations	39,591	26,091	1,010	970
Withholding tax payable	11,525	–	–	–
Accrued administrative expenses and professional fees	5,314	5,883	533	1,064
	193,223	197,142	1,543	2,034

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

22 Provisions – Group

	Consumer returns HK\$'000	Cooperative advertising HK\$'000	Cancellation charges HK\$'000	Total HK\$'000
At 1 January 2014	10,984	24,156	189	35,329
Additional provisions made	17,538	72,543	656	90,737
Provisions utilised	(11,555)	(68,396)	–	(79,951)
Reversal of unutilised provisions	(296)	–	–	(296)
At 31 December 2014	16,671	28,303	845	45,819

23 Deferred Taxation – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2013: 16.5%) in Hong Kong, and federal and state tax rates of 35% (2013: 35%) and 8.84% (2013: 8.84%) respectively in the U.S..

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

	Accelerated depreciation HK\$'000	Other temporary differences HK\$'000 (Note (a))	Employee benefits HK\$'000 (Note (b))	Total HK\$'000
At 1 January 2013	136	–	–	136
Credited to profit or loss	4,051	27,907	11,977	43,935
At 31 December 2013 and 1 January 2014	4,187	27,907	11,977	44,071
(Charged)/Credited to profit or loss	(3,070)	16,049	(20,648)	(7,669)
Credited directly to equity	–	–	12,100	12,100
At 31 December 2014	1,117	43,956	3,429	48,502

Notes:

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

Deferred tax assets not recognised

The Group has not recognised tax losses of HK\$12 million (2013: HK\$25 million). The tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2014, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK\$394,667,000 (2013: HK\$367,734,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

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. All share-based compensation will be settled in equity. The number and weighted average exercise price of share options are as follows:

	2014		2013	
	Weighted average exercise price HK\$	Number of options '000	Weighted average exercise price HK\$	Number of options '000
At 1 January	0.688	54,149	0.529	55,187
Granted	–	–	0.930	25,510
Exercised (<i>Note</i>)	0.634	(26,498)	0.589	(26,483)
Lapsed	–	–	0.392	(65)
At 31 December	0.741	27,651	0.688	54,149
Exercisable at 31 December	0.654	10,191	0.653	22,156

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

24 Equity Settled Share-based Transactions (Continued)

Note:

These share options were exercised during the year ended 31 December 2014 at exercise prices ranging from HK\$0.315 to HK\$0.930 (2013: ranging from HK\$0.315 to HK\$0.930). The weighted average closing price of ordinary shares of the Company immediately before the dates on which the options were exercised during the year was HK\$3.53 (2013: HK\$1.63).

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

The share options outstanding at 31 December 2014 had a weighted average remaining contractual life of 7.65 years (2013: 8.08 years).

In total, HK\$5,850,000 of share-based compensation expense has been included in the consolidated income statement for 2014 (2013: HK\$11,235,000) 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	
	No. of shares	HK\$'000
At 31 December 2014 and 2013	3,000,000,000	30,000
	Issued and fully paid Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000
At 1 January 2013	1,153,268,000	11,533
Exercise of share options	26,483,500	265
At 31 December 2013 and 1 January 2014	1,179,751,500	11,798
Exercise of share options	26,498,000	264
At 31 December 2014	1,206,249,500	12,062

25.2 Reserves

Company

	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2013	300,679	20,336	142,523	(305,988)	157,550
Profit for the year	–	–	–	260,050	260,050
Share option scheme					
– value of services	–	11,235	–	–	11,235
– shares issued	27,831	(12,484)	–	–	15,347
– options lapsed	–	(20)	–	20	–
At 31 December 2013	328,510	19,067	142,523	(45,918)	444,182
At 1 January 2014	328,510	19,067	142,523	(45,918)	444,182
Profit for the year	–	–	–	2,155	2,155
Share option scheme					
– value of services	–	5,850	–	–	5,850
– shares issued	29,437	(12,912)	–	–	16,525
Share premium reduction (Note 25.3)	(350,096)	–	350,096	–	–
2013 first interim dividend paid	–	–	(59,983)	–	(59,983)
2013 special dividend paid	–	–	(119,966)	–	(119,966)
2014 first interim dividend paid	–	–	(60,313)	–	(60,313)
At 31 December 2014	7,851	12,005	252,357	(43,763)	228,450

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

25 Equity – Group and Company (Continued)

25.2 Reserves (Continued)

Nature and purpose of reserves

Company

(i) Contributed surplus

The contributed surplus includes (i) an amount of HK\$142,523,000 representing the book value of assets contributed by an intermediate holding company pursuant to the reorganisation in 2007; and (ii) an amount of HK\$350,096,000 transferred from the share premium account as disclosed in note 25.3, less distribution of dividends to equity shareholders of the Company during the year.

The application of the contributed surplus is governed by the Companies Act 1981 of Bermuda.

Group

(ii) Capital reserve

The capital reserve includes (i) an amount of HK\$105,683,000 representing the aggregate amount of the share capital and share premium of the companies comprising the Group; (ii) a contribution of HK\$36,840,000 made by an intermediate holding company pursuant to the reorganisation in 2007; (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; (iv) an amount of HK\$350,096,000 transferred from the share premium account of the Company as disclosed in note 25.3, less distribution of dividends to equity shareholders of the Company during the year; and (v) capital reserve of a subsidiary.

25.3 Share premium reduction

At the Annual General Meeting of the Company held on 19 May 2014, the shareholders of the Company approved that HK\$350,096,000 being the entire amount standing to the credit of the share premium account of the Company as at the date of the meeting be reduced to nil and the credit arising therefrom be transferred to the contributed surplus account of the Company.

25.4 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 2014 and 2013.

26 Notes to the Consolidated Cash Flow Statement

26.1 Reconciliation of profit before income tax to cash generated from operations

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit before income tax	635,912	539,657
Bank interest income	(2,742)	(1,555)
Depreciation of property, plant and equipment	948	723
Share-based compensation	5,850	11,235
Unrealised exchange loss	–	164
Gain on dissolution of foreign subsidiaries	(531)	–
Share of loss of an associated company	5,681	906
Operating profit before working capital changes	645,118	551,130
Increase in inventories	(7,206)	(15,176)
Increase in trade receivables, deposits paid, other receivables and prepayments	(116,478)	(248,911)
Increase in trade payables, deposits received, other payables and accrued charges and provisions	25,342	102,758
Cash generated from operations	546,776	389,801

26.2 Analysis of cash and cash equivalents

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Cash and bank balances	785,784	519,563

NOTES TO THE FINANCIAL STATEMENTS

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27 Commitments – Group

27.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within one year	21,968	22,743
In the second to fifth years	29,062	52,312
	51,030	75,055

27.2 Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At 31 December 2014, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within one year	6,859	7,771
In the second to fifth years	5,239	11,881
	12,098	19,652

The Company did not have any commitment at 31 December 2014 and 2013.

28 Related Party Transactions

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Rent and building management fee paid to fellow subsidiary, Belmont Limited (<i>Note (a)</i>)	6,025	1,673
Rent and building management fee paid to fellow subsidiary, Bagnols Limited (<i>Note (b)</i>)	234	234

Notes:

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

28.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 13.1.

29 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 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

30 Financial Risk Management and Fair Value Measurement

30.1 Categories of financial instruments

	2014 HK\$'000	2013 HK\$'000
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	529,727	411,831
Deposits paid and other receivables	1,870	2,443
Cash and bank balances	785,784	519,563
	1,317,381	933,837
Financial liabilities at amortised cost		
Trade payables	77,734	58,963
Other payables and accrued charges	166,181	145,165
	243,915	204,128

30.2 Financial risk factors

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

30.2.1 Currency risk

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

30.2.2 Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet as summarised in note 30.1 above.

Concentrations of credit risk

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

	2014	2013
Sales		
– the largest customer	29%	28%
– five largest customers in aggregate	74%	76%

30.2.3 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

30 Financial Risk Management and Fair Value Measurement (Continued)

30.2 Financial risk factors (Continued)

30.2.3 Liquidity risk (Continued)

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

	2014				Carrying amount HK\$'000
	Within 1 year or on demand HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Total undiscounted amount HK\$'000	
Trade payables	77,734	-	-	77,734	77,734
Other payables and accrued charges	166,181	-	-	166,181	166,181
	243,915	-	-	243,915	243,915

	2013				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	
Trade payables	58,963	-	-	58,963	58,963
Other payables and accrued charges	145,165	-	-	145,165	145,165
	204,128	-	-	204,128	204,128

30.3 Financial assets and liabilities measured at fair value

As at 31 December 2014 and 2013 and during the year ended 31 December 2014, the Group did not have any financial assets and liabilities measured at fair value.

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

The carrying amounts of the financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue	2,160,206	1,658,527	371,615	44,947	148,219
Profit/(Loss) before income tax	635,912	539,657	43,881	(90,308)	(93,598)
Income tax expense	(145,240)	(6,283)	(486)	(213)	(2,085)
Profit/(Loss) for the year attributable to equity holders of the Company	490,672	533,374	43,395	(90,521)	(95,683)
Total assets	1,437,198	1,045,376	380,424	244,408	221,270
Total liabilities	(400,837)	(293,633)	(189,066)	(150,124)	(42,598)
Net assets	1,036,361	751,743	191,358	94,284	178,672

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