

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 635)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

RESULTS

The directors of Playmates Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011 as follows:

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 US\$'000 (Note 9)	2011 HK\$'000	2010 HK\$'000 (Restated)
Revenue	2	20,907	163,077	263,725
Cost of sales		(6,662)	(51,968)	(103,800)
Gross profit		14,245	111,109	159,925
Marketing expenses		(3,210)	(25,040)	(55,057)
Selling and distribution expenses		(261)	(2,034)	(7,345)
Administration expenses		(15,338)	(119,634)	(150,830)
Net (loss)/gain on financial assets at fair value through profit or loss		(5,656)	(44,117)	33,732
Revaluation surplus on investment properties		100,654	785,105	319,275
Operating profit		90,434	705,389	299,700
Other income		193	1,503	203
Finance costs		(1,089)	(8,490)	(6,893)
Share of loss of an associated company		(414)	(3,231)	(2,360)

	<i>Note</i>	2011 <i>US\$'000</i> <i>(Note 9)</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> <i>(Restated)</i>
Profit before income tax	3	89,124	695,171	290,650
Income tax expense	4	(928)	(7,240)	(8,662)
Profit for the year		88,196	687,931	281,988
Profit for the year attributable to:				
Equity holders of the Company		93,913	732,525	329,314
Non-controlling interests		(5,717)	(44,594)	(47,326)
		88,196	687,931	281,988
		<i>US\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(Restated)</i>
Earnings per share	6			
Basic		0.37	2.91	1.34
Diluted		0.37	2.91	1.25

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 <i>US\$'000</i> <i>(Note 9)</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> <i>(Restated)</i>
Profit for the year	88,196	687,931	281,988
Other comprehensive income:			
Release of reserve upon winding up of a subsidiary	-	-	(23)
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(47)	(368)	383
Total comprehensive income for the year	88,149	687,563	282,348
Total comprehensive income attributable to:			
Equity holders of the Company	93,887	732,321	329,685
Non-controlling interests	(5,738)	(44,758)	(47,337)
	88,149	687,563	282,348

Consolidated Balance Sheet

As at 31 December 2011

	31 December 2011 <i>Note</i>	31 December 2011 <i>HK\$'000</i>	31 December 2010 <i>HK\$'000</i> <i>(Restated)</i>	1 January 2010 <i>HK\$'000</i> <i>(Restated)</i>
	<i>US\$'000</i> <i>(Note 9)</i>			
Non-current assets				
Fixed assets				
- Investment properties	381,073	2,972,369	2,117,856	1,808,250
- Other property, plant and equipment	18,552	144,710	150,749	140,379
	399,625	3,117,079	2,268,605	1,948,629
Goodwill	766	5,976	5,976	5,976
Interest in an associated company	2,205	17,198	20,429	25,729
Deferred tax assets	135	1,053	428	678
	402,731	3,141,306	2,295,438	1,981,012
Current assets				
Inventories	348	2,717	6,046	10,835
Trade receivables	7 1,067	8,319	11,846	77,964
Deposits paid, other receivables and prepayments	1,515	11,818	12,133	29,243
Taxation recoverable	51	400	1,213	6,320
Financial assets at fair value through profit or loss	20,034	156,261	198,459	250,621
Interest in a jointly controlled entity	-	-	-	3,162
Cash and bank balances	59,810	466,521	430,878	306,764
	82,825	646,036	660,575	684,909
Current liabilities				
Bank loans	44,304	345,571	355,000	335,000
Trade payables	8 1,102	8,599	9,741	22,434
Deposits received, other payables and accrued charges	12,440	97,030	53,567	87,991
Provisions	660	5,147	9,403	24,904
Taxation payable	153	1,193	818	2,637
	58,659	457,540	428,529	472,966
Net current assets	24,166	188,496	232,046	211,943
Total assets less current liabilities	426,897	3,329,802	2,527,484	2,192,955

	31 December 2011	31 December 2011	31 December 2010	1 January 2010
<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 9)</i>		<i>(Restated)</i>	<i>(Restated)</i>
Non-current liabilities				
Bank loans	28,077	219,000	45,000	60,000
Deferred tax liabilities	3,366	26,256	25,922	25,545
	31,443	245,256	70,922	85,545
Net assets	395,454	3,084,546	2,456,562	2,107,410
Equity				
Share capital	3,171	24,730	25,800	22,462
Reserves	384,705	3,000,699	2,319,549	1,992,310
Declared dividends	1,581	12,335	20,640	89,471
Equity attributable to the equity holders of the Company				
	389,457	3,037,764	2,365,989	2,104,243
Non-controlling interests	5,997	46,782	90,573	3,167
Total equity	395,454	3,084,546	2,456,562	2,107,410

Notes:

1. Basis of preparation

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

The financial statements have been prepared under the historical cost basis except for investment properties and financial assets at fair value through profit or loss which are stated at fair values.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010, except the Group has applied for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
Various	Improvements to HKFRSs 2010

The adoption of the new HKFRSs had no impact on how the results and financial position for the current and prior periods have been prepared and presented.

At the date of authorisation of these financial statements, certain new or amended HKFRSs have been published but are not yet effective. The Group has early adopted the following amendments:

Amendments to HKAS 12 “Income Taxes – Deferred Tax: Recovery of Underlying Assets”

The amendments to HKAS 12 “Income Taxes – Deferred Tax: Recovery of Underlying Assets” issued by the HKICPA is effective for annual period beginning on or after 1 January 2012 with early adoption permitted. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group has early adopted these amendments retrospectively. The effects of adoption are summarised below:

Effect on the consolidated income statement for the year ended 31 December

	2011	2010
	HK\$’000	HK\$’000
Decrease in income tax expense	(137,466)	(54,313)
Increase in profit for the year	137,466	54,313
Increase in basic earnings per share	HK\$0.55	HK\$0.22
<u>Increase in diluted earnings per share</u>	<u>HK\$0.55</u>	<u>HK\$0.21</u>

Effect on the consolidated balance sheet

	As at	As at	As at
	31 December 2011	31 December 2010	1 January 2010
	HK\$’000	HK\$’000	HK\$’000
Decrease in deferred tax liabilities	(334,143)	(196,677)	(142,364)
<u>Increase in retained profits</u>	<u>334,143</u>	<u>196,677</u>	<u>142,364</u>

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statements or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

2. Revenue and segment information

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

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Sale of toys	44,947	148,219
Rental income from investment properties	67,843	69,172
Property management income	12,392	12,422
Restaurant income	32,903	27,791
Dividend income	4,283	5,896
Interest income	709	225
Total revenue	163,077	263,725

Segment results, assets and liabilities

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

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

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

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

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

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

The segment results for the year ended 31 December 2011 are as follows:

	Property investments and associated businesses HK\$'000	Investment business HK\$'000	Toy business HK\$'000	Total HK\$'000
Gross segment revenue	120,475	4,992	44,947	170,414
Inter-segment revenue	(7,337)	-	-	(7,337)
Revenue from external customers	113,138	4,992	44,947	163,077
Segment profit/(loss) before depreciation	842,453	(39,125)	(84,850)	718,478
Depreciation	(7,905)	-	(1,484)	(9,389)
Segment operating profit/(loss)	834,548	(39,125)	(86,334)	709,089
Other income	-	-	1,503	1,503
Finance costs	(7,027)	(224)	(1,084)	(8,335)
Share of loss of an associated company	-	-	(3,231)	(3,231)
	(7,027)	(224)	(2,812)	(10,063)
Segment profit/(loss) before income tax	827,521	(39,349)	(89,146)	699,026
Unallocated corporate expenses				(3,855)
Profit before income tax				695,171
Bank interest income	-	709	1,503	
Revaluation surplus on investment properties	785,105	-	-	
Net realised gain on financial assets at fair value through profit or loss	-	1,715	-	
Net unrealised loss on financial assets at fair value through profit or loss	-	(45,832)	-	

The segment results for the year ended 31 December 2010 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross segment revenue	117,436	6,121	148,219	271,776
<u>Inter-segment revenue</u>	<u>(8,051)</u>	<u>-</u>	<u>-</u>	<u>(8,051)</u>
Revenue from external customers	109,385	6,121	148,219	263,725
Segment profit/(loss) before depreciation	372,246	39,853	(87,616)	324,483
<u>Depreciation</u>	<u>(8,107)</u>	<u>-</u>	<u>(2,367)</u>	<u>(10,474)</u>
<u>Segment operating profit/(loss)</u>	<u>364,139</u>	<u>39,853</u>	<u>(89,983)</u>	<u>314,009</u>
Other income	-	-	203	203
Finance costs	(5,363)	(219)	(1,280)	(6,862)
Share of loss of an associated company	-	-	(2,360)	(2,360)
	<u>(5,363)</u>	<u>(219)</u>	<u>(3,437)</u>	<u>(9,019)</u>
Segment profit/(loss) before <u>income tax</u>	<u>358,776</u>	<u>39,634</u>	<u>(93,420)</u>	<u>304,990</u>
Unallocated corporate expenses				<u>(14,340)</u>
Profit before income tax				<u>290,650</u>
Bank interest income	-	225	203	
Revaluation surplus on investment properties	319,275	-	-	
Net realised gain on financial assets at fair value through profit or loss	-	28,248	-	
Net unrealised gain on financial assets at fair value through profit or loss	-	5,484	-	

The segment assets and liabilities as at 31 December 2011 are as follows:

	Property investments and associated businesses	Investment business	Toy business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	3,137,330	398,725	226,869	3,762,924
Interest in an associated company	-	-	17,198	17,198
Total reportable segment assets	3,137,330	398,725	244,067	3,780,122
Inter-segment elimination	-	-	(489)	(489)
Deferred tax assets				1,053
Taxation recoverable				400
Unallocated assets				<u>6,256</u>
Total assets				<u>3,787,342</u>
Reportable segment liabilities	598,649	2,112	72,240	673,001
Inter-segment elimination	(489)	-	-	(489)
Deferred tax liabilities				26,256
Taxation payable				1,193
Unallocated liabilities				<u>2,835</u>
Total liabilities				<u>702,796</u>
Capital expenditure	72,813	-	398	

The segment assets and liabilities as at 31 December 2010 are as follows:

	Property investments and associated businesses <i>HK\$'000</i>	Investment business <i>HK\$'000</i>	Toy business <i>HK\$'000</i>	Total <i>HK\$'000</i> <i>(Restated)</i>
Reportable segment assets	2,281,239	448,707	200,753	2,930,699
Interest in an associated company	-	-	20,429	20,429
<u>Total reportable segment assets</u>	<u>2,281,239</u>	<u>448,707</u>	<u>221,182</u>	<u>2,951,128</u>
Inter-segment elimination	(285)	-	(489)	(774)
Deferred tax assets				428
Taxation recoverable				1,213
Unallocated assets				<u>4,018</u>
Total assets				<u>2,956,013</u>
<u>Reportable segment liabilities</u>	<u>428,784</u>	-	<u>42,286</u>	471,070
Inter-segment elimination	(489)	-	(285)	(774)
Deferred tax liabilities				25,922
Taxation payable				818
Unallocated liabilities				<u>2,415</u>
Total liabilities				<u>499,451</u>
<u>Capital expenditure</u>	<u>18,782</u>	-	<u>1,566</u>	

Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (place of domicile)	116,905	113,782	2,940,846	2,095,959
Americas				
- U.S.A.	36,986	66,251	1,129	1,595
- Others	127	13,296	-	-
Europe	7,274	62,819	198,278	197,456
Asia Pacific other than Hong Kong	894	6,484	-	-
Others	891	1,093	-	-
	46,172	149,943	199,407	199,051
	163,077	263,725	3,140,253	2,295,010

Major customers

The Group's customer base is diversified with no customer with whom transactions have exceeded 10% of the Group's total revenue for the years ended 31 December 2011 and 2010.

3. Profit before income tax

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

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	30,800	80,517
(Reversal of provision)/Write-down of inventories	(31)	297
Product development costs	7,843	3,195
Royalties paid	11,517	22,512
Direct operating expenses arising from investment properties that generate rental income	3,540	2,225
Direct operating expenses arising from investment properties that did not generate rental income	1,180	665
Provision for customer concession	390	2,327
Reversal of unutilised provision for customer concession	(185)	(639)
Provision for customer returns, cooperative advertising and cancellation charges	1,776	4,595
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges	(3,867)	(6,033)
Depreciation of other property, plant and equipment	10,114	11,207
Employee benefit expense, including directors' remuneration	66,748	79,084
Operating leases expense on office and warehouse facilities	2,924	9,980
Loss on disposal of other property, plant and equipment	66	1,288
Net foreign exchange (gain)/loss	(52)	10,925
Interest on bank loans and overdrafts wholly repayable within five years	4,441	4,780
Interest on bank loans wholly repayable after five years	1,869	-
Bank interest income	(2,212)	(428)
Net realised gain on financial assets at fair value through profit or loss	(1,715)	(28,248)
Net unrealised loss/(gain) on financial assets at fair value through profit or loss	45,832	(5,484)

4. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Overseas taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> <i>(Restated)</i>
Current taxation		
Hong Kong profits tax	7,419	6,450
Under/(Over) provision in prior years – Hong Kong	112	(128)
Under provision in prior years – overseas	-	1,713
	7,531	8,035
Deferred taxation		
Origination and reversal of temporary differences	(291)	627
Income tax expense	7,240	8,662

5. Dividends

(a) *Dividends attributable to the year*

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
First interim dividend of HK\$0.05 (2010: HK\$0.05) per share	12,365	12,629
Second interim dividend of HK\$0.05 (2010: HK\$0.08) per share	12,335	20,640
	24,700	33,269

At a meeting held on 31 August 2011, the directors declared a first interim dividend of HK\$0.05 per share, which was paid on 3 October 2011.

At a meeting held on 23 March 2012, the directors declared a second interim dividend of HK\$0.05 per share on the basis of 246,690,000 shares in issue as at the date of the meeting. This declared dividend declared after the balance sheet date has not been recognised as liabilities in the financial statements, but reflected as an appropriation of retained profits for the year ended 31 December 2011.

(b) *Dividends attributable to previous year and paid during the year*

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Second interim dividend of HK\$0.08 (2010: HK\$0.05) per share	20,600	12,426
Special interim dividend in specie of HK\$nil (2010: HK\$0.31) per share	-	77,045
	20,600	89,471

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$732,525,000 (2010: HK\$329,314,000 (restated)) and the weighted average number of ordinary shares of 251,533,000 (2010: 244,711,000) 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\$732,525,000 (2010: HK\$329,314,000 (restated)) and the weighted average number of ordinary shares of 251,546,000 (2010: 263,243,000) in issue during the year, adjusted for the effects of 13,000 dilutive potential shares on exercise of share options (2010: 18,532,000 dilutive potential shares on exercise of share options and warrants).

7. Trade receivables

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

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	7,819	10,979
31 – 60 days	293	427
Over 60 days	207	440
	8,319	11,846

8. Trade payables

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0 – 30 days	6,869	8,002
31 – 60 days	1,202	1,304
Over 60 days	528	435
	<hr/> 8,599	<hr/> 9,741

9. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 31 December 2011.

10. Comparative figures

As a result of the early adoption of amendments to HKAS 12 “Income Taxes – Deferred Tax: Recovery of Underlying Assets”, certain comparative figures have been adjusted.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Overview

Playmates Holdings group worldwide turnover for the year ended 31 December 2011 was HK\$163 million (2010: HK\$264 million); reflected a decrease of 38.2% compared to the prior year. The Group reported an operating profit of HK\$705 million (2010: HK\$300 million) and net profit attributable to shareholders was HK\$733 million (2010: HK\$329 million (restated)). Basic earnings per share was HK\$2.91 (2010: HK\$1.34 (restated)).

Property Investments and Associated Businesses

In 2011 turnover from the property investments and property management businesses decreased slightly by 1.7% to approximately HK\$80.2 million (2010: HK\$81.6 million), while revenue from the food and beverage business increased by 18.4% to about HK\$32.9 million (2010: HK\$27.8 million). Aggregate turnover increased by approximately 3.4% to about HK\$113.1 million (2010: HK\$109.4 million). The Group’s investment properties were revalued by independent professional surveyors at the fair value of about HK\$3.0 billion (2010: about HK\$2.1 billion). A revaluation surplus of HK\$785.1 million was reported in the consolidated income statement of the Group. Segment operating profit was HK\$834.5 million including revaluation surplus, compared to HK\$364.1 million (including revaluation surplus of HK\$319.3 million) for 2010.

(a) Property Investments

The Group's major investment properties in Hong Kong include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. Overall occupancy rate of the investment properties in Hong Kong was about 94% as at 31 December 2011 and 31 December 2010. The Group's property portfolio also includes two investment properties in the United Kingdom.

(i) *The Toy House*

Rental income generated by The Toy House was about HK\$42.7 million, a decrease of 5.7% from prior year (2010: HK\$45.2 million), due to slight drop in occupancy during 2011 as planned. With the implementation of the longer term development plans in the West Kowloon waterfront area, Canton Road has been firmly established as a luxury shopping, entertainment and dining destination. More and more prominent global brands have opened flagship stores in the area, which have continued to attract increasing numbers of local shoppers and visitors. We have entered into a long term lease agreement with a leading global brand to operate a flagship retail store in the building starting from 2013. We are optimistic that the value and recurring rental income of The Toy House will benefit from these developments over the next few years.

(ii) *Hillview*

Rental income generated by the residential properties at Hillview increased 8.3% from prior year to about HK\$15.2 million (2010: HK\$14.0 million). Rental increases from lease renewals during 2011 reflect the improvement in demand for luxury residential properties in Mid-levels. We expect the outlook for the high-end residential market in that area will remain positive due to under supply.

(iii) *Playmates Factory Building*

Rental income generated by Playmates Factory Building was about HK\$9.9 million, an increase of 4.2% over prior year (2010: HK\$9.5 million). The occupancy rate of the premises is close to 100% as demand for industrial space remains steady. We expect recurring rental income to further improve from lease renewals.

(b) Property Management

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

Income generated from the property management business segment remained steady at about HK\$12.4 million in both 2011 and 2010.

(c) Food & Beverage Business

Turnover generated from the food and beverage business for the year increased by 18.4% to HK\$32.9 million (2010: HK\$27.8 million). The business of each Group restaurant improved during the year, which can be attributed to increase in consumer spending and growing customer base. Fandango was recently selected for listing in the 2012 edition of the “Michelin Guide Hong Kong and Macau” with positive review on its quality and Spanish authenticity. Wa-En and Zenpachi were both successful in strengthening their specialty Japanese cuisine positioning by further enhancing the quality and variety of their menus during the year.

As consumer sentiment continues to improve, management anticipates continued growth for the property investments and associated businesses. We will maintain our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

Playmates Toys

Playmates Toys group worldwide turnover for the year ended 31 December 2011 was HK\$45 million (2010: HK\$148 million); reflected a decrease of 69.7% compared to the prior year. The group reported an operating loss of HK\$86 million (2010: HK\$90 million).

Gross profit ratio on toy sales was 28.6% (2010: 41.9%). The decrease was attributable to significant upfront expenses on product design and development for new products to be launched in 2012.

Operating expenses were managed to 34.8% less than last year with decrease in advertising and promotional spending, as well as decrease in sales and distribution expenses. The reported net loss attributable to shareholders also included write off of minimum guarantees associated with non-performing licenses.

In 2011, the toy industry as a whole reported a 2% decrease in US retail dollar sales compared to 2010. In the fourth quarter, historically representing about half of the total for the year, US retail dollar sales decreased by 3% while unit sales decreased by 7%. In Europe, the 3 top markets, the UK, France and Germany reported better toy sales than in 2010 while Italy and Spain recorded declines.

Playmates Toys expects its operating environment to remain challenging in 2012, as profit margins continue to come under pressure between customer pricing resistance and input costs inflation, especially attributable to OEM suppliers operating in the PRC, and the lingering Euro zone debt crisis threatens the fragile economic recovery in the developed economies. During 2011 Playmates Toys completed the realignment of its product portfolio and focused on rebuilding the business by selective investments in quality opportunities reflecting its core competence. While significant challenges and uncertainties remain, Playmates Toys is cautiously optimistic that new product launches starting in the second half of 2012 will begin to make noticeable and positive impacts on the performance of the toy group.

Playmates Toys will continue to pursue a focused operating strategy, diligent risk management and sustained costs and expenses controls.

Portfolio Investments

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

As at 31 December 2011, fair market value of the Group's investment portfolio was HK\$156.3 million (2010: HK\$198.5 million). The Group reported a net loss from investments of approximately HK\$44.1 million. In comparison, a net gain from investments of approximately HK\$33.7 million was recorded in 2010. In 2011, dividend and interest income generated from portfolio investments were approximately HK\$5.0 million (2010: HK\$6.1 million) and has been included in the revenue of the Group.

The Euro zone debt crisis and concerns over China's economic growth continue to contribute to uncertainties in the global financial markets. Management expects returns from equity investments to remain volatile and will remain vigilant in monitoring and adjusting the investment portfolio.

FINANCIAL ANALYSIS

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 2011, trade receivables related to toy operation were HK\$7,144,000 (2010: HK\$10,642,000) and inventories related to toy operation were at a seasonal low level of HK\$2,127,000 (2010: HK\$5,404,000) or 4.7% (2010: 3.6%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 94% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2011. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2011 was 14.9% compared to 13.6% at 31 December 2010. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.4 at 31 December 2011 compared to 1.5 at 31 December 2010.

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 2011, the Group's cash and bank balances were HK\$466,521,000 (2010: HK\$430,878,000), and the amount invested in various securities was HK\$156,261,000 (2010: HK\$198,459,000).

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year, 11,070,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$2.32 to HK\$2.90 per share through the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2011 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.

Under the management structure, the Chairman focuses on Group strategy and is responsible for ensuring all key issues are considered by the board in a timely manner; whereas the executive directors supported by the senior executives are responsible for running the business operations of the Group. The board considers that this structure is 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.

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 consolidated financial information for the year ended 31 December 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 April 2012 to 20 April 2012, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on 18 April 2012.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 23 March 2012

As at the date hereof, the board of directors of the Company comprises the following directors:

Mr. Chan Chun Hoo, Thomas (*Chairman*), Mr. Cheng Bing Kin, Alain (*Executive Director*), Mr. Ip Shu Wing, Charles (*Independent Non-executive Director*), Mr. Lee Peng Fei, Allen (*Independent Non-executive Director*), Mr. Lo Kai Yiu, Anthony (*Independent Non-executive Director*), Mr. To Shu Sing, Sidney (*Executive Director*), Mr. Tsim Tak Lung (*Deputy Chairman and Non-executive Director*) and Mr. Yu Hon To, David (*Independent Non-executive Director*)