Playmates®

2017

ANNUAL REPORT

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Corporate Information

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

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditors
Grant Thornton Hong Kong Limited
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

Principal Bankers
The Bank of East Asia, Limited
Hang Seng Bank Limited
UBS AG

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

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

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

Website
www.playmates.net

Statement from the Chairman

Dear Shareholders,

I am pleased to report that in 2017 we were able to deliver results in line with the expectation despite challenging operating environment.

Our property investments and associated businesses achieved slight increases over the previous year in revenue and in operating profit before revaluation surplus. The segment reported a positive operating profit with revaluation surplus reflecting the rally in the local residential property market in 2017. We will continue to adjust the balance of our portfolio of investment properties in line with the strategic objective of seeking long term growth in asset value as well as recurring income.

Playmates Toys remained profitable in 2017 despite challenges in the retail sector, strong competitions, and a planned phasing out of the business of the key brand – ***Teenage Mutant Ninja Turtles ("TMNT")*** – in its current iteration, which had enjoyed a good 5-year run since its relaunch in 2012. Later this year, we will kickoff the beginning of the next iteration: ***Rise of the Teenage Mutant Ninja Turtles***, with all-new animated contents from Nickelodeon and our corresponding line of brand new products.

New brands launched in 2017 contributed positively to our results. In particular, ***Ben 10*** performed strongly in a number of key markets. We will continue to support the expansion of our ***Ben 10*** product offerings. We will also monitor the other new brands, ***Voltron*** and ***Mysticons***, which achieved lower initial performances, to determine the appropriate levels of further investments.

We expect revenue and profit margin to come under further pressure in 2018. We will continue to limit the supply of the outgoing ***TMNT*** products to allow for a fresh beginning in the second half of the year.

Works continue on developing the pipeline of new toy brands that will contribute to our results in 2019 and beyond.

My fellow board members and I wish to sincerely thank Mr. Thomas Chan, who decided to retire during the year after serving the Playmates Group for 50 years and as Chairman of the Board and Group CEO for the last 20 years. During that time, Mr. Chan has been the principal driving force in the development of the Group. Under his vision and leadership, a strong foundation was built and Playmates Toys evolved into a leading branded toy marketing group.

I must also thank our business associates, suppliers and colleagues for their continued dedication and support.

Yours Faithfully

TO Shu Sing, Sidney
Chairman of the board

Hong Kong, 5 March 2018

Management Discussion and Analysis

Group Overview

Playmates Holdings group global revenue for the year ended 31 December 2017 was HK$1,009.3 million (2016: HK$1,250.7 million); reflected a decrease of 19.3% compared to the prior year. The Group reported an operating profit of HK$374.9 million (2016: HK$55.8 million) and net profit attributable to shareholders was HK$282.2 million (2016 net loss attributable to shareholders: HK$110.1 million). Basic earnings per share was HK cents 13.54 (2016 basic loss per share: HK cents 5.10). Net asset value per share was HK$3.32 as at 31 December 2017 (2016: HK$3.11).

Property Investments and Associated Businesses

Aggregate turnover of the property investments and associated businesses during 2017 was HK$245.5 million (2016: HK$243.6 million), reflecting a 0.8% increase compared to the prior year. Revenue from the property investments and property management businesses increased 1.8% to HK$222.7 million (2016: HK$218.7 million), while revenue from the food and beverage business decreased by 9.2% to HK$22.7 million (2016: HK$25.0 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of HK$5.5 billion (2016: HK$5.4 billion). A revaluation surplus of HK$81.1 million (2016: deficit of HK$302.8 million) was reported in the consolidated income statement of the Group. Segment operating profit was HK$267.2 million including revaluation surplus, compared to segment operating loss of HK$119.0 million including revaluation deficit for 2016.

(a) Property Investments

The Group's major investment properties include (i) a commercial building, The Toy House, at 100 Canton Road; (ii) a number of residential units at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun. The Group's property portfolio also includes a number of overseas investment properties in the United Kingdom, the United States of America and Japan, which accounted for 8.1% of the fair value of the Group's overall investment property portfolio (2016: 7.9%).

Aggregate rental income generated from the investment properties of the Group was HK$204.5 million, an increase of 1.6% from the prior year (2016: HK$201.2 million). Overall occupancy rate was 80% as at 31 December 2017 (2016: 87%).

(i) Commercial

The Group's investments in commercial properties consist of the building, The Toy House, on Canton Road in Tsimshatsui, Kowloon, Hong Kong. With a flagship store of a leading global brand, the building is a landmark on Canton Road, which is one of the premier shopping districts in Hong Kong that has benefited from the recent return in growth of mainland Chinese tourists.

(ii) Residential

The Group's principal investments in residential properties include a number of units in Hillview on Macdonnell Road, Mid-Levels, Hong Kong. The demand for luxury residential units in Hong Kong Mid-Levels continued to be subdued throughout 2017. Over the longer term, we remain confident that Hillview will benefit from resilient demand for and limited supply of up-market residential properties in Mid-Levels.

We continue to explore leasing opportunities for the overseas residential properties.

(iii) Industrial

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

(b) Property Management

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

Income generated from the property management business segment was HK$18.2 million, an increase of 4.0% from prior year (2016: HK$17.5 million).

(c) Food & Beverage Business

Revenue generated from the food and beverage business for the year decreased by 9.2% to HK$22.7 million (2016: HK$25.0 million).

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

Playmates Toys

Playmates Toys group worldwide turnover for the year ended December 31, 2017 was HK$758 million (2016: HK$993 million), a decrease of 24% compared to the prior year. The decrease in turnover was driven by contraction in our ***TMNT*** business, partially offset by contribution from Playmates Toys' new brands, including ***Ben 10*** and ***Voltron***. The decline in ***TMNT*** sales reflected intensified competitive pressure and a planned transition into the brand's next iteration in Fall 2018, whereas revenue in 2016 had been boosted by shipments of products related to the ***TMNT*** movie.

The US continued to be Playmates Toys' biggest market in 2017, contributing 65.4% of revenue. Europe as a whole contributed 21.6%, the rest of the Americas 6.5% and 5.8% came from Asia Pacific. According to The NPD Group, the leading provider of toys point-of-sale market research data, the US toy market recorded a slight increase of 1.0%[1] in retail sales, despite a challenging retail environment. The Action Figure category experienced a meaningful year-over-year decline despite several major action adventure brands were backed by major movie releases. Several of our key international markets were impacted by the continued relative strength of the US dollar.

Gross profit ratio on toy sales was 54.2% (2016: 60.0%). The decrease in gross profit ratio was attributable to a higher percentage of overall sales generated in international markets with lower gross margin, as well as a moderate level of clearance of non-carryforward products in the US market. Recurring operating expenses decreased by 19.8% from 2016, reflecting lower marketing, selling, and distribution expenses, and tight discipline on overhead expenses.

Playmates Toys group reported a net profit for 2017 of HK$56 million, a decrease of 49.1% compared to prior year (2016: HK$110 million).

1 *Source: The NPD Group/Retail Tracking Services; Dollars, January-December 2017.*

Portfolio Investments

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

As at 31 December 2017, fair market value of the Group's investment portfolio was HK$138.0 million (2016: HK$114.3 million) representing 1.8% of the total assets of the Group (2016: 1.5%). This comprised HK$59.8 million of equities listed in Hong Kong (2016: HK$53.9 million), HK$72.4 million of equities listed overseas (2016: HK$55.3 million) and HK$5.8 million of unlisted managed funds (2016: HK$5.1 million). None of the individual securities positions held by the Group had a market value that exceeded 0.3% of the total assets of the Group. The top 10 listed securities in aggregate represented 1.1% of the total assets of the Group and included Tencent Holdings Limited (700.HK), New World Development Company Limited (17.HK), Alphabet Inc. (GOOG.US), Amazon.com, Inc. (AMZN.US), Hong Kong Exchanges and Clearing Limited (388.HK), Swire Pacific Limited (19.HK), Sun Hung Kai Properties Limited (16.HK), Wharf Real Estate Investment Company Limited (1997.HK), Bayerische Motoren Werke AG (BMW.GR) and Microsoft Corporation (MSFT.US).

The Group reported a net gain from investments of HK$34.2 million in 2017 (2016: HK$1.0 million). In 2017, dividend and interest income generated from the portfolio were HK$16.3 million (2016: HK$18.4 million).

The Group will remain vigilant in monitoring and balancing the investment portfolio, taking into account developments in major global economies and securities markets.

Directors and Senior Management

Biographical details of directors are shown below:

TO Shu Sing, Sidney

Chairman and Executive Director

Mr. To, age 60, 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 holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Mr. To was appointed Chairman of board in May 2017. He is also the chairman of the board of Playmates Toys Limited. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

CHAN, Helen

Executive Director

Ms. Chan, age 38, was appointed a director of the Company in May 2017. She graduated magna cum laude from Yale University in 2001 with a bachelor's degree in Economics. She subsequently worked in New York City as a consultant with one of the leading financial consulting firms for 2 years. She then obtained her Masters of Business Administration in Marketing and Finance at the Wharton School of Business in 2005.

After graduating business school, Ms. Chan pursued a career in retail with one of the largest global luxury retailers. She joined the company as a Merchandising Senior Analyst in their New York headquarters. Her responsibilities increased over time as she rotated through various teams in the organization. She was then transferred to Hong Kong in 2009 to assist with the regionalization initiative of the company. She was promoted to Director of Asia Merchandising in 2011 where she was responsible for spearheading the merchandising needs of the region.

In 2014, after 9 years in the retail industry, Ms. Chan joined the Company where she is responsible for the management of the real estate portfolio and treasury investments of the Group.

CHENG Bing Kin, Alain

Executive Director

Mr. Cheng, age 55, was appointed a director of the Company in March 2006. He is the Group Legal Counsel and also an executive director of Playmates Toys Limited. Mr. Cheng was admitted to practise as solicitor in Hong Kong in 1996 and qualified in England and Wales in 1997. Mr. Cheng is also a Chartered Accountant and a CPA of the Hong Kong Institute of Certified Public Accountants.

IP Shu Wing, Charles

Independent Non-executive Director

Mr. Ip, age 67, was appointed a director of the Company in 1999. Mr. Ip has over 40 years of experience in business management and has held a number of key management positions in various multi-national corporations. He has been re-designated from a Non-executive Director to an Independent Non-executive Director of the Company with effect from 25 March 2011.

Directors and Senior Management

LEE Peng Fei, Allen

Independent Non-executive Director

Dr. Lee, age 77, was appointed a director of the Company in 1993. He holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He was a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

LO Kai Yiu, Anthony

Independent Non-executive Director

Mr. Lo, age 69 was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 12 years of professional accounting experience, he has over 33 years of experience in investment banking and other financial services. Mr. Lo serves as a director of a number of public and private companies.

TSIM Tak Lung

Deputy Chairman and Non-executive Director

Mr. Tsim, age 71, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

YU Hon To, David

Independent Non-executive Director

Mr. Yu, age 69, was appointed a director of the Company in 1995. He is a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. He is an independent non-executive director of listed companies in Hong Kong including China Renewable Energy Investment Limited, China Resources Gas Group Limited, Haier Electronics Group Co., Limited, Keck Seng Investments (Hong Kong) Limited, Media Chinese International Limited, New Century Asset Management Limited (as manager of New Century Real Estate Investment Trust) and One Media Group Limited. He resigned as an independent non-executive director of Synergis Holdings Limited, Bracell Limited (formerly known as "Sateri Holdings Limited") and Great China Holdings Limited on 1 January 2018, 1 November 2016 and 13 July 2016 respectively.

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2017.

Principal Activities and Geographical Analysis of Operations

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

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

Business Review

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

Principal risks and uncertainties

In addition to the risks and uncertainties facing the Company contained in the "Statement from the Chairman" and "Management Discussion and Analysis" of this annual report, the following is a list of principal risks and uncertainties that may affect the business, financial condition, results of operations and growth prospects of the Company. However, this list is not exhaustive as there may be other risks and uncertainties resulting from changes in economic condition and operating environment over time:

1. *Economic and Political Risk:*

   Adverse changes in the economic and political environment and government policies may affect our ability to execute our strategies.

2. *Business Risk:*

   Investment properties account for a significant portion of the Group's total assets. Any significant change in the fair value of the Group's investment properties may affect our financial results, although such change may not reflect the Group's operating and cash flow performance. Furthermore, our rental income from investment properties may be adversely impacted by strong competition in the market.

   The toy industry is inherently unpredictable. We rely on third party licenses, and our revenue is currently derived from a few licensed brands. Any reduction in sales of these brands may adversely affect our performance and financial condition. We also rely significantly on a few major customers, and any change in their buying patterns and/or reduction in their business volume may adversely affect our financial results and prospects.

3. *Compliance Risk:*

   Non-compliance with product safety and laws and regulations may lead to financial loss and reputational damage. Product safety is the Group's number one priority. We have robust processes and procedures in place to ensure compliance with all applicable laws and regulations. Changes in related laws and regulations may lead to increased compliance costs.

Business Review (Continued)

Principal risks and uncertainties (Continued)

4. *Financial Risk:*

   The Group is exposed to financial risks related to currency, pricing, credit and liquidity in the normal course of business. For details of such financial risks, please refer to note 35.2 to the financial statements.

5. *People Risk:*

   Loss of key executives may affect our ability to execute our strategies.

The Group has developed a risk management and internal control system to identify current risks and has undertaken necessary measures to mitigate the risks identified. Details of the Group's risk management and internal control system are set out in the Corporate Governance Report of this annual report.

Relationships with stakeholders

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

Customers

We consider customers as one of the most important stakeholders. Our commitment to and continued vigilance over quality and safety are essential in maintaining the trust of our consumers. In the U.S., we sell directly to various customers including national mass merchandise retailers and national toy specialty stores. Outside the U.S., we sell to over 60 countries, primarily in Europe, North America, Latin America and Asia Pacific including Australia. Our international sales and distribution efforts are managed through our network of independent distributors. For more information on the major customers, trade terms and trade receivables, please refer to notes 5.3 and 20 to the financial statements.

Licensors

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

Suppliers

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

Employees

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

Environmental policies

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

Compliance with laws and regulations

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

For more information on our relationship with the stakeholders, environmental policies and compliance with laws and regulations, please refer to the Environmental, Social and Governance Report of this annual report.

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	35%
– five largest suppliers in aggregate	83%
Sales	
– the largest customer	18%
– five largest customers in aggregate	68%

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 43.

The directors have declared a first interim dividend of HK cents 1.00 per ordinary share and a first special interim dividend of HK cents 2.00 per ordinary share, totalling HK$61,824,000, which was paid on 29 September 2017.

The directors have declared a second interim dividend of HK cents 1.00 per ordinary share and a second special interim dividend of HK cents 2.00 per ordinary share, totally HK$60,266,000, which is calculated on the basis of 2,008,876,000 ordinary shares in issue at the date of board meeting held on 5 March 2018.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 49 to 50. Movements in the reserves of the Company during the year are set out in note 30.2 to the financial statements.

Distributable reserves of the Company at 31 December 2017, calculated under the Companies Act 1981 of Bermuda, amounted to HK$1,519,687,000 (2016: HK$1,699,588,000).

Financial Analysis

Analysis of bank loans and other borrowings

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

Liquidity and financial resources

The toy business is inherently seasonal in nature. As a result, a disproportionately high balance of trade receivables is typically 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 2017, trade receivables related to toy operation were HK$169,379,000 (2016: HK$174,841,000) and inventories related to toy operation were at a seasonal low level of HK$22,728,000 (2016: HK$15,236,000) or 3.0% (2016: 1.5%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 87% of the total gross floor area of the Group's investment properties in Hong Kong were leased out as at 31 December 2017 (2016: 94%). Accounts receivables were minimal as at the year end.

Financial assets at fair value through profit or loss include listed equity and managed funds. As at 31 December 2017, the Group's financial assets at fair value through profit or loss amounted to HK$137,955,000 (2016: HK$114,267,000) of which HK$18,595,000 was held by Playmates Toys for treasury investments (2016: HK$23,195,000).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2017 was 7.6% compared to 6.7% at 31 December 2016. The current ratio, calculated as the ratio of current assets to current liabilities, remained 2.4 at 31 December 2017 and 2016.

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 2017, the Group's cash and bank balances were HK$1,423,626,000 (2016: HK$1,388,706,000), of which HK$1,202,748,000 (2016: HK$1,190,710,000) was denominated in United States dollar, HK$27,823,000 (2016: HK$24,317,000) in British pound, HK$52,548,000 (2016: HK$Nil) in Euro and the remaining balance was mainly denominated in Hong Kong dollar.

Employees

As at 31 December 2017, the Group had a total of 121 employees in Hong Kong, the United States of America and the United Kingdom (2016: 121 employees).

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

Financial Guarantee

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

Bank Loans

Details of the Group's bank loans as at 31 December 2017 are set out in note 23 to the financial statements.

Donations

Charitable donations made by the Group during the year amounted to HK$1,586,000 (2016: HK$2,260,000).

Fixed Assets

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

Principal Properties

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

Share Capital

Details of the movements in share capital of the Company are set out in note 30.1 to the financial statements.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 116.

Purchase, Sale or Redemption of Shares

During the period, 6,682,000 shares of HK$0.10 each were repurchased by the Company at prices ranging from HK$9.90 to HK$12.00 per share and 63,180,000 shares of HK$0.01 each were repurchased by the Company at prices ranging from HK$1.02 to HK$1.15 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 30.1 to the financial statements.

Directors

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

Mr. TO Shu Sing, Sidney *(Chairman)*
Ms. CHAN, Helen *(Executive Director)* – appointed on 18 May 2017
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. TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)*

Mr. CHAN Chun Hoo, Thomas – retired on 18 May 2017

Pursuant to Bye-law 87(1) of the Company, Mr. Cheng Bing Kin, Alain, Mr. Lo Kai Yiu, Anthony and Mr. Yu Hon To, David shall retire by rotation at the forthcoming annual general meeting. Mr. Cheng Bing Kin, Alain, Mr. Lo Kai Yiu, Anthony and Mr. Yu Hon To, David will offer themselves for re-election at the same meeting.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules and the Company considers such directors to be independent.

Directors' Service Contracts

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

Directors' Interests in Transactions, Arrangements and Contracts

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

Permitted Indemnity Provision

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

Share Options

The following shows the particulars of the share options of a subsidiary of the Company that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Share Options of Playmates Toys Limited ("PTL")

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

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of PTL and its subsidiaries ("PTL Group"); and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the PTL Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the PTL Scheme and the percentage of issued share capital of PTL that it represents as at 5 March 2018	:	13,131,500 ordinary shares, representing 1.10% of the issued capital of PTL.
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL.

Share Options (Continued)

Share Options of PTL (Continued)

The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (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 PTL Scheme	:	Remained in force until 31 January 2018.

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

			Number of share options			
Participant	**Date of grant**	**Exercise price** *HK$*	**Balance at 1 January 2017**	**Exercised during the year** *(Notes (1)&(2))*	**Lapsed during the year**	**Balance at 31 December 2017**
CHENG Bing Kin, Alain *Director of the Company and PTL*	15 May 2013	0.930	450,000	450,000	–	–
Other directors of PTL	13 April 2012	0.415	375,000	–	–	375,000
	15 May 2013	0.930	1,050,000	–	–	1,050,000
Continuous Contract Employees of PTL Group, excluding directors of PTL	31 March 2008	0.316	14,000	–	1,000	13,000
	20 January 2010	0.828	1,044,000	–	63,000	981,000
	18 April 2011	0.315	528,000	–	–	528,000
	13 April 2012	0.415	1,297,500	–	–	1,297,500
	15 May 2013	0.930	4,135,500	–	60,000	4,075,500
Other Participants	20 January 2010	0.828	443,000	–	–	443,000
	30 March 2010	0.673	1,110,000	–	–	1,110,000
	18 April 2011	0.315	574,000	–	–	574,000
	13 April 2012	0.415	1,222,000	100,000	–	1,122,000
	15 May 2013	0.930	2,162,500	600,000	–	1,562,500

Notes:

(1) The weighted average closing price of the ordinary shares of PTL immediately before the dates on which the share options were exercised by other participants during the year was HK$1.44.

(2) The weighted average closing price of the ordinary shares of PTL immediately before the date on which the share options were exercised by the director of PTL, namely Mr. Cheng Bing Kin, Alain during the year was HK$1.34.

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

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

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

As at 31 December 2017, 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 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, Helen	Personal	14,000,000 ordinary shares	0.69%
CHENG Bing Kin, Alain	Personal	2,300,000 ordinary shares	0.11%
IP Shu Wing, Charles	Personal	3,320,800 ordinary shares	0.16%
LEE Peng Fei, Allen	Personal	1,470,000 ordinary shares	0.07%
LO Kai Yiu, Anthony	Personal	250,000 ordinary shares	0.01%
TO Shu Sing, Sidney	Personal	20,000,000 ordinary shares	0.99%
TSIM Tak Lung	Personal	1,100,160 ordinary shares	0.05%
YU Hon To, David	Personal	1,320,000 ordinary shares	0.07%
	Corporate *(Note (a))*	5,472,000 ordinary shares	0.27%

Long positions in shares of PTL

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHENG Bing Kin, Alain	Personal	1,800,000 ordinary shares	0.15%
IP Shu Wing, Charles	Personal	2,487,026 ordinary shares	0.21%
LEE Peng Fei, Allen	Personal	244,000 ordinary shares	0.02%
LO Kai Yiu, Anthony	Personal	376,000 ordinary shares	0.03%
TO Shu Sing, Sidney	Personal	10,000,000 ordinary shares	0.84%
TSIM Tak Lung	Personal	259,632 ordinary shares	0.02%
YU Hon To, David	Personal	176,000 ordinary shares	0.01%
	Corporate *(Note (b))*	1,065,600 ordinary shares	0.09%

Notes:

(a) 5,472,000 ordinary shares of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

(b) 1,065,600 ordinary shares of PTL were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.

Unless stated otherwise, all the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares of the relevant companies as at 31 December 2017.

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

Save as disclosed above, as at 31 December 2017, 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 and Underlying Shares of the Company Required to be Recorded under Section 336 of the SFO

As at 31 December 2017, person (other than the directors of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company’s issued share capital, was recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares held	Percentage interest held
CHAN, Chun Hoo, Thomas	Personal	120,000,000 ordinary shares	5.92%
	Associate *(Note (i))*	110,000,000 ordinary shares	5.42%
TGC Assets Limited	Corporate *(Note (ii))*	920,000,000 ordinary shares	45.37%

Notes:

(i) 110,000,000 shares of the Company were owned by the wife of Mr. Chan Chun Hoo, Thomas (“Mr. Chan”) and Mr. Chan is therefore deemed to be interested in those shares.

(ii) 920,000,000 ordinary shares of the Company were beneficially owned by TGC Assets Limited (“TGC”). All the issued share capital of TGC is wholly-owned by Mr. Chan.

Pre-emptive Rights

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

Audit Committee

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

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

Sufficiency of Public Float

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

Auditors

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

On behalf of the board
To Shu Sing, Sidney
Chairman
Hong Kong, 5 March 2018

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 2017, 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:

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

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

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

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

BOARD OF DIRECTORS (Continued)

Composition and Responsibilities (Continued)

In respect of one code provision providing for the segregation of the roles of the chairman and the chief executive officer, since the former chairman of the board, who also acted as the chief executive officer of the Company, retired on 18 May 2017, the Company does not have a designated chief executive officer. The board oversees the management, businesses, strategy and financial performance of the Group. The day-to-day business of the Group is handled by the executive directors collectively. 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 adequate to ensure an effective management and control of the Group's businesses and operations. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

Appointment and Re-election

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

Support and Professional Development of Directors

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

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

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

Board Meetings and Proceedings

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

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

The board held four meetings in 2017. 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.

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

Notes:

1. Mr. Chan Chun Hoo, Thomas retired on 18 May 2017.

2. Ms. Chan, Helen was appointed on 18 May 2017.

Board Committees

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

Audit Committee

The Audit Committee was established in 1999 and its current members include:

LO Kai Yiu, Anthony – *Committee Chairman (Independent Non-executive Director)*
LEE Peng Fei, Allen *(Independent Non-executive Director)*
TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
YU Hon To, David *(Independent Non-executive Director)*

Board Committees (Continued)

Audit Committee (Continued)

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

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the risk management and internal control system, the effectiveness of the internal audit function and financial reporting matters including a review of the accounts for the year ended 31 December 2017.

At the meeting held on 5 March 2018, the Audit Committee reviewed this report, the Directors' Report and accounts for the year ended 31 December 2017 together with the annual results announcement, with a recommendation to the board of directors for approval.

Compensation Committee

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

LEE Peng Fei, Allen – *Committee Chairman (Independent Non-executive Director)*
IP Shu Wing, Charles *(Independent Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*
TO Shu Sing, Sidney *(Chairman)*
TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*

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

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

Remuneration Policy for Non-executive Directors and Executive Directors

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

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

Nomination Committee

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

TO Shu Sing, Sidney – *Committee Chairman (Chairman)*
LEE Peng Fei, Allen *(Independent Non-executive Director)*
LO Kai Yiu, Anthony *(Independent Non-executive Director)*

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company in 2004. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2017. The Model Code also applies to other specified senior management of the Group.

DIRECTORS' INTERESTS

Details of directors' interests in the securities of the Company are set out in pages 18 to 19 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The board has overall responsibility for maintaining an adequate system of risk management and internal controls of the Group and reviewing its effectiveness. The board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of shareholders and the Company's assets.

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.

Our approach adopted for assessing the internal controls systems is based on those set by the COSO (the Committee of Sponsoring Organisations of the Treadway Commission), a globally recognized framework which categorizes internal controls into five components as the basis of reviewing its effectiveness, namely *Control Environment, Risk Assessment, Information and Communication, Control Activities and Monitoring*. In assessing our internal control system based on the above principles, we have taken into 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 to achieve business objectives, and can only 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.

Risk Management

The board is responsible for overseeing overall risk management framework of the Group. Risk is inherent in the Group's business and the markets in which it operates. The Group's overall risk management process is overseen by the board and risk management is also integrated into ongoing business activities, including business planning, capital allocation decisions, internal control and day-to-day operations. The board together with senior management, business units, auditors and internal audit consultant are committed to identifying and mitigating key risks through an effective risk management framework.

The Group's risk management framework includes different layers of roles and responsibilities. Business units regularly review their risk profiles, and carry out risk management and reporting activities from time to time. Senior management is responsible for assessing material risks at the Group level, tracking progress of mitigation plans and reporting to the board as necessary. The internal audit function performed by the Consultant (as defined below) also provides assurance to the board whether the control environments are adequate. The board oversees material risks that require attention and supervises the risk management process as a whole.

Control Effectiveness

The board has conducted an annual review of the risk management and internal control system which covered the relevant financial, operational, compliance controls and risk management functions within the established framework. The board's annual review has also considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The board considered that the risk management and internal control system for the year was effective and adequate. No significant areas of concerns that may affect the financial, operational, compliance controls and risk management functions of the Group have been identified. The directors are satisfied with the effectiveness of the Group's risk management and internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

There was no internal audit function within the Group during the year. The board has appointed an external independent professional ("Consultant") to perform the internal audit function for the Group for the year. The Consultant has reviewed the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The Consultant has reported to the board with its findings and makes recommendations to improve the risk management and internal control of 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 effective to appoint external independent professionals to perform internal audit functions for the Group.

With respect to procedures and internal controls for handling and dissemination of inside information, the Company has procedures and policies in place for ensuring compliance with the inside information disclosure requirements under the regulatory regime. The Company has provided Guidelines on Securities Dealing Restrictions and Disclosure Requirements to all directors and relevant employees at the relevant time in respect of assessing, reporting and disseminating inside information, and abiding shares dealing restrictions. The Company has also included in its code of business conduct and staff handbook a strict prohibition on the unauthorized disclosure or use of confidential information.

AUDITORS' REMUNERATION

For the year ended 31 December 2017, the auditors of the Group only provided audit services to the Group and the remuneration paid by the Group to the auditors for the performance of audit services was HK$1,800,000. In order to maintain their independence, the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

DIRECTORS' AND INDEPENDENT AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the accounts of the Company for the year ended 31 December 2017. The statement of the auditors of the Company about their reporting responsibilities on the accounts is set out in the auditors report on pages 37 to 42 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, a special resolution was passed by the shareholders at Annual General Meeting on 18 May 2017 for amending Bye-law 3(1) to reflect the new par value of the shares of the Company after the share subdivision. Details of the said amendment were set out in the circular of the Company dated 12 April 2017. The latest version of the Bye-laws of the Company is available on the websites of the Stock Exchange and the Company.

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business, and to achieve its business objectives within a framework of high standards taking into consideration of the customers, employees and communities. We will continuously review and improve our health, safety and environmentally-friendly practices and standards in the course of our business and operation.

1. PROTECTING THE ENVIRONMENT

Our vision is to deliver high quality, safe and innovative toys to consumers around the world, in a way that respects the environment. We strive to reduce our environmental footprint, through continuous improvement of operational efficiency and adoption of environmentally-friendly practices.

We are committed to complying with all applicable environmental laws in all countries in which we conduct operations. We have robust procedures in place to ensure that all of our toy products are in compliance with the latest applicable safety and environmental regulations. We work closely with our customers, suppliers, independent certified laboratories and industry associations to follow the latest developments in industry standards.

We also endeavor to make our properties more environmentally friendly through various energy saving and green management initiatives. We will continue to incorporate green features into the operation and management of property investments and associated businesses in order to reduce environmental impact.

During the year, we have complied with relevant laws and regulations relating to environment and natural resources such as air, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, where applicable to the Group.

The Group adopts the principles of reducing, recycling and reusing for the waste management. Any waste materials remaining from our operations must be disposed of legally and in a manner that meets applicable environmental standards. In Hong Kong, all the non-hazardous waste is handled by the recycler or sent to the landfill. The Group does not produce any hazardous waste in its operations during the year.

We are also committed to minimizing the environmental impact of our operations and by operating our businesses in ways that support sustainable use of our available natural resources. We strive to conserve energy and other valuable resources, to reduce waste and to participate in recycling and other environmental protection efforts. In 2017, there was no confirmed non-compliance incident or grievance in relation to our business which had significant impact on the environment or natural resources.

We have taken steps to review our sustainability measures and adopted different initiatives that support our mission to reduce environmental impact, including:

Toys Business

- Reduce number of components in our products
- Improve product-to-packaging ratios
- Adopt environmentally-friendly packaging materials
- Reduce logistics usage by optimizing the number of cartons and containers
- Use off-peak delivery
- Use Forest Stewardship Council (FSC) certified or recycled paper throughout our offices in Hong Kong

Properties Investment

- Use high-efficiency lightings to reduce electricity consumption
- Upgrade air-conditioning system to improve efficiency in office building
- Select environmentally-friendly cleaning products
- Encourage tenants to use environmentally-friendly designs and materials in fitting out their premises
- Place waste separation bins in common areas to facilitate and provide more recycling incentives
- Promote environmental awareness among tenants and occupants and encouraging them to reduce water and electricity consumption
- Reduce use of paper towel by installing hand dryer machines in toilets
- Implement controlled use of chiller units during night time
- Shut down passenger lifts during night time

Food and Beverage Business

- Shut down equipment, electricity, water, gas and air-conditioning supply when they are not needed
- Recycle wastes, aluminum cans, plastic and glass bottles etc.
- Promote environmental awareness among staff to save energy, water and natural resources and to reduce waste.

Overview of Environmental Data *(note 1)*

1. Greenhouse Gas (GHG) Emissions

Indicators	**2017**
Direct emissions (Scope 1) **(kgCO2e)** *(note 2)*	46,100
Indirect emissions (Scope 2) **(kgCO2e)** *(note 3)*	2,105,608
Indirect emissions (Scope 3) **(kgCO2e)** *(note 4)*	26,059
Total GHG emissions (Scope 1, 2 and 3) (kgCO2e)	**2,177,767**
Total GHG emissions intensity (kg/HK$ million of revenue)	**2,158**

2. Non-hazardous waste

Indicators	**2017**
Total non-hazardous waste produced (tonnes)	**103**
Total non-hazardous waste produced intensity (tonnes/HK$ million of revenue)	**0.1**

3. *Effluent and waste management*

Indicators	2017
Total waste water discharged (m^3)	**8,958**
Waste disposed to landfill (kg)	
• General office waste (kg)	77,415
• Grease trap waste disposed to landfill (kg)	25,100
Total waste disposed to landfill (kg)	**102,515**
Waste collected for recycling (kg)	
• Metals (kg)	4
• Plastics (kg)	13
Total waste collected for recycling (kg)	**17**

4. *Energy consumption*

Indicators	2017
Direct energy consumption (MWh)	
• Unleaded Petrol	6,028
Indirect energy consumption (MWh)	
• Electricity	3,327,228
• Gas	15,757
Total energy consumption (MWh)	**3,349,013**
Total energy consumption intensity (MWh/HK$ million of revenue)	**3,319**

5. *Water consumption*

Indicators	2017
Total water consumption (m^3) *(note 5)*	**10,461**
Total water consumption intensity (m^3/HK$ million of revenue)	**10**

6. *Packaging materials*

Indicators	2017
Total packaging material used (including plastic and papers) (tonnes)	**3,414**
Intensity of packaging material used (kg) (Material for packaging/number of products)	**0.22**

Notes:

1. Unless otherwise specified, the environmental data covers the Group's owned and operated facilities (offices, restaurants and common areas of the buildings owned and managed by the Group) in Hong Kong and the U.S.

2. Scope 1 refers to direct GHG emission such as fuel combustion.

3. Scope 2 refers to indirect GHG emission such as consumption of electricity and towngas.

4. Scope 3 refers to indirect GHG emission such as consumption of paper and business air travel.

5. In 2017, there is no issue in sourcing water that is fit for purpose.

Look Forward

We plan to further enhance our environmental performance through the following actions:

1. Identify and manage environmental risks;
2. Monitor and comply with new requirements of all applicable laws and regulations;
3. Use energy, water and materials more efficiently;
4. Minimize water discharges, greenhouse gas and waste disposal;
5. Increase recycle and reuse waste to minimize landfill disposal;
6. Introduce environmentally responsible purchasing practices; and
7. Promote employee awareness and education.

2. SOCIAL

a. Employment Practices

It is our policy that we treat each employee with respect and fairness at all times and we are committed to providing a work environment free from unlawful discrimination to ensure all employees and job applicants enjoy equal opportunities and fair treatment. We are also committed to complying with all applicable laws, prohibiting discrimination and making all employment or promotion decisions on the basis of factors such as merits, qualifications, experience, skills and achievements, regardless of any characteristics protected by law such as race, colour, gender or religious belief. During the year we have complied with local employment regulations in all jurisdictions in which we carry on business.

The Group does not employ child or forced labour which is strictly prohibited in all of our business sectors. Furthermore, we do not allow any of our vendors or suppliers to engage in any forced or child labour. We comply with all relevant laws and regulations preventing child and forced labour.

b. Promotion of Ethical and Responsible Conduct

Our Code of Business Conduct, available in the Staff Handbook, communicates to our employees our emphasis on ethical business conduct. The Code of Business Conduct applies to all employees and covers areas including, among other things, health, safety and financial integrity etc.

We have an Ethics Resource Team that assists our employees in understanding and complying with the Code of Business Conduct, monitoring compliance, resolving conflicts and queries and coordinating investigations into reported violations. Furthermore, we have in place a “whistle-blowing” policy and system for our employees to raise concerns on any inappropriate conduct or malpractice that compromises the interest of the Company.

c. Health and Safety

We are committed to providing a safe and healthy work environment in accordance with applicable safety and health laws and regulations and to taking appropriate precautionary and remedial measures for the safety of our employees. For example, during the year arrangements were made for most of our restaurant staff to attend applicable courses organized by the Occupational Safety & Health Council to raise their awareness of occupational hazards and to enhance their knowledge of occupational safety and health.

There was no case of fatality or injury due to workplace incident in the reporting year.

d. Development and Training

To assist employees in their career development, we encourage them to attend vocational, academic or professional training courses to enhance their skills or qualifications relevant to their duties at work by reimbursing or subsidizing the training fees or tuition fees and granting the employees paid leave for attending such courses. We also conduct continuous training sessions for our directors and senior executives on legal and regulatory updates and matters relevant to the businesses of the Group.

3. OPERATING PRACTICES

a. Property Management and Food & Beverage Businesses

The Group support and promote green property management and procurement practices. We select environmentally-friendly products in managing our buildings and encourage our tenants to use environmentally-friendly designs and fit out materials. In our food and beverage business operations, we strictly adhere to local food safety standards. We develop long term relationships with our suppliers to ensure reliable and high standard of food supplies at all times.

b. Supply Chain Management of Toy Business

Supply chain is a critical part of our operations. All productions of our toy products are outsourced to independent OEM vendors with manufacturing facilities in China. We have a select group of approximate 13 vendors that produce our toy products during the year.

Our vendor selection criteria focus on safety, quality, security, cost and delivery. The safety and quality of toy products manufactured for us have always been of the utmost importance to us. As part of our long standing quality assurance program, all of our vendors are required to adhere to the policies and procedures imposed by us, and all toys manufactured for us are tested and certified by independent certified laboratories which must be in full compliance with applicable regulations and standards.

The ongoing factory monitoring is supported by random audits of products. All of our vendors must comply with the security criteria as set forth by the U.S. Customs and Border Protection's multi-layered cargo enforcement strategy under Department of Homeland Security. All vendors are also certified to comply with the International Council of Toy Industries (ICTI) CARE Process and/or Electronics Industry Citizenship Coalition/Responsible Business Alliance (EICC/RBA) to ensure that factories meet the relevant standards, which contains principles regarding work environment, fair labour treatment, as well as employee health and safety in the toy industry. Regular reviews are performed to ensure that all vendors remain in compliance with the appropriate standard at all times. As far as we are aware, there has been no material non-compliance with applicable standards by our vendors during the year.

Furthermore, all of our toy suppliers must enforce and adhere to all applicable international supply-chain security standards to identify, mitigate and eliminate all potential security risks. Generally they participate in the Global Security Verification (GSV) Program or US C-TPAT Security Inspection Program, in which they are required to verify their manufacturing facilities on an annual basis in respect of the effectiveness of their GSV or C-TPAT security practices.

c. Product Quality and Safety

The quality assurance of our products has been of the utmost importance ever since our inception, over 50 years ago. Our primary concern continues to be the health and safety of the end users of our products, most of whom are children. Our commitment to and continued vigilance over quality and safety are essential in maintaining the trust of our customers.

We have established a strict quality control system and a set of quality standards for all our products. Our policies and practices on quality control of the production of our products are:

- We maintain a quality manual which documents the process and requirements for all products of the Group.
- The areas that are monitored include product safety, quality, laboratory testing, customers' requirement, specification, inspection, samples and vendor responsibility.
- Process and requirement are revised from time to time to meet new regulations of countries to which products are shipped.
- Our vendors are required to fully understand our quality manual and the requirements of the Group and our customers.
- All products must be tested and certified to comply with applicable international standards and regulations with reports issued from accredited laboratories before shipment.

The United States is the most important market for our toys. Toys sold in the United States are regulated by Consumer Product Safety Commission ("CPSC") and must comply with US federal regulations such as Consumer Product Safety Act, Federal Hazardous Substances Act, Consumer Product Safety Improvement Act and Child Safety Protection Act. The United States government also relies on the toy industry to voluntarily regulate itself. There is a comprehensive voluntary safety standard for toys in the United States, referred to as ASTM F963, which contains additional requirements for safety. Playmates is a member of Toy Industry Association which, together with CPSC, is actively involved in reviewing and updating the safety standard.

Toys sold in Europe are primarily regulated by Toy Safety Directive (2009/48/EC) of the European Commission and the European standard for toys, EN-71. Additional requirements apply to electronic toys are contained in Safety of Electric Toys: EN62115. Toys containing Phthalates and certain kinds of toys are further regulated by other legislations such as the Restriction of Hazardous Substances in Electronic Equipment Directive and the Waste Electrical and Electronic Equipment Directive. Our products sold in Europe conform to the relevant regulations and are marked to show European Conformity with the "CE" mark.

We have not made any product recalls or received any material product liability claims or product related complaint from end consumers during the year.

d. Marketing to Children

We market our products in a responsible way by offering age-appropriate contents in marketing materials. For our Playmates Toys' website, we comply with the US Online Privacy Protection Act which set out rules for collecting information from children. Playmates Toys is also a member of the "kidSAFE Seal Program" under which the contents of its website have been independently reviewed and certified to meet the standards of online safety and/or privacy.

e. Protection of Trademarks

All of our products are produced and sold under trademarks owned by or licensed to us. We typically register our intellectual properties and seek protection under the trademark, copyright and patent laws of the U.S. and other countries where our products are produced or sold. We have registered a number of trademarks with the U.S. Patent and Trademark Office and with similar authorities in various countries.

f. Protection of Consumer Data

It is our policy that we must protect consumer information that is sensitive, private or confidential. No consumer information may be shared, sold or traded without proper and prior consent, in accordance with our procedures for maintaining the security of such information, and applicable privacy and data protections laws and regulations.

g. Anti-corruption

We are committed to ethical business practices and full compliance with the law wherever we do business. We prohibit our employees from offering, authorizing or giving or receiving money or anything else of value, either directly or through other parties, to governmental officials or private sector representatives, in order to influence their decision-making process, either to gain or to retain business. This prohibition includes business courtesies, such as gifts, entertainment or contributions, under circumstances that would create an appearance of impropriety. In this year, we arranged Independent Commission Against Corruption to provide our Hong Kong employees with training on anti-corruption rules, regulations and practices.

We have established in Our Code of Business Conduct policies against money laundering which are in line with all applicable laws which prohibit our employees from accepting or processing proceeds of criminal activities.

We have in place a “whistle-blowing” policy and system for our employees to report suspected criminal acts including corruption, money laundering and frauds.

During the reporting year, we have complied with all relevant laws and regulations that have a significant impact on the Group. There was no legal case regarding corrupt practices or money laundering brought against the Company or its employees during the year.

4. COMMUNITY INVESTMENT

We always seek to make a positive contribution to build a better world for children. We encourage our employees to participate in volunteering activities organized by local charities. During the year, we have also supported a number of charitable organizations including Friends of Panmure House Inc, Hong Chi Association and Sachs Family Foundation.

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

Opinion

We have audited the consolidated financial statements of Playmates Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 115, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters (Continued)

Valuation of investment properties

Refer to notes 2.5 and 15 to the consolidated financial statements

The Group's investment properties measured at fair value amounted to approximately HK$5,503 million as at 31 December 2017 and a net fair value gain on investment properties of HK$81 million was recorded for the year then ended.

The Group engaged independent professional valuers to perform the valuation of investment properties. Significant judgments and estimation, including valuation methodologies and key assumptions used, are required to determine the fair value of investment properties by the valuers.

We identified the valuation of investment properties as a key audit matter due to the significant judgments and estimates involved and the financial impacts on the consolidated financial statements.

How the matter was addressed in our report

Our audit procedures in relation to valuation of investment properties included:

- assessing the competence, capabilities and objectivity of the independent professional valuers;
- evaluating and assessing the methodologies adopted and the appropriateness of the key assumptions, including market rent, capitalisation rate, etc, by referencing to market information and by comparing the fair value of other comparable properties.

Based on the above procedures, we obtained evidence to support the significant judgments and estimates used in the valuation of investment properties.

Revenue recognition

Refer to notes 2.14 and 4 to the consolidated financial statements

Revenue principally comprises revenue from the design, development, marketing and distribution of toys and family entertainment activity products.

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. There was no accounting judgment made in determining sales transactions (see notes 2.1 and 2.14).

We identified the recognition of revenue as a key audit matter because of its significance to the Group and revenue is one of the key performance indicators of the Group, therefore it is a significant audit risk area.

How the matter was addressed in our report

Our audit procedures to assess the recognition of revenue included:

- assessing the design and operating effectiveness of the key controls over revenue recognition;
- reviewing sales agreements and/or sales orders from customers, on a sample basis, to understand the terms of the sales transactions to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards;
- assessing, on a sample basis, whether revenue transactions recorded during the financial year had occurred by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms of sale as set out in the sales agreements;
- assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate period by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms of sale as set out in the sales agreements;
- reviewing if there are any significant adjustments to revenue during the reporting period, understanding the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

We found the revenue recorded to be supported by the available evidence.

Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

5 March 2018

Chan Tze Kit
Practising Certificate No.: P05707

Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 US$'000 (Note 34)	2017 HK$'000	2016 HK$'000
Revenue	4	**129,393**	**1,009,261**	1,250,726
Cost of sales		**(47,080)**	**(367,224)**	(417,997)
Gross profit		**82,313**	**642,037**	832,729
Marketing expenses		**(24,019)**	**(187,346)**	(220,057)
Selling and distribution expenses		**(3,927)**	**(30,627)**	(68,814)
Administration expenses		**(20,525)**	**(160,097)**	(182,475)
Net gain/(loss) on financial assets at fair value through profit or loss	6	**3,815**	**29,754**	(2,730)
Revaluation surplus/(deficit) on investment properties		**10,402**	**81,136**	(302,806)
Operating profit		**48,059**	**374,857**	55,847
Other net income	8	**2,117**	**16,514**	3,785
Finance costs	9	**(2,451)**	**(19,119)**	(16,393)
Share of loss of an associated company		**(17)**	**(133)**	–
Profit before income tax	7	**47,708**	**372,119**	43,239
Income tax expense	10	**(7,940)**	**(61,932)**	(95,727)
Profit/(Loss) for the year		**39,768**	**310,187**	(52,488)
Profit/(Loss) for the year attributable to:				
Owners of the Company		**36,179**	**282,196**	(110,132)
Non-controlling interests		**3,589**	**27,991**	57,644
		39,768	**310,187**	(52,488)
		US cents	***HK cents***	*HK cents*
Earnings/(Loss) per share	12			
Basic		**1.74**	**13.54**	(5.10)
Diluted		**1.74**	**13.54**	(5.10)

The notes on pages 51 to 115 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 **US$'000** *(Note 34)*	**2017** **HK$'000**	2016 *HK$'000*
Profit/(Loss) for the year	**39,768**	**310,187**	(52,488)
Other comprehensive income, including reclassification adjustments:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries	**4,086**	**31,873**	(40,405)
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings	**–**	**–**	31,812
Total comprehensive income for the year	**43,854**	**342,060**	(61,081)
Total comprehensive income attributable to:			
Owners of the Company	**39,964**	**311,716**	(118,725)
Non-controlling interests	**3,890**	**30,344**	57,644
	43,854	**342,060**	(61,081)

The notes on pages 51 to 115 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	**2017** **US$'000** (Note 34)	**2017** **HK$'000**	2016 HK$'000
Non-current assets				
Fixed assets				
– Investment properties	15	**705,466**	**5,502,632**	5,378,426
– Other property, plant and equipment	15	**33,861**	**264,119**	264,524
		739,327	**5,766,751**	5,642,950
Prepayments for fixed assets		**527**	**4,110**	–
Goodwill	16	**766**	**5,976**	5,976
Interest in an associated company	18	**759**	**5,920**	6,053
Deferred tax assets	28	**3,739**	**29,165**	28,982
		745,118	**5,811,922**	5,683,961
Current assets				
Inventories	19	**2,936**	**22,904**	15,422
Trade receivables	20	**21,877**	**170,640**	175,692
Deposits paid, other receivables and prepayments	21	**5,952**	**46,426**	87,468
Taxation recoverable		**2,230**	**17,391**	22,534
Financial assets at fair value through profit or loss	22	**17,687**	**137,955**	114,267
Cash and bank balances	31.2	**182,516**	**1,423,626**	1,388,706
		233,198	**1,818,942**	1,804,089
Current liabilities				
Bank loans	23	**61,298**	**478,125**	497,275
Trade payables	24	**3,349**	**26,126**	18,598
Deposits received, other payables and accrued charges	25	**25,401**	**198,124**	175,430
Loan from an associated company	26	**748**	**5,831**	5,831
Provisions	27	**5,405**	**42,157**	37,749
Taxation payable		**2,099**	**16,376**	6,969
		98,300	**766,739**	741,852
Net current assets		**134,898**	**1,052,203**	1,062,237
Total assets less current liabilities		**880,016**	**6,864,125**	6,746,198

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	**2017** ***US$'000*** *(Note 34)*	**2017** ***HK$'000***	2016 *HK$'000*
Non-current liabilities				
Bank loans	*23*	**13,237**	**103,250**	5,800
Deferred tax liabilities	*28*	**3,977**	**31,023**	30,589
		17,214	**134,273**	36,389
Net assets		**862,802**	**6,729,852**	6,709,809
Equity				
Share capital	*30.1*	**2,600**	**20,278**	21,582
Reserves		**792,206**	**6,179,207**	6,118,249
Equity attributable to the owners of the Company		**794,806**	**6,199,485**	6,139,831
Non-controlling interests		**67,996**	**530,367**	569,978
Total equity		**862,802**	**6,729,852**	6,709,809

On behalf of the board

CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
Director

The notes on pages 51 to 115 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	**2017** **US$'000** (Note 34)	**2017** **HK$'000**	2016 HK$'000
Cash flows from operating activities				
Cash generated from operations	*31.1*	**44,154**	**344,406**	454,617
Interest paid		**(1,578)**	**(12,309)**	(10,528)
Interest received		**334**	**2,608**	852
Dividends received from financial assets at fair value through profit or loss		**368**	**2,870**	13,301
Hong Kong profits tax paid		**(4,147)**	**(32,350)**	(30,544)
Hong Kong profits tax refunded		**6**	**47**	18,281
Overseas tax paid		**(1,904)**	**(14,849)**	(41,889)
Net cash generated from operating activities		**37,233**	**290,423**	404,090
Cash flows from investing activities				
Capitalised subsequent expenditure on investment properties		**(2,691)**	**(20,997)**	(523)
Purchases of other property, plant and equipment		**(1,769)**	**(13,796)**	(4,631)
Prepayments for fixed assets		**(527)**	**(4,110)**	–
Purchases of financial assets at fair value through profit or loss		**(2,946)**	**(22,977)**	(3,789)
Proceeds from disposal of financial assets at fair value through profit or loss		**4,103**	**32,001**	15,444
Proceeds from disposal of other property, plant and equipment		**25**	**198**	–
Dividends received from financial assets at fair value through profit or loss		**30**	**236**	485
Interest received		**1,355**	**10,572**	3,778
Net cash (used in)/generated from investing activities		**(2,420)**	**(18,873)**	10,764

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	**2017** **US$'000** (Note 34)	**2017** **HK$'000**	2016 HK$'000
Cash flows from financing activities				
Issue of shares of the Company		**–**	**–**	1,025
Issue of shares of a listed subsidiary		**131**	**1,018**	4,682
Repurchase of shares of the Company		**(17,683)**	**(137,929)**	(39,784)
Repurchase of its own shares by a listed subsidiary		**(3,408)**	**(26,583)**	(1,860)
New bank loans	*31.3*	**14,103**	**110,000**	3,310
Repayment of bank loans	*31.3*	**(4,545)**	**(35,450)**	(31,800)
Dividends paid to owners of the Company		**(14,099)**	**(109,974)**	(60,480)
Dividends paid to non-controlling interests		**(6,224)**	**(48,549)**	(61,272)
Net cash used in financing activities		**(31,725)**	**(247,467)**	(186,179)
Net increase in cash and cash equivalents		**3,088**	**24,083**	228,675
Cash and cash equivalents at 1 January		**178,039**	**1,388,706**	1,160,738
Effect of foreign exchange rate changes		**1,389**	**10,837**	(707)
Cash and cash equivalents at 31 December	*31.2*	**182,516**	**1,423,626**	1,388,706

The notes on pages 51 to 115 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Share repurchase reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2016	22,000	1,856	5,700	(721)	862,679	(10,240)	13,123	–	5,461,513	6,355,910	571,676	6,927,586
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(110,132)	(110,132)	57,644	(52,488)
Other comprehensive income:												
Exchange differences arising on translation of foreign subsidiaries	–	–	–	–	–	(40,405)	–	–	–	(40,405)	–	(40,405)
Surplus on revaluation of land and buildings	–	–	–	–	–	–	–	31,812	–	31,812	–	31,812
Total comprehensive income for the year	–	–	–	–	–	(40,405)	–	31,812	(110,132)	(118,725)	57,644	(61,081)
Repurchase of shares of the Company	(429)	(1,054)	429	(2,442)	(35,859)	–	–	–	(429)	(39,784)	–	(39,784)
Repurchase of its own shares by a listed subsidiary	–	–	–	–	(919)	–	–	–	–	(919)	(941)	(1,860)
Share option scheme												
– value of services	–	–	–	–	–	–	251	–	–	251	256	507
– shares issued	11	1,054	–	–	3,931	–	(1,658)	–	–	3,338	2,369	5,707
– share options lapsed	–	–	–	–	–	–	(7,423)	–	7,423	–	–	–
2015 second interim dividend paid	–	–	–	–	(16,200)	–	–	–	–	(16,200)	–	(16,200)
2015 special interim dividend paid	–	–	–	–	(28,080)	–	–	–	–	(28,080)	–	(28,080)
2016 first interim dividend paid	–	–	–	–	(16,200)	–	–	–	–	(16,200)	–	(16,200)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(61,272)	(61,272)
Tax benefits arising from share option scheme in overseas tax jurisdiction	–	–	–	–	240	–	–	–	–	240	246	486
Transactions with owners	(418)	–	429	(2,442)	(93,087)	–	(8,830)	–	6,994	(97,354)	(59,342)	(156,696)
At 31 December 2016	21,582	1,856	6,129	(3,163)	769,592	(50,645)	4,293	31,812	5,358,375	6,139,831	569,978	6,709,809

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Share repurchase reserve *HK$'000*	Reserve on consolidation *HK$'000*	Exchange reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017	21,582	1,856	6,129	(3,163)	769,592	(50,645)	4,293	31,812	5,358,375	6,139,831	569,978	6,709,809
Profit for the year	-	-	-	-	-	-	-	-	282,196	282,196	27,991	310,187
Other comprehensive income:												
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	-	29,520	-	-	-	29,520	2,353	31,873
Total comprehensive income for the year	-	-	-	-	-	29,520	-	-	282,196	311,716	30,344	342,060
Repurchase of shares of the Company	(1,304)	-	1,304	289	(136,914)	-	-	-	(1,304)	(137,929)	-	(137,929)
Repurchase of its own shares by a listed subsidiary	-	-	-	(455)	(12,884)	-	-	-	-	(13,339)	(13,244)	(26,583)
Share option scheme												
– shares issued	-	-	-	-	864	-	(354)	-	-	510	508	1,018
– share options lapsed	-	-	-	-	-	-	(27)	-	27	-	-	-
2016 second interim dividend paid	-	-	-	-	(16,050)	-	-	-	-	(16,050)	-	(16,050)
2016 special interim dividend paid	-	-	-	-	(32,100)	-	-	-	-	(32,100)	-	(32,100)
2017 first interim dividend paid	-	-	-	-	(20,608)	-	-	-	-	(20,608)	-	(20,608)
2017 first special interim dividend paid	-	-	-	-	(41,216)	-	-	-	-	(41,216)	-	(41,216)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(48,549)	(48,549)
Changes in ownership interests in subsidiaries without change of control	-	-	-	-	-	-	-	-	8,670	8,670	(8,670)	-
Transactions with owners	(1,304)	-	1,304	(166)	(258,908)	-	(381)	-	7,393	(252,062)	(69,955)	(322,017)
At 31 December 2017	20,278	1,856	7,433	(3,329)	510,684	(21,125)	3,912	31,812	5,647,964	6,199,485	530,367	6,729,852

The notes on pages 51 to 115 form an integral part of these financial statements.

1 GENERAL INFORMATION

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

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

The financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 5 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on the Group's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.7 "Inventories", note 2.11 "Provisions", note 2.15 "Advertising and marketing expenses, advanced royalties and product development costs", note 2.19 "Deferred taxation" and note 2.20 "Current taxation" to the financial statements. Other than that, no significant accounting estimations and judgments have been made.

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.

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

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

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

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

2.3 *Subsidiaries*

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

In the Company's statement of financial position, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 *Associated companies*

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Fixed assets

Investment properties

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

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

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

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

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

Other property, plant and equipment

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

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

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

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

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

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

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

2.6 Goodwill

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

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

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

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

2.7 Inventories

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets

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

Trade and other receivables

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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

2.9 Impairment of non-financial assets

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Other property, plant and equipment and interest in subsidiaries and an associated company are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

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

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

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

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

2.10 *Financial liabilities*

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

Trade and other payables and loan from an associated company

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

Bank loans

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

2.11 *Provisions*

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

(i) Consumer returns

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

A portion of the Group's retail customers receive a fixed percentage of sales as their allowance. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Provisions (Continued)

(ii) Cooperative advertising

The Group participates in customer advertising programmes which are negotiated on an individual basis. In addition, the Group contributes toward specific expenses of the customers for in-store sales promotions and advertising circulars.

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

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

(iii) Cancellation charges

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

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

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

All provisions are established for specific exposures.

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

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

2.12 Share capital

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

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

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

2.13 Financial guarantee contracts

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

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

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

2.14 Revenue recognition

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Revenue recognition (Continued)

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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

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

2.15.1 Advertising and marketing expenses are expensed as incurred.

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

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

(i) demonstration of technical feasibility of completing the product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

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

2.16 Operating leases

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

Operating lease charges as the lessee

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

Assets leased out under operating leases as the lessor

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

2.17 Employee benefits

2.17.1 Employee leave entitlements

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

2.17.2 Pension obligations

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

2.17.3 Share-based compensation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits (Continued)

2.17.3 Share-based compensation (Continued)

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

2.18 Borrowing costs

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

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

2.19 Deferred taxation

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

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

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

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

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

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

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

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Current taxation

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

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

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2.21 Foreign currency translation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Foreign currency translation (Continued)

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

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

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

2.22 Cash and cash equivalents

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

2.23 Segment reporting

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

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

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

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

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

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

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

2.24 *Related parties*

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

3 ADOPTION OF NEW OR AMENDED HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. 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.

Relevant disclosure has been made in note 31.3 to the financial statements upon the adoption of amendments to HKAS 7 "Statement of cash flows: Disclosure Initiative", which requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 2017 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2017:

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these new standards, amendments and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements. Details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018.

Save as discussed below, all other new standards, amendments or interpretations issued but not effective are not likely to have significant impact on the consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise transition adjustments (if any) against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9. The Group does not have any financial assets classified as FVTOCI.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement on financial liabilities will not have any impact on the Group.

3 ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

HKFRS 9, Financial instruments (Continued)

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model may result in earlier recognition of credit losses. Based on preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss would increase by approximately HK$26,000 as compared to the current requirement under HKAS 39.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs. The Group has assessed that the new revenue standard does not have any impact on the timing it recognises revenue.

HKFRS 16, Leases

As disclosed in Note 2.16, the Group enters into some leases as lessor and some leases as lessee. HKFRS 16 does not impact significantly on lessor accounting. On the other hand, in lessee accounting it will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for offices which are currently classified as operating leases. The application of this new lease standard is expected to lead to an increase in both assets and liabilities on the consolidated financial position and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. As disclosed in Note 32.2.1, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$8,537,000 for rental of offices. These amounts may need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

4 REVENUE

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

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

	2017 *HK$'000*	2016 *HK$'000*
Sale of toys	**758,329**	992,933
Rental income from investment properties	**204,493**	201,223
Property management income	**18,219**	17,457
Restaurant income	**22,742**	24,960
Dividend income	**2,870**	13,301
Interest income	**2,608**	852
Total revenue	**1,009,261**	1,250,726

5 SEGMENT INFORMATION

5.1 Segment results, assets and liabilities

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

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

The segment results for the year ended 31 December 2017 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Gross segment revenue	**257,936**	**5,478**	**758,329**	**1,021,743**
Inter-segment revenue	**(12,482)**	**–**	**–**	**(12,482)**
Revenue from external customers	**245,454**	**5,478**	**758,329**	**1,009,261**
Segment profit before depreciation	**279,775**	**34,840**	**79,451**	**394,066**
Depreciation	**(12,599)**	**–**	**(5,320)**	**(17,919)**
Segment operating profit	**267,176**	**34,840**	**74,131**	**376,147**
Other net (loss)/income	**(3,750)**	**–**	**20,263**	**16,513**
Finance costs	**(12,867)**	**(16)**	**(5,735)**	**(18,618)**
Share of loss of an associated company	**–**	**–**	**(133)**	**(133)**
	(16,617)	**(16)**	**14,395**	**(2,238)**
Segment profit before income tax	**250,559**	**34,824**	**88,526**	**373,909**
Unallocated corporate expenses				**(1,790)**
Profit before income tax				**372,119**
Interest income	**–**	**2,608**	**10,572**	
Revaluation surplus on investment properties	**81,136**	**–**	**–**	
Net gain on financial assets at fair value through profit or loss	**–**	**29,754**	**4,424**	

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment results for the year ended 31 December 2016 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Gross segment revenue	255,751	14,153	992,933	1,262,837
Inter-segment revenue	(12,111)	–	–	(12,111)
Revenue from external customers	243,640	14,153	992,933	1,250,726
Segment (loss)/profit before depreciation	(108,753)	10,611	177,370	79,228
Depreciation	(10,251)	–	(2,114)	(12,365)
Segment operating (loss)/profit	(119,004)	10,611	175,256	66,863
Other net (loss)/income	(2,287)	–	6,065	3,778
Finance costs	(11,028)	(29)	(5,199)	(16,256)
	(13,315)	(29)	866	(12,478)
Segment (loss)/profit before income tax	(132,319)	10,582	176,122	54,385
Unallocated corporate expenses				(11,146)
Profit before income tax				43,239
Interest income	–	852	3,773	
Revaluation deficit on investment properties	(302,806)	–	–	
Net (loss)/gain on financial assets at fair value through profit or loss	–	(2,730)	3,771	

The segment assets and liabilities as at 31 December 2017 are as follows:

	Property investments and associated businesses HK$'000	Investment business HK$'000	Toy business HK$'000	Total HK$'000
Reportable segment assets (including cash and bank balances)	**5,815,481**	**508,199**	**1,254,764**	**7,578,444**
Interest in an associated company	**–**	**–**	**5,920**	**5,920**
Total reportable segment assets	**5,815,481**	**508,199**	**1,260,684**	**7,584,364**
Inter-segment elimination	**–**	**–**	**(1,669)**	**(1,669)**
Deferred tax assets				**29,165**
Taxation recoverable				**17,391**
Unallocated assets				**1,613**
Total assets				**7,630,864**
Reportable segment liabilities	**629,130**	**–**	**224,064**	**853,194**
Inter-segment elimination	**(1,669)**	**–**	**–**	**(1,669)**
Deferred tax liabilities				**31,023**
Taxation payable				**16,376**
Unallocated liabilities				**2,088**
Total liabilities				**901,012**
Capital expenditure	**27,960**	**–**	**10,943**	

5 SEGMENT INFORMATION (Continued)

5.1 Segment results, assets and liabilities (Continued)

The segment assets and liabilities as at 31 December 2016 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Reportable segment assets (including cash and bank balances)	5,721,061	442,752	1,265,903	7,429,716
Interest in an associated company	–	–	6,053	6,053
Total reportable segment assets	5,721,061	442,752	1,271,956	7,435,769
Inter-segment elimination	–	–	(1,591)	(1,591)
Deferred tax assets				28,982
Taxation recoverable				22,534
Unallocated assets				2,356
Total assets				7,488,050
Reportable segment liabilities	548,041	–	191,532	739,573
Inter-segment elimination	(1,591)	–	–	(1,591)
Deferred tax liabilities				30,589
Taxation payable				6,969
Unallocated liabilities				2,701
Total liabilities				778,241
Capital expenditure	4,069	–	1,085	

5.2 *Geographical information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, prepayments for 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**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**249,102**	245,690	**5,263,581**	5,160,336
Americas				
– U.S.A.	**495,951**	744,888	**198,461**	198,780
– Others	**49,206**	43,740	**–**	–
Europe	**164,350**	148,441	**228,338**	208,174
Asia Pacific other than Hong Kong	**45,405**	61,455	**92,377**	87,689
Others	**5,247**	6,512	**–**	–
	760,159	1,005,036	**519,176**	494,643
	1,009,261	1,250,726	**5,782,757**	5,654,979

5.3 *Major customers*

The Group's customer base includes five (2016: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to each of these customers amounted to approximately HK$186,022,000, HK$153,972,000, HK$126,885,000, HK$114,339,000 and HK$107,504,000 (2016: HK$362,691,000, HK$153,844,000 and HK$149,074,000) respectively.

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

	2017 HK$'000	2016 HK$'000
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	**19,052**	(6,063)
Net realised gain on financial assets at fair value through profit or loss	**10,702**	3,333
	29,754	(2,730)

7 PROFIT BEFORE INCOME TAX

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

	2017 HK$'000	2016 HK$'000
Cost of inventories sold	**305,257**	361,818
Reversal of write-down of inventories	**–**	(181)
Write-down of inventories	**184**	–
Product development costs	**8,248**	11,752
Royalties expense	**113,889**	136,328
Direct operating expenses arising from investment properties that generate rental income	**4,445**	4,747
Direct operating expenses arising from investment properties that did not generate rental income	**752**	1,165
Provision for consumer returns, cooperative advertising and cancellation charges *(Note 27)*	**21,211**	48,064
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges *(Note 27)*	**(1,274)**	(1,662)
Depreciation of other property, plant and equipment *(Note 15)*	**18,553**	13,176
Directors' and staff remunerations *(Note 13)*	**97,362**	101,307
Allowance for impairment of trade receivables *(Note 20)*	**–**	643
Allowance for customer concession	**13,598**	1,395
Operating leases expense on office	**2,692**	2,642
(Gain)/Loss on disposal of other property, plant and equipment	**(53)**	94
Auditors' remuneration	**1,800**	1,850

8 OTHER NET INCOME

	2017	2016
	HK$'000	*HK$'000*
Net foreign exchange loss	**(3,750)**	(2,285)
Net investment gain and income from Playmates Toys' treasury investments	**15,232**	8,029
Others	**5,032**	(1,959)
	16,514	3,785

9 FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**12,309**	10,528
Bank charges	**6,810**	5,865
	19,119	16,393

10 INCOME TAX EXPENSE

10.1 Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2017	2016
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**35,469**	38,949
Overseas taxation	**26,305**	48,123
Under provision in prior years – overseas	**–**	1,994
Over provision in prior years – Hong Kong	**(100)**	(168)
	61,674	88,898
Deferred taxation		
Origination and reversal of temporary differences	**(6,609)**	6,829
Impact of change in US tax rate *(Note)*	**6,867**	–
	258	6,829
Income tax expense	**61,932**	95,727

10 INCOME TAX EXPENSE (Continued)

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

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**372,119**	43,239
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**82,239**	42,516
Tax effect of:		
Non-taxable income	**(31,927)**	(11,405)
Non-deductible expenses	**9,350**	63,533
Utilisation of previously unrecognised tax losses	**(4,671)**	(1,089)
Unrecognised tax losses	**173**	318
Recognition of previously unrecognised temporary differences	**1**	28
Remeasurement of deferred tax due to change in US tax rate *(Note)*	**6,867**	–
(Over)/Under provision in prior years	**(100)**	1,826
Income tax expense	**61,932**	95,727

Note:

This amount related to the impact of U.S. tax legislation that was passed into law on 22 December 2017 ("US Tax Reform"), which lowered the U.S. federal tax rate for corporation from 35% to 21% effective from 1 January 2018.

11 DIVIDENDS

11.1 Dividends attributable to the year

	2017	2016
	HK$'000	*HK$'000*
First interim dividend of HK cents 1.00 per share (2016: HK cents 0.75 per share*)	**20,608**	16,200
First special interim dividend of HK cents 2.00 per share (2016: HK cents nil per share*)	**41,216**	–
Second interim dividend of HK cents 1.00 per share (2016: HK cents 0.75 per share*)	**20,089**	16,050
Second special interim dividend of HK cents 2.00 per share (2016: HK cents nil per share*)	**40,177**	–
Special interim dividend of HK cents nil per share (2016: HK cents 1.50 per share*)	**–**	32,100
	122,090	64,350

At a meeting held on 25 August 2017, the board of directors declared a first interim dividend of HK cents 1.00 per share and a first special interim dividend of HK cents 2.00 per share, which was paid on 29 September 2017.

At a meeting held on 5 March 2018, the board of directors declared a second interim dividend of HK cents 1.00 per share and a second special interim dividend of HK cents 2.00 per share to be paid on 11 April 2018 to shareholders whose names appear on the Company's register of members on 22 March 2018. This second interim dividend and second special interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2017.

11 DIVIDENDS (Continued)

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

	2017 ***HK$'000***	2016 *HK$'000*
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 0.75 per share* (2016: HK cents 0.75 per share*)	**16,050**	16,200
Special interim dividend of HK cents 1.50 per share* (2016: HK cents 1.30 per share*)	**32,100**	28,080
	48,150	44,280

* These dividend per share amounts have been adjusted to take into account the effect of the Share Subdivision as detailed in Note 30.1 (ii).

12 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK$282,196,000 (2016: loss of HK$110,132,000) and the weighted average number of ordinary shares of 2,084,891,000 shares (2016: 2,161,580,000 shares, adjusted to take into account the effect of the Share Subdivision as detailed in Note 30.1(ii)) in issue during the year.

Diluted earnings per share for the year ended 31 December 2017 equals to the basic earnings per share as there were no potential ordinary shares.

Diluted loss per share for the year ended 31 December 2016 equals to the basic loss per share as the potential ordinary shares on exercise of share options are anti-dilutive and therefore were not included in the calculation of diluted loss per share.

The dilutive effect of the share options issued by the Group's listed subsidiary, Playmates Toys Limited was insignificant for the years ended 31 December 2017 and 2016.

13 DIRECTORS' AND STAFF REMUNERATIONS

	2017 ***HK$'000***	2016 *HK$'000*
Wages, salaries and other benefits	**94,615**	98,202
Share-based compensation	**–**	434
Employer's contributions to provident fund	**2,747**	2,671
	97,362	101,307

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

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

Name of director	Fee 2017 *HK$'000*	Salary 2017 *HK$'000*	Bonus 2017 *HK$'000*	Share-based compensation 2017 *HK$'000*	Other benefits 2017 *HK$'000* *(Note)*	Employer's contribution to provident fund 2017 *HK$'000*	Total 2017 *HK$'000*
CHAN Chun Hoo, Thomas (retired on 18 May 2017)	8	4,260	–	–	84	–	4,352
CHAN, Helen (appointed on 18 May 2017)	6	1,484	–	–	18	11	1,519
CHENG Bing Kin, Alain	20	2,352	–	–	83	18	2,473
IP Shu Wing, Charles	200	–	–	–	–	–	200
LEE Peng Fei, Allen	360	–	–	–	–	–	360
LO Kai Yiu, Anthony	360	–	–	–	–	–	360
TO Shu Sing, Sidney	20	3,448	–	–	131	18	3,617
TSIM Tak Lung	300	–	–	–	–	–	300
YU Hon To, David	260	–	–	–	–	–	260
	1,534	11,544	–	–	316	47	13,441

Name of director	Fee 2016 *HK$'000*	Salary 2016 *HK$'000*	Bonus 2016 *HK$'000*	Share-based compensation 2016 *HK$'000*	Other benefits 2016 *HK$'000* *(Note)*	Employer's contribution to provident fund 2016 *HK$'000*	Total 2016 *HK$'000*
CHAN Chun Hoo, Thomas	20	7,971	5,780	–	254	–	14,025
CHENG Bing Kin, Alain	20	2,340	196	36	80	18	2,690
IP Shu Wing, Charles	200	–	–	–	–	–	200
LEE Peng Fei, Allen	360	–	–	–	–	–	360
LO Kai Yiu, Anthony	360	–	–	–	–	–	360
TO Shu Sing, Sidney	20	2,412	202	36	89	18	2,777
TSIM Tak Lung	300	–	–	–	–	–	300
YU Hon To, David	260	–	–	–	–	–	260
	1,540	12,723	6,178	72	423	36	20,972

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2017 and 2016.

Note: Other benefits include medical allowance, club membership and car allowance.

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

14.2 Five highest paid individuals

Three (2016: three) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other two (2016: two) highest paid individuals are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Salaries, other allowances and benefits in kind	**4,408**	4,381
Bonuses	**796**	1,305
Share-based compensation	**–**	50
Employer's contributions to provident fund	**212**	205
	5,416	5,941

The emoluments of these two (2016: two) individuals are within the following bands:

	Number of individuals	
	2017	2016
HK$		
2,000,001 – 2,500,000	**1**	1
3,000,001 – 3,500,000	**1**	–
3,500,001 – 4,000,000	**–**	1
	2	2

15 FIXED ASSETS

	Land and buildings HK$'000	Vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2017	**221,900**	**102,064**	**29,286**	**353,250**	**5,378,426**	**5,731,676**
Exchange fluctuation	**–**	**5,222**	**158**	**5,380**	**22,073**	**27,453**
Additions	**–**	**12,788**	**1,008**	**13,796**	**–**	**13,796**
Capitalised subsequent expenditure	**–**	**–**	**–**	**–**	**20,997**	**20,997**
Revaluation surplus	**–**	**–**	**–**	**–**	**81,136**	**81,136**
Disposals	**–**	**(1,146)**	**(18,293)**	**(19,439)**	**–**	**(19,439)**
At 31 December 2017	**221,900**	**118,928**	**12,159**	**352,987**	**5,502,632**	**5,855,619**
Accumulated depreciation						
At 1 January 2017	**33,118**	**30,288**	**25,320**	**88,726**	**–**	**88,726**
Exchange fluctuation	**–**	**745**	**138**	**883**	**–**	**883**
Charge for the year	**8,551**	**8,141**	**1,861**	**18,553**	**–**	**18,553**
Disposals	**–**	**(1,001)**	**(18,293)**	**(19,294)**	**–**	**(19,294)**
At 31 December 2017	**41,669**	**38,173**	**9,026**	**88,868**	**–**	**88,868**
Net book value						
At 31 December 2017	**180,231**	**80,755**	**3,133**	**264,119**	**5,502,632**	**5,766,751**

Surplus on revaluation of land and buildings is recognised in other comprehensive income and included under "property revaluation reserve".

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

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

15 FIXED ASSETS (Continued)

	Land and buildings *HK$'000*	Vehicle, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Total *HK$'000*
Cost or valuation						
At 1 January 2016	155,800	108,459	29,108	293,367	5,754,525	6,047,892
Exchange fluctuation	–	(9,528)	–	(9,528)	(31,216)	(40,744)
Additions	–	3,967	664	4,631	–	4,631
Capitalised subsequent expenditure	–	–	–	–	523	523
Revaluation deficit	–	–	–	–	(302,806)	(302,806)
Reclassification	66,100	–	–	66,100	(42,600)	23,500
Disposals	–	(834)	(486)	(1,320)	–	(1,320)
At 31 December 2016	221,900	102,064	29,286	353,250	5,378,426	5,731,676
Accumulated depreciation						
At 1 January 2016	34,969	26,646	24,428	86,043	–	86,043
Exchange fluctuation	–	(955)	–	(955)	–	(955)
Charge for the year	6,461	5,346	1,369	13,176	–	13,176
Reclassification	(8,312)	–	–	(8,312)	–	(8,312)
Disposals	–	(749)	(477)	(1,226)	–	(1,226)
At 31 December 2016	33,118	30,288	25,320	88,726	–	88,726
Net book value						
At 31 December 2016	188,782	71,776	3,966	264,524	5,378,426	5,642,950

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

	2017		2016	
	Land and buildings	**Investment properties**	Land and buildings	Investment properties
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
In Hong Kong, held under:				
Long term leases	**–**	**643,800**	–	600,000
Medium term leases	**180,231**	**4,412,600**	188,782	4,355,300
Outside Hong Kong:				
Freehold	**–**	**446,232**	–	423,126
	180,231	**5,502,632**	188,782	5,378,426

Fair value measurement of investment properties

(i) *Fair value hierarchy*

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

– Level 1 valuations : Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations : Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations : Fair value measured using significant unobservable inputs

15 FIXED ASSETS (Continued)

Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

	2017			
	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Recurring fair value measurement:				
Investment properties in Hong Kong	–	–	**5,056,400**	**5,056,400**
Investment properties outside Hong Kong	–	–	**446,232**	**446,232**
	–	–	**5,502,632**	**5,502,632**

	2016			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurement:				
Investment properties in Hong Kong	–	–	4,955,300	4,955,300
Investment properties outside Hong Kong	–	–	423,126	423,126
	–	–	5,378,426	5,378,426

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The investment properties in Hong Kong were revalued as at 31 December 2017. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued.

The investment properties outside Hong Kong were revalued as at 31 December 2017. The valuations were carried out by independent firms of surveyors, Savills Advisory Services Limited, Cushman & Wakefield, Inc. and Savills Japan Co., Ltd., who have among their staff members of the Royal Institution of Chartered Surveyors, Certified General Real Estate Appraisers and Japan Association of Real Estate Appraisers, with recent experience in the location and category of the properties being valued.

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

(ii) Information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Range/ weighted average
Investment properties in Hong Kong	(i) Income capitalisation approach	Monthly rental per square foot	HK$39 (2016: HK$38)
		Capitalisation rate	3.15% to 4.10% (2016: 3.50% to 4.25%)
	(ii) Market comparison approach	(Discount)/ premium on quality, location, view and floor level of the properties	(8.9%) to 7.8% (2016: (7.6%) to 7.5%)
Investment properties outside Hong Kong	Market comparison approach	(Discount)/ premium on location and quality of the properties	(34%) to 32% (2016: (23%) to 65%)

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

– by capitalising the net income associated with the properties using capitalisation rates. The valuation takes into account the market rental of the respective properties. The capitalisation rates used have been adjusted for the quality and location of the properties. The fair value measurement is positively correlated to the rental, and negatively correlated to the capitalisation rates; or

– by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount mainly specific to the quality, location, view and floor level of the properties compared to the recent sales. The fair value measurement is positively correlated to the quality, location, view and floor level.

15 FIXED ASSETS (Continued)

Fair value measurement of investment properties (Continued)

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

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

Details of the principal properties of the Group as at 31 December 2017 are as follows:

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

At 31 December 2017, certain of the Group's investment properties and land and buildings with a net book value of approximately HK$4,863,100,000 and HK$180,231,000 (2016: HK$4,780,500,000 and HK$188,782,000) respectively were pledged to secure general banking facilities granted to the Group (note 23).

16 GOODWILL

	HK$'000
Gross and net carrying amount	
At 1 January 2016, 31 December 2016 and 31 December 2017	**5,976**

17 INTEREST IN SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2017 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Shares held indirectly:				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1 each	100%	Property investment, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Playmates International Company Limited	Hong Kong	1 ordinary share	50.18% *(Note)*	Toy development, marketing and distribution and related investment activities, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stocks of US$30 each	50.18% *(Note)*	Toy marketing and distribution, U.S.A.
Playmates Toys Limited	Bermuda	1,195,770,000 ordinary shares of HK$0.01 each	50.18% *(Note)*	Investment holding, Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	100 ordinary shares	70%	Restaurant operation, Hong Kong
Team Green Innovation Inc.	U.S.A.	10 common stocks of US$0.01 each	50.18% *(Note)*	Product design and development services, U.S.A.

Note: As at 31 December 2017, the Group has 50.18% equity interest in these companies. As the Group is the majority shareholder of these companies and has control over these companies, thus these companies are subsidiaries of the Group.

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

17 INTEREST IN SUBSIDIARIES (Continued)

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

	2017	2016
	HK$'000	*HK$'000*
NCI percentage	**49.82%**	50.59%
Non-current assets	**44,590**	39,043
Current assets	**1,260,079**	1,283,237
Current liabilities	**(239,923)**	(195,906)
Net assets	**1,064,746**	1,126,374
Carrying amount of NCI	**530,490**	569,863
Revenue	**758,329**	992,933
Profit for the year	**55,764**	110,206
Total comprehensive income	**60,486**	110,206
Profit allocated to NCI	**28,228**	57,708
Dividends paid to NCI	**(48,549)**	(61,272)
Cash flows generated from operating activities	**121,278**	232,652
Cash flows generated from investing activities	**8,889**	14,827
Cash flows used in financing activities	**(122,114)**	(118,450)

18 INTEREST IN AN ASSOCIATED COMPANY

	2017	2016
	HK$'000	*HK$'000*
Cost of investment	**18,077**	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	**(12,157)**	(12,024)
	5,920	6,053

As at 31 December 2017, 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 market value is not readily available and is accounted for using the equity method in the consolidated financial statements.

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

During the year, one of the major subsidiaries of Unimax was dissolved in Hong Kong on 4 December 2017.

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

	2017 **_HK$'000_**	2016 _HK$'000_
Gross amounts of the associated company		
Non-current assets	**–**	–
Current assets	**12,082**	12,364
Current liabilities	**–**	(10)
Non-current liabilities	**–**	–
Equity	**12,082**	12,354
Group's effective interest	**49%**	49%
Group's share of net assets of the associated company and carrying amount in the consolidated financial statements	**5,920**	6,053
Revenue	**–**	–
Loss for the year and total comprehensive income	**(272)**	–
Dividend from the associated company	**–**	–

19 INVENTORIES

As at 31 December 2017, the carrying amount of inventories after write down amounted to HK$22,904,000 (2016: HK$15,422,000) and the carrying amount of inventories that are carried at net realisable value amounted to HK$1,390,000 (2016: HK$312,000).

20 TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**188,522**	181,320
Less: Allowance for impairment *(Note 20.2)*	**(2,664)**	(2,647)
Less: Allowance for customer concession	**(15,218)**	(2,981)
	170,640	175,692

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

20.1 Aging analysis

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

	2017	2016
	HK$'000	*HK$'000*
0 – 60 days	**126,361**	118,291
61 – 90 days	**34,096**	43,159
91 – 180 days	**2,442**	9,981
Over 180 days	**7,741**	4,261
	170,640	175,692

20.2 *Impairment of trade receivables*

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

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**2,647**	2,004
Exchange fluctuation	**17**	–
Impairment loss recognised	**–**	643
At 31 December	**2,664**	2,647

At 31 December 2017, trade receivables of HK$2,664,000 (2016: HK$2,647,000) were individually determined to be impaired. The individually impaired receivables related to a customer that was in financial difficulties and management assessed that the probability of recovering of such receivables is remote. Consequently, specific allowance for impairment of HK$2,664,000 (2016: HK$2,647,000) was recognised.

As disclosed in the Company's announcement dated 20 September 2017 ("Announcement"), Toys "R" Us, Inc ("TRU"), one of the five largest customers of the Group, had filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia in Richmond on 18 September 2017. No impairment was recognized on the pre-petition trade receivables as they were settled before 31 December 2017. The Group has insurance policy in place that mitigates the Group's exposure to TRU's post-petition trade receivables.

20.3 *Trade receivables that are not impaired*

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

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**124,876**	125,290
1 – 90 days past due	**36,833**	44,368
91 – 180 days past due	**1,232**	1,020
Over 180 days past due	**7,699**	5,014
	45,764	50,402
	170,640	175,692

20 TRADE RECEIVABLES (Continued)

20.3 Trade receivables that are not impaired (Continued)

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

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

21 DEPOSIT PAID, OTHER RECEIVABLES AND PREPAYMENTS

Deposit paid, other receivables and prepayments of the Group include receivables related to rent free periods given to tenants of HK$33,962,000 (2016: HK$40,497,000), which are amortised over the respective lease terms.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Listed equity investment in Hong Kong	**59,775**	53,925
Listed equity investment outside Hong Kong	**72,347**	55,281
Unlisted managed funds	**5,833**	5,061
	137,955	114,267

23 BANK LOANS

	2017 *HK$'000*	2016 *HK$'000*
Secured bank loans repayable		
Within one year	**478,125**	497,275
In the second year	**4,500**	5,800
In the third to fifth year	**13,500**	–
After five years	**85,250**	–
	581,375	503,075
Current portion included in current liabilities	**(478,125)**	(497,275)
Non-current portion	**103,250**	5,800

Except for bank loans amounted to HK$86,625,000 (2016: HK$82,875,000) denominated in Japanese Yen, all bank loans were denominated in HK dollar. All bank loans were on a floating interest rate basis and their effective interest rate at the end of the reporting period was 2.65% p.a. (2016: 2.27% p.a.).

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

As at 31 December 2017, the Group has banking facilities amounting to HK$752,350,000 (2016: HK$789,000,000), of which HK$581,375,000 (2016: HK$503,075,000) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings with net book value of HK$4,863,100,000 and HK$180,231,000 (2016: HK$4,780,500,000 and HK$188,782,000) respectively of the Group at 31 December 2017.

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$360,000,000 (2016: HK$360,000,000), of which HK$208,950,000 (2016: HK$105,600,000) of such banking facilities were utilised as at 31 December 2017. This represents the Company's exposure under the financial guarantee contracts. Under the guarantee contracts, the Company would be liable to pay the banks if the banks are unable to recover the loans. No provision for the Company's obligation under the financial guarantee contracts has been made as it was not probable that the repayment of loans would be in default.

24 TRADE PAYABLES

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

	2017 HK$'000	2016 HK$'000
0 – 30 days	**22,583**	14,515
31 – 60 days	**2,647**	3,092
Over 60 days	**896**	991
	26,126	18,598

25 DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUED CHARGES

	2017 HK$'000	2016 HK$'000
Deposits from customers, distributors and tenants	**102,339**	92,470
Accrued product development, sales, marketing and distribution expenses	**12,645**	11,772
Accrued royalties	**57,533**	39,116
Accrued directors' and staff remunerations	**10,710**	19,461
Withholding tax payable	**2,968**	1,909
Other accrued expenses	**11,929**	10,702
	198,124	175,430

26 LOAN FROM AN ASSOCIATED COMPANY

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

27 PROVISIONS

	Consumer returns HK$'000	Cooperative advertising HK$'000	Cancellation charges HK$'000	Total HK$'000
At 1 January 2017	14,867	22,066	816	37,749
Exchange fluctuation	96	142	6	244
Additional provisions made	5,742	14,851	618	21,211
Provisions utilised	(5,086)	(10,650)	(37)	(15,773)
Reversal of unutilised provisions	(779)	(451)	(44)	(1,274)
At 31 December 2017	14,840	25,958	1,359	42,157

28 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2016: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2016: 35%) and 8.84% (2016: 8.84%) respectively in the U.S..

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

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**1,607**	(4,716)
Charged to profit or loss	**258**	6,829
Credited directly to equity	**–**	(486)
Exchange fluctuation	**(7)**	(20)
At 31 December	**1,858**	1,607

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

	Investment properties revaluation surplus ***HK$'000***	**Accelerated tax depreciation** ***HK$'000***	**Other temporary differences** ***HK$'000*** *(Note (a))*	**Employee benefits** ***HK$'000*** *(Note (b))*	**Total** ***HK$'000***
At 1 January 2016	7,377	23,654	(32,146)	(3,601)	(4,716)
Charged/(Credited) to profit or loss	348	(65)	5,513	1,033	6,829
Credited directly to equity	–	–	–	(486)	(486)
Exchange fluctuation	(20)	–	–	–	(20)
At 31 December 2016 and 1 January 2017	**7,705**	**23,589**	**(26,633)**	**(3,054)**	**1,607**
Charged/(Credited) to profit or loss	**238**	**(822)**	**(753)**	**1,595**	**258**
Exchange fluctuation	**112**	**6**	**(106)**	**(19)**	**(7)**
At 31 December 2017	**8,055**	**22,773**	**(27,492)**	**(1,478)**	**1,858**

Notes:

(a) Other temporary differences mainly represent the provisions and unrealised profits on inventories.

(b) Employee benefits represents share-based compensation.

28 DEFERRED TAXATION (Continued)

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**(29,165)**	(28,982)
Deferred tax liabilities	**31,023**	30,589
Net deferred tax liabilities	**1,858**	1,607

Deferred tax assets not recognised

The Group has not recognised tax losses of HK$53,535,000 (2016: HK$80,795,000). The tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$586,127,000 (2016: HK$561,433,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

	2017		2016	
	Weighted average exercise price HK$	Number of options '000	Weighted average exercise price HK$	Number of options '000
At 1 January	**N/A**	**–**	9.10	532
Exercised *(Note)*	**N/A**	**–**	9.10	(113)
Lapsed	**N/A**	**–**	9.10	(419)
At 31 December	**N/A**	**–**	N/A	–
Exercisable at 31 December	**N/A**	**–**	N/A	–

Note: The weighted average closing price of the ordinary shares of the Company immediately before the date on which the share options were exercised during the year ended 31 December 2016 was HK$9.55.

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

No share-based compensation expense has been included in the consolidated income statement for 2017 and 2016. No liabilities were recognised due to share-based payment transactions.

Equity settled share-based transactions of Playmates Toys Limited ("PTL")

At the special general meeting of the Company held on 25 January 2008, the shareholders of the Company approved the share option scheme of PTL, an indirectly non-wholly owned subsidiary of the Company (the "PTL Scheme"). Certain directors, employees and other participants of PTL were granted options at a nominal consideration of HK$10 or US$1.5 on acceptance of the option offered. Details of the PTL Scheme and movements in the number of share options outstanding during the year are set out in the Report of the Directors and the annual report of PTL for the year ended 31 December 2017.

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

The share options outstanding at 31 December 2017 had a weighted average remaining contractual life of 4.33 years (2016: 5.40 years).

In 2017, no share-based compensation expense has been included in the consolidated income statement of PTL. In 2016, HK$507,000 share-based compensation expense had been included in the consolidated income statement of PTL and the corresponding amount of which had been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

30 EQUITY – GROUP AND COMPANY

30.1 Share capital

	Authorised Ordinary shares	
	No. of shares	*HK$'000*
At 1 January 2017, HK$0.10 each	**3,000,000,000**	**300,000**
Share Subdivision *(Note (ii))*	**27,000,000,000**	**–**
At 31 December 2017, HK$0.01 each	**30,000,000,000**	**300,000**

	Issued and fully paid Ordinary shares	
	No. of shares	*HK$'000*
At 1 January 2016, HK$0.10 each	220,000,000	22,000
Exercise of share options	112,600	11
Cancellation of repurchased shares, HK$0.10 each *(Note (i))*	(4,290,600)	(429)
At 31 December 2016 and 1 January 2017, HK$0.10 each	**215,822,000**	**21,582**
Cancellation of repurchased shares, HK$0.10 each *(Note (i))*	**(6,742,000)**	**(674)**
Share Subdivision *(Note (ii))*	**1,881,720,000**	**–**
Cancellation of repurchased shares, HK$0.01 each *(Note (i))*	**(63,018,000)**	**(630)**
At 31 December 2017, HK$0.01 each	**2,027,782,000**	**20,278**

Notes:

(i) During the year, the Company repurchased a total of 6,682,000 shares of HK$0.10 each and 63,180,000 shares of HK$0.01 each of the Company on the Stock Exchange as follows:

Month/year	**Par value per share** *HK$*	**Number of shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate price paid** *HK$'000*
January 2017	0.10	1,018,000	10.50	10.18	10,534
February 2017	0.10	482,000	10.50	10.48	5,059
March 2017	0.10	146,000	10.20	9.90	1,477
April 2017	0.10	4,774,000	10.20	9.98	48,687
May 2017					
(before Share Subdivision)	0.10	262,000	12.00	11.50	3,126
(after Share Subdivision)	0.01	5,380,000	1.15	1.15	6,187
June 2017	0.01	11,594,000	1.15	1.13	13,316
July 2017	0.01	5,736,000	1.15	1.13	6,589
August 2017	0.01	540,000	1.10	1.07	592
September 2017	0.01	12,424,000	1.13	1.05	13,685
October 2017	0.01	2,506,000	1.10	1.09	2,755
November 2017	0.01	15,742,000	1.06	1.03	16,378
December 2017	0.01	9,258,000	1.07	1.02	9,544

Save and except the 2,782,000 shares of HK$0.01 each repurchased in December 2017 which were cancelled in January 2018, all of the above repurchased shares were cancelled during the year. The 322,000 shares of HK$0.10 each repurchased in December 2016 were also cancelled during the year. The issued capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or the contributed surplus account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

(ii) An ordinary resolution was passed at the annual general meeting of the Company held on 18 May 2017 approving the subdivision of every one issued and unissued share of par value of HK$0.10 each into ten subdivided shares of par value of HK$0.01 each ("Share Subdivision"). Following the Share Subdivision became effective on 19 May 2017, the Company's authorised share capital became HK$300,000,000 divided into 30,000,000,000 shares of HK$0.01 each.

30 EQUITY – GROUP AND COMPANY (Continued)

30.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Share repurchase reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	–	7,464	(721)	5,700	888,617	687,309	1,588,369
Profit for the year	–	–	–	–	–	206,878	206,878
Share option scheme							
– share issued	1,054	(41)	–	–	–	–	1,013
– share options lapsed	–	(7,423)	–	–	–	7,423	–
Repurchase of shares	(1,054)	–	(2,442)	429	(35,859)	(429)	(39,355)
2015 second interim dividend paid	–	–	–	–	(16,200)	–	(16,200)
2015 special interim dividend paid	–	–	–	–	(28,080)	–	(28,080)
2016 first interim dividend paid	–	–	–	–	(16,200)	–	(16,200)
At 31 December 2016	–	–	(3,163)	6,129	792,278	901,181	1,696,425
At 1 January 2017	**–**	**–**	**(3,163)**	**6,129**	**792,278**	**901,181**	**1,696,425**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**66,986**	**66,986**
Repurchase of shares	**–**	**–**	**289**	**1,304**	**(136,914)**	**(1,304)**	**(136,625)**
2016 second interim dividend paid	**–**	**–**	**–**	**–**	**(16,050)**	**–**	**(16,050)**
2016 special interim dividend paid	**–**	**–**	**–**	**–**	**(32,100)**	**–**	**(32,100)**
2017 first interim dividend paid	**–**	**–**	**–**	**–**	**(20,608)**	**–**	**(20,608)**
2017 first special interim dividend paid	**–**	**–**	**–**	**–**	**(41,216)**	**–**	**(41,216)**
At 31 December 2017	**–**	**–**	**(2,874)**	**7,433**	**545,390**	**966,863**	**1,516,812**

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

30.3 Capital management

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

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

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2017 and 2016.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**372,119**	43,239
Interest income	**(13,180)**	(4,630)
Interest on bank loans	**12,309**	10,528
Dividend income from financial assets at fair value through profit or loss	**(3,106)**	(13,786)
Depreciation of other property, plant and equipment	**18,553**	13,176
Share-based compensation	**–**	507
Revaluation (surplus)/deficit on investment properties	**(81,136)**	302,806
(Gain)/Loss on disposal of other property, plant and equipment	**(53)**	94
Net gain on financial assets at fair value through profit or loss	**(34,178)**	(1,041)
Unrealised exchange (gain)/loss	**(1,763)**	2,355
Share of loss of an associated company	**133**	–
Operating profit before working capital changes	**269,698**	353,248
(Increase)/Decrease in inventories	**(7,482)**	13,021
Decrease in trade receivables, deposits paid, other receivables and prepayments	**46,095**	134,540
Decrease in financial assets at fair value through profit or loss	**1,466**	18,265
Increase/(Decrease) in trade payables, deposits received, other payables and accrued charges and provisions	**34,629**	(64,457)
Cash generated from operations	**344,406**	454,617

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

31.2 Analysis of cash and cash equivalents

	2017	2016
	HK$'000	*HK$'000*
Cash and bank balances	**1,423,626**	1,388,706

31.3 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans
	HK$'000
	(Note 23)
At 1 January 2017	**503,075**
Changes from financing cash flows:	
Proceeds from new bank loans	**110,000**
Repayment of bank loans	**(35,450)**
Total changes from financing cash flows	**74,550**
Exchange adjustments	**3,750**
At 31 December 2017	**581,375**

32 COMMITMENTS

32.1 Licensing commitments

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	**43,559**	38,243
In the second to fifth years	**50,778**	106,950
	94,337	145,193

32.2 Operating lease commitments

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

32.2.1 As lessee

At 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases for offices payable by the Group were as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**2,762**	2,664
In the second to fifth years	**5,775**	8,482
	8,537	11,146

32 COMMITMENTS (Continued)

32.2 Operating lease commitments (Continued)

32.2.2 As lessor

At 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Within one year	**198,065**	197,851
In the second to fifth years	**702,059**	669,033
After five years	**–**	176,144
	900,124	1,043,028

32.3 Capital commitments

Capital commitments outstanding at 31 December 2017 not provided for at the end of the reporting period were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Contracted for	**9,664**	7,083

33 RELATED PARTY TRANSACTIONS

During the years ended 31 December 2017 and 2016, the Group did not enter into significant transactions with related parties.

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

34 US DOLLAR EQUIVALENTS

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2017.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

35.1 Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**170,640**	175,692
Deposits paid and other receivables	**2,299**	1,618
Cash and bank balances	**1,423,626**	1,388,706
Financial assets at fair value through profit or loss	**137,955**	114,267
	1,734,520	1,680,283
Financial liabilities at amortised cost		
Bank loans	**581,375**	503,075
Trade payables	**26,126**	18,598
Other payables and accrued charges	**137,889**	124,213
Loan from an associated company	**5,831**	5,831
	751,221	651,717

35.2 Financial risk factors

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

35.2.1 Market risk

(i) Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency different from domestic currencies used to fund the operations of the relevant group companies. The currency giving rise to this risk is mainly United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates may have an impact on consolidated earnings.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

35.2 Financial risk factors (Continued)

35.2.1 Market risk (Continued)

(ii) Interest rate risk

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

At 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and equity by approximately HK$2,907,000 (2016: HK$2,515,000).

(iii) Price risk

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

At 31 December 2017, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and equity by approximately HK$6,898,000 (2016: HK$5,713,000).

35.2.2 Credit risk

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

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

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

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

Concentrations of credit risk

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

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

	2017	2016
Sales		
– the largest customer	**18%**	29%
– five largest customers in aggregate	**68%**	71%

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

35.2 Financial risk factors (Continued)

35.2.3 Liquidity risk

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

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

	2017					
	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$'000*	**Over 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Bank loans	**481,174**	**7,228**	**20,966**	**88,574**	**597,942**	**581,375**
Trade payables	**26,126**	**–**	**–**	**–**	**26,126**	**26,126**
Other payables and accrued charges	**137,889**	**–**	**–**	**–**	**137,889**	**137,889**
Loan from an associated company	**5,831**	**–**	**–**	**–**	**5,831**	**5,831**
	651,020	**7,228**	**20,966**	**88,574**	**767,788**	**751,221**

	2016				
	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*	Carrying amount *HK$'000*
Bank loans	498,143	5,834	–	503,977	503,075
Trade payables	18,598	–	–	18,598	18,598
Other payables and accrued charges	124,213	–	–	124,213	124,213
Loan from an associated company	5,831	–	–	5,831	5,831
	646,785	5,834	–	652,619	651,717

35.3 *Financial assets and liabilities measured at fair value*

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

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

	2017			
	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	**59,775**	**–**	**–**	**59,775**
Listed equity investment outside Hong Kong	**72,347**	**–**	**–**	**72,347**
Unlisted managed funds	**–**	**5,833**	**–**	**5,833**
	132,122	**5,833**	**–**	**137,955**

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

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

	2016			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	53,925	–	–	53,925
Listed equity investment outside Hong Kong	55,281	–	–	55,281
Unlisted managed funds	–	5,061	–	5,061
	109,206	5,061	–	114,267

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

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

35.4 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, bank loans, other payables and accrued charges and loan from an associated company carried at amortised cost) approximate their fair values as at 31 December 2017 and 2016.

36 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2017** **US$'000** (Note 34)	**2017** **HK$'000**	2016 HK$'000
Non-current assets				
Interest in subsidiaries		**197,074**	**1,537,176**	1,718,703
Current assets				
Prepayments		**78**	**611**	264
Cash and bank balances		**118**	**923**	750
		196	**1,534**	1,014
Current liabilities				
Other payables and accrued charges		**205**	**1,600**	1,619
Taxation payable		**3**	**20**	91
		208	**1,620**	1,710
Net current liabilities		**(12)**	**(86)**	(696)
Net assets		**197,062**	**1,537,090**	1,718,007
Equity				
Share capital	*30.1*	**2,600**	**20,278**	21,582
Reserves	*30.2*	**194,462**	**1,516,812**	1,696,425
Total equity		**197,062**	**1,537,090**	1,718,007

On behalf of the board

CHENG Bing Kin, Alain	**TO Shu Sing, Sidney**
Director	*Director*

Five Year Financial Summary

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

	2017 *HK$'000*	2016 *HK$'000*	2015 *HK$'000*	2014 *HK$'000*	2013 *HK$'000*
Revenue	**1,009,261**	1,250,726	1,791,204	2,397,522	1,880,818
Profit before income tax	**372,119**	43,239	702,135	1,182,938	1,433,375
Income tax expense	**(61,932)**	(95,727)	(147,840)	(169,090)	(26,295)
Profit/(Loss) for the year	**310,187**	(52,488)	554,295	1,013,848	1,407,080
Profit/(Loss) for the year attributable to:					
Owners of the Company	**282,196**	(110,132)	413,718	757,665	1,177,727
Non-controlling interests	**27,991**	57,644	140,577	256,183	229,353
	310,187	(52,488)	554,295	1,013,848	1,407,080
Total assets	**7,630,864**	7,488,050	7,792,928	7,541,989	6,406,567
Total liabilities	**(901,012)**	(778,241)	(865,342)	(913,125)	(847,224)
Net assets	**6,729,852**	6,709,809	6,927,586	6,628,864	5,559,343

Playmates Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code 635)

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