PLAYMATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code：635)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS

The directors of Playmates Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 as follows:

Consolidated Income Statement

For the year ended 31 December 2010

	Note	**2010** *US$'000* *(Note 9)*	**2010** *HK$'000*	2009 *HK$'000*
Revenue	*2*	**34,029**	**263,725**	740,635
Cost of sales		**(13,394)**	**(103,800)**	(359,435)
Gross profit		**20,635**	**159,925**	381,200
Marketing expenses		**(7,104)**	**(55,057)**	(181,786)
Selling and distribution expenses		**(948)**	**(7,345)**	(54,535)
Administration expenses		**(19,462)**	**(150,830)**	(126,276)
Net gain on financial assets at fair value through profit or loss		**4,353**	**33,732**	42,484
Revaluation surplus on investment properties		**41,197**	**319,275**	230,488
Gain on disposal of an investment property		**-**	**-**	9,686
Operating profit		**38,671**	**299,700**	301,261
Other income		**26**	**203**	142
Finance costs		**(890)**	**(6,893)**	(9,317)
Share of (loss)/profit of an associated company		**(304)**	**(2,360)**	116
Share of loss of a jointly controlled entity		**-**	**-**	(3,950)

	Note	2010 US$'000 (Note 9)	2010 HK$'000	2009 HK$'000
Profit before income tax	3	**37,503**	**290,650**	288,252
Income tax expense	4	**(8,126)**	**(62,975)**	(88,034)
Profit for the year		**29,377**	**227,675**	200,218
Profit for the year attributable to:				
Equity holders of the Company		**35,484**	**275,001**	239,408
Non-controlling interests		**(6,107)**	**(47,326)**	(39,190)
		29,377	**227,675**	200,218
		US$	*HK$*	*HK$*
Earnings per share	6			
Basic		**0.14**	**1.12**	1.09
Diluted		**0.13**	**1.04**	1.04

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 US$'000 (Note 9)	2010 HK$'000	2009 HK$'000
Profit for the year	**29,377**	**227,675**	200,218
Other comprehensive income:			
Release of reserve upon winding up of a subsidiary	**(3)**	**(23)**	-
Exchange difference arising on translation of the financial statements of foreign subsidiaries	**50**	**383**	(533)
Total comprehensive income for the year	**29,424**	**228,035**	199,685
Total comprehensive income attributable to:			
Equity holders of the Company	**35,532**	**275,372**	239,116
Non-controlling interests	**(6,108)**	**(47,337)**	(39,431)
	29,424	**228,035**	199,685

Consolidated Balance Sheet

As at 31 December 2010

	Note	**31 December 2010** **US$'000** *(Note 9)*	**31 December 2010** **HK$'000**	31 December 2009 *HK$'000* *(Restated)*	1 January 2009 *HK$'000* *(Restated)*
Non-current assets					
Fixed assets					
- Investment properties		**273,272**	**2,117,856**	1,808,250	1,426,100
- Other property, plant and equipment		**19,451**	**150,749**	140,379	113,115
		292,723	**2,268,605**	1,948,629	1,539,215
Goodwill		**771**	**5,976**	5,976	5,976
Interest in an associated company		**2,636**	**20,429**	25,729	25,613
Interest in a jointly controlled entity		**-**	**-**	-	8,534
Deferred tax assets		**55**	**428**	678	46,202
		296,185	**2,295,438**	1,981,012	1,625,540
Current assets					
Inventories		**780**	**6,046**	10,835	19,647
Trade receivables	*7*	**1,529**	**11,846**	77,964	78,900
Other receivables, deposits and prepayments		**1,566**	**12,133**	29,243	108,808
Taxation recoverable		**156**	**1,213**	6,320	4,011
Financial assets at fair value through profit or loss		**25,608**	**198,459**	250,621	185,012
Interest in a jointly controlled entity		**-**	**-**	3,162	-
Cash and bank balances		**55,597**	**430,878**	306,764	303,316
		85,236	**660,575**	684,909	699,694
Current liabilities					
Bank loans		**45,806**	**355,000**	335,000	201,721
Trade payables	*8*	**1,257**	**9,741**	22,434	97,709
Other payables and accrued charges		**6,912**	**53,567**	87,991	84,331
Provisions		**1,213**	**9,403**	24,904	29,520
Taxation payable		**106**	**818**	2,637	3,651
		55,294	**428,529**	472,966	416,932
Net current assets		**29,942**	**232,046**	211,943	282,762
Total assets less current liabilities		**326,127**	**2,527,484**	2,192,955	1,908,302

	Note	31 December 2010 US$'000 (Note 9)	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Non-current liabilities					
Bank loans		**5,806**	**45,000**	60,000	-
Deferred tax liabilities		**28,723**	**222,599**	167,909	128,785
		34,529	**267,599**	227,909	128,785
Net assets		**291,598**	**2,259,885**	1,965,046	1,779,517
Equity					
Share capital		**3,329**	**25,800**	22,462	21,880
Reserves		**273,919**	**2,122,872**	1,849,946	1,709,400
Declared dividends	*5*	**2,663**	**20,640**	89,471	4,376
Equity attributable to the equity holders of the Company		**279,911**	**2,169,312**	1,961,879	1,735,656
Non-controlling interests		**11,687**	**90,573**	3,167	43,861
Total equity		**291,598**	**2,259,885**	1,965,046	1,779,517

Notes:

1. Basis of preparation

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

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

The accounting policies used in the preparation of this consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009, except the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 28 (Amendments)	Investments in Associates
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (Revised), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

Improvements to HKFRSs 2009

The improvements to HKFRSs 2009 consist of amendments to various existing standards, including an improvement to HKAS 17 Leases. The amendment to HKAS 17 relates to the classification of leasehold land. Before the amendment, the Group classifies leasehold land as operating lease and presented as prepaid premium on leasehold land in the consolidated balance sheet. The amendments to HKAS 17 require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. On the adoption of the amendment, the Group reassessed its unexpired leasehold land as at 1 January 2010 and has reclassified the leasehold land from operating lease to finance lease. The effect of the adoption of this amendment is as below:

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Decrease in net carrying amount of prepaid premium on leasehold land	(92,888)	(83,751)	(64,267)
Increase in net carrying amount of other property, plant and equipment	92,888	83,751	64,267

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

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

HKAS 12 (Amendments) Deferred Tax: Recovery of Underlying Assets

The amendment introduces a rebuttable presumption that deferred tax on investment property carried at fair value under HKAS 40 Investment Property shall be measured reflecting the tax consequences of recovering the carrying amount of the investment property entirely through sale.

The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

2. Revenue and segment information

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

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

	2010 ***HK$'000***	2009 *HK$'000*
Sale of toys	**148,219**	636,440
Rental income from investment properties	**69,172**	67,587
Property management income	**12,422**	10,856
Restaurant income	**27,791**	20,159
Dividend income	**5,896**	4,890
Interest income	**225**	703
Total revenue	**263,725**	740,635

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 2010 are as follows:

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

The segment results for the year ended 31 December 2009 are as follows:

	Property investments and associated businesses *HK$'000*	Investment business *HK$'000*	Toy business *HK$'000*	Total *HK$'000*
Gross segment revenue	108,945	5,593	636,440	750,978
Inter-segment revenue	(10,343)	-	-	(10,343)
Revenue from external customers	98,602	5,593	636,440	740,635
Segment profit/(loss) before depreciation	301,297	48,077	(31,767)	317,607
Depreciation	(3,680)	-	(3,164)	(6,844)
Segment operating profit/(loss)	297,617	48,077	(34,931)	310,763
Other income	5	-	137	142
Finance costs	(2,650)	(102)	(6,509)	(9,261)
Share of profit of an associated company	-	-	116	116
Share of loss of a jointly controlled entity	-	-	(3,950)	(3,950)
	(2,645)	(102)	(10,206)	(12,953)
Segment profit/(loss) before income tax	294,972	47,975	(45,137)	297,810
Unallocated corporate expenses				(9,558)
Profit before income tax				288,252
Bank interest income	5	703	137	
Revaluation surplus on investment properties	230,488	-	-	
Net realised gain on financial assets at fair value through profit or loss	-	6,246	-	
Net unrealised gain on financial assets at fair value through profit or loss	-	36,238	-	
Impairment of a jointly controlled entity	-	-	(1,720)	

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

	Property investments and associated businesses *HK$'000*	**Investment business** *HK$'000*	**Toy business** *HK$'000*	**Total** *HK$'000*
Reportable segment assets	**2,281,239**	**448,707**	**200,753**	**2,930,699**
Interest in an associated company	**-**	**-**	**20,429**	**20,429**
Total reportable segment assets	**2,281,239**	**448,707**	**221,182**	**2,951,128**
Inter-segment elimination	**(285)**	**-**	**(489)**	**(774)**
Deferred tax assets				**428**
Taxation recoverable				**1,213**
Unallocated assets				**4,018**
Total assets				**2,956,013**
Reportable segment liabilities	**428,784**	**-**	**42,286**	**471,070**
Inter-segment elimination	**(489)**	**-**	**(285)**	**(774)**
Deferred tax liabilities				**222,599**
Taxation payable				**818**
Unallocated liabilities				**2,415**
Total liabilities				**696,128**
Capital expenditure	**18,782**	**-**	**1,566**	

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

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

Geographical information

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

	Revenue from external customers		**Specified non-current assets**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**113,782**	101,584	**2,293,415**	1,977,535
Americas				
- U.S.A.	**66,251**	425,278	**1,595**	2,799
- Others	**13,296**	35,588	**-**	-
Europe	**62,819**	131,894	**-**	-
Asia Pacific other than Hong Kong	**6,484**	44,686	**-**	-
Others	**1,093**	1,605	**-**	-
	149,943	639,051	**1,595**	2,799
	263,725	740,635	**2,295,010**	1,980,334

Major customers

The Group's customer base is diversified with no customer with whom transactions have exceeded 10% of the Group's total revenue for the year ended 31 December 2010. For the year ended 31 December 2009, three customers of the toy business 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$144 million, HK$101 million and HK$79 million respectively.

3. Profit before income tax

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold	**80,517**	302,019
Write-down of inventories	**297**	4,862
Product development costs	**3,195**	13,927
Royalties paid	**22,512**	94,783
Direct operating expenses arising from investment properties that generate rental income	**2,225**	3,142
Direct operating expenses arising from investment properties that did not generate rental income	**665**	1,727
Provision for customer concession	**2,327**	10,824
Reversal of unutilised provision for customer concession	**(639)**	(1,240)
Provision for customer returns, cooperative advertising and cancellation charges	**4,595**	26,728
Reversal of unutilised provision for customer returns, cooperative advertising and cancellation charges	**(6,033)**	(3,039)
Depreciation of other property, plant and equipment	**11,207**	7,571
Employee benefit expense, including directors' remuneration	**79,084**	88,819
Operating leases expense on office and warehouse facilities	**9,980**	7,764
Loss on disposal of other property, plant and equipment	**1,288**	3,416
Net foreign exchange loss/(gain)	**10,925**	(143)
Interest on bank loans and overdrafts, wholly repayable within five years	**4,780**	5,174
Bank interest income	**(428)**	(845)
Net realised gain on financial assets at fair value through profit or loss	**(28,248)**	(6,246)
Net unrealised gain on financial assets at fair value through profit or loss	**(5,484)**	(36,238)

4. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Overseas taxation is provided on the estimated assessable profits of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

	2010	2009
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**6,450**	7,546
Over provision in prior years – Hong Kong	**(128)**	(30)
Under/(over) provision in prior years – overseas	**1,713**	(3,836)
	8,035	3,680
Deferred taxation		
Origination and reversal of temporary differences	**54,940**	84,354
Income tax expense	**62,975**	88,034

5. Dividends

(a) Dividends attributable to the year

	2010	2009
	HK$'000	*HK$'000*
First interim dividend of HK$0.05 (2009: HK$0.05) per share	**12,629**	11,095
Second interim dividend of HK$0.08 (2009: HK$0.05) per share	**20,640**	12,426
Special interim dividend in specie of HK$nil (2009: HK$0.31) per share	**-**	77,045
	33,269	100,566

At a meeting held on 27 August 2010, the directors declared a first interim dividend of HK$0.05 per share, which was paid on 28 September 2010.

At a meeting held on 25 March 2011, the directors declared a second interim dividend of HK$0.08 per share on the basis of 258,000,000 shares in issue as at the date of the meeting. This declared dividend declared after the balance sheet date has not been recognised as liabilities in the financial statements, but reflected as an appropriation of retained profits for the year ended 31 December 2010.

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

	2010	2009
	HK$'000	*HK$'000*
Second interim dividend of HK$0.05 (2009: HK$0.02) per share	**12,426**	4,376
Special interim dividend in specie of HK$0.31 (2009: HK$nil) per share	**77,045**	-
	89,471	4,376

At a meeting held on 26 March 2010, the directors declared a special interim dividend in specie of the shares of Playmates Toys Limited ("PTL Shares"), in the proportion of one PTL Share for every two shares of the Company held by the shareholders of the Company. Playmates Toys Limited is a subsidiary of the Company and the holding company of the Group's toy business. On 28 April 2010, 124,265,799 PTL Shares were distributed on the basis of 248,531,599 shares of the Company in issue as at 27 April 2010, and based on the closing price per PTL Share as traded on the Stock Exchange on 27 April 2010 of HK$0.62, the total amount of the distribution is HK$77,045,000, which represents a distribution of approximately HK$0.31 per share. The difference between the fair value and the carrying amount of the PTL Shares distributed on the settlement date had resulted in a gain from distribution in specie of PTL Shares of HK$48,392,000 which is recognised in equity during the year.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$275,001,000 (2009: HK$239,408,000) and the weighted average number of ordinary shares of 244,711,000 (2009: 220,557,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$275,001,000 (2009: HK$239,408,000) and the weighted average number of ordinary shares of 263,243,000 (2009: 229,865,000) in issue during the year, adjusted for the effects of 18,532,000 (2009: 9,308,000) dilutive potential shares on exercise of share options and warrants.

7. Trade receivables

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

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**10,979**	75,937
31 – 60 days	**427**	632
Over 60 days	**440**	1,395
	11,846	77,964

8. Trade payables

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

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**8,002**	18,334
31 – 60 days	**1,304**	2,083
Over 60 days	**435**	2,017
	9,741	22,434

9. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.75 to US$1 ruling at 31 December 2010.

10. Comparative figures

As a result of the application of amendment to HKAS 17 "Leases", certain comparative figures have been adjusted and reclassified.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Overview

Playmates Holdings group worldwide turnover for the year ended 31 December 2010 was HK$264 million (2009: HK$741 million); reflected a decrease of 64.4% compared to the prior year. The Group reported an operating profit of HK$300 million (2009: HK$301 million) and net profit attributable to shareholders was HK$275 million (2009: HK$239 million). Basic earnings per share was HK$1.12 (2009: HK$1.09).

Property Investments and Associated Businesses

In 2010 turnover from the property investments and property management businesses increased by 4.0% to approximately HK$81.6 million (2009: HK$78.4 million), while revenue from the food and beverage business increased by 37.9% to about HK$27.8 million (2009: HK$20.2 million). Aggregate turnover increased by approximately 10.9% to about HK$109.4 million (2009: HK$98.6 million). The Group's investment properties were revalued by independent professional surveyors at the fair value of about HK$2.1 billion (2009: about HK$1.8 billion). A revaluation surplus of HK$319.3 million was reported in the consolidated income statement of the Group. Segment operating profit was HK$364.1 million including revaluation surplus, compared to HK$297.6 million (including revaluation surplus of HK$230.5 million) for last year.

(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. Overall occupancy rate of the Hong Kong property investment portfolio was about 94% as at 31 December 2010 as compared to 98% as at 31 December 2009. The Group's property portfolio also includes two investment properties in the United Kingdom.

(i) The Toy House

Rental income generated by The Toy House was about HK$45.2 million, an increase of 4.2% over that of last year (2009: HK$43.4 million), driven by new leases entered during the second half of 2009. With the completion of the Austin MTR station and the implementation of the longer term development plans in the West Kowloon waterfront area, Canton Road has been firmly established as a luxury shopping, entertainment and dining destination. A number of prominent global brands have opened flagship stores in the area, which have attracted increasing number of affluent tourists as well as local shoppers. We are optimistic that the value and recurring rental income of The Toy House will continue to benefit from these positive developments.

(ii) Hillview

Rental income generated by the residential properties at Hillview remained steady at about HK$14.0 million as compared to that of last year (2009: HK$14.4 million). The improvement in the overall economy has revived leasing demand for luxury residential properties in Mid-Levels. We expect the outlook for the luxury residential market will remain positive.

(iii) Playmates Factory Building

Rental income generated by Playmates Factory Building was about HK$9.5 million, an increase of 7.1% over last year (2009: HK$8.8 million). Demand for industrial space remains steady and we expect the recurring rental income will remain stable.

(b) Property Management

During the first half of 2010, the Group engaged Savills Property Management Limited, a renowned property management company in Hong Kong, 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 for 2010 was about HK$12.4 million, an increase of 14.4% over last year (2009: HK$10.9 million).

(c) Food & Beverage Business

Turnover generated from the food and beverage business for the year recorded a significant growth of 37.9% to about HK$27.8 million (2009: HK$20.2 million). The growth was attributable to a number of factors, including the full-year operation of Fandango, the authentic Spanish restaurant, which broadened the dining selection at the Toy House and an increased consumer spending at Wa-En and Zenpachi, the Japanese restaurants. Fandango generated an operating loss in 2010 as it was still in its startup stage. However, with a greater selection for the customers and the growing customer base, management is optimistic about the prospect of the food and beverage business.

As the economy and consumer sentiments continue to improve, management expects positive growth for the property investments and associated businesses in the medium to long term. We will continue to pursue our strategic objective of seeking investment returns through capital appreciation and growth in recurring income.

Playmates Toys

Playmates Toys group worldwide sales for the year ended 31 December 2010 was HK$148 million (2009: HK$636 million); reflected a decrease of 76.7% compared to the prior year. The toy group reported an operating loss of HK$90 million (2009: HK$35 million).

Gross profit ratio on toy sales was 41.9% (2009: 45.9%). The decrease was attributable to: a higher portion of sales to lower margin international markets compared to 2009, which were partially offset by a decrease in development expenses and tooling costs.

Recurring operating expenses were managed to a level lower than last year with lower advertising and promotional spending, as well as a reduction in sales and distribution expenses. The reported net loss attributable to shareholders reflected write off of minimum guarantees associated with non performing licenses and non-recurring items including unused bartered advertising credits, office relocation and staff redundancy costs.

Playmates Toys sales in 2010 were lower than last year due to underperformance of both continuing and new brands. During the year, a number of non-performing brands were divested and the product portfolio was realigned to focus on quality brands.

The toy industry as a whole reported a 2% increase in retail sales in 2010 in the US, and similar positive growth in many major developed markets around the world. US retail sales in the fourth quarter, representing close to half of the total for the year, increased by 3% over fourth quarter 2009 and sales in December 2010 increased by 4% over December 2009. Nevertheless, despite signs of growing consumer optimism towards the end of last year, major retailers ended 2010 with higher levels of inventory than the year before. As a result, US retailers are expected to continue to pursue a strategy of tight inventory control and to be cautious in selecting new brands.

Playmates Toys expects its operating environment to remain challenging in 2011, but if consumer confidence continues to improve, it is hopeful that retailers may become more receptive to new brand selections as their inventory burden is reduced. Playmates Toys will continue to pursue a focused operating strategy, diligent risk management and sustained costs and expenses controls. New property acquisitions will be highly selective and focused on core competence.

Portfolio Investments

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

As at 31 December 2010, fair market value of the Group's investment portfolio was HK$198.5 million (2009: HK$250.6 million). The Group reported a net gain from investments of approximately HK$33.7 million. In comparison, a net gain from investments of approximately HK$42.5 million was recorded in 2009. In 2010, dividend and interest income generated from portfolio investments were HK$6.1 million (2009: HK$5.6 million) and has been included in the revenue of the Group.

In light of developing political uncertainties in the major oil producing region and the aftermath of unprecedented natural disaster, management expects contributions from investments in the global capital markets will remain volatile in 2011. The Group will remain vigilant in monitoring and adjusting the investment portfolio.

FINANCIAL ANALYSIS

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2010, trade receivables related to toy operation were HK$10,642,000 (2009: HK$76,562,000) and inventories related to toy operation were at a seasonal low level of HK$5,404,000 (2009: HK$10,181,000) or 3.6% (2009: 1.6%) of turnover of toy operation.

The property investments and associated businesses generated a relatively steady income stream throughout the year. Approximately 94% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2010. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2010 was 13.6% compared to 14.8% at 31 December 2009. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.5 at 31 December 2010 compared to 1.4 at 31 December 2009.

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 2010, the Group's cash and bank balances were HK$430,878,000 (2009: HK$306,764,000), and the amount invested in various securities was HK$198,459,000 (2009: HK$250,621,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 271,689 shares of HK$0.10 each were repurchased by the Company at prices ranging from HK$2.44 to HK$2.50 per share through the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company 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 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2010, 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.

In respect of the roles of the chairman and chief executive officer should be separate, the Chairman focuses on Group strategy and is responsible for ensuring the efficient operation of the board; whereas the executive directors supported by the senior executives are responsible for running the business operations of the Group. The board considers that this structure is effective in facilitating the operations and business development of the Company and maintaining the checks and balances between the board and the management of the business of the Group. The structure outlined above will be reviewed regularly to ensure that sound corporate governance is in place.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 April 2011 to 19 April 2011, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be qualified for the declared dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on 14 April 2011.

On behalf of the Board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 25 March 2011

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

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