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If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares of Playmates Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 635)

MAJOR TRANSACTION

IN RELATION TO JOINT VENTURE AGREEMENT

A notice convening a special general meeting of the Company to be held at 11/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 9 September 2008 at 9:00 a.m. is contained in page 65 of this document. Whether or not you are able to attend the special general meeting, you are requested to complete and return the form of proxy enclosed with this document, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the special general meeting to the Hong Kong branch share registrars of the Company, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong. Completion of the form of proxy shall not preclude you from attending and voting at the special general meeting should you so wish.

Please note that refreshments will not be served at the special general meeting.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
 LETTER FROM THE BOARD	
Introduction	4
Joint Venture Agreement	5
Reasons for and benefits of the Joint Venture Agreement	7
Financial Effects	8
Financial and Trading Prospects	8
Chapter 14 of the Listing Rules	8
General	9
SGM	9
Recommendation	9
Additional Information	9
 APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	 10
APPENDIX II – GENERAL INFORMATION	56
APPENDIX III – NOTICE OF SPECIAL GENERAL MEETING	65
APPENDIX IV – PROCEDURES FOR DEMANDING A POLL	66

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“associates”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“Call Option”	the call option exercisable by GPUS (Delaware) under the Joint Venture Agreement;
“Company”	Playmates Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“connected persons”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“GPHK (Hong Kong)”	Giochi Preziosi H.K. Ltd., a company incorporated in Hong Kong and a subsidiary of GPSpA (Italy);
“GPSpA (Italy)”	Giochi Preziosi S.p.A., a joint stock company incorporated in Italy;
“GPUS (Delaware)”	Giochi Preziosi U.S.A., Inc., a company incorporated in Delaware, United States with limited liability;
“Group”	the Company and its subsidiaries, including the PTL Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Joint Venture Agreement”	the conditional joint venture agreement dated as of 10 July 2008 entered into between PTI and GPUS (Delaware) relating to the setting up of LLC for the purpose as stated thereunder, which was supplemented on 25 July 2008;
“Latest Practicable Date”	19 August 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“LLC”	the limited liability company to be organized in Delaware, United States in accordance with the provisions of the Joint Venture Agreement;
“New Products”	include “Gormiti” brand name products under categories (i) and (ii) of the Product Line which are not manufactured and distributed by GPSpA (Italy) and which LLC may elect to design and develop for distribution in the United States and Canada;
“Operating Agreement”	the operating agreement to be entered into by PTI and GPUS (Delaware) subsequent to the execution of the Joint Venture Agreement;
“Options”	the Put Option and the Call Option;
“PTI”	Playmates Toys Inc., a company incorporated in California, United States with limited liability and is an indirect wholly-owned subsidiary of PTL and an indirect subsidiary of the Company;
“PTL”	Playmates Toys Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“PTL Group”	PTL and its subsidiaries;
“Preziosi Group”	the group of companies comprising GPSpA (Italy) and its subsidiaries and associates;
“Product Line”	consists of principally (i) all current and future toy and game products of all description based on the “Gormiti” brand name manufactured and distributed outside the United States and Canada; (ii) toy and game products inspired by or otherwise derived from a specific anticipated animated television series in certain limited toy and game categories; and (iii) New Products;
“Put Option”	the put option exercisable by PTI under the Joint Venture Agreement;
“SGM”	the special general meeting of the Company to be convened and held to approve and confirm the Transaction;
“Share Options”	the outstanding share options granted by the Company pursuant to a share option plan and a share option scheme adopted on 4 May 1998 and 28 June 2002 respectively;

DEFINITIONS

“Shareholders”	holders of shares of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transaction”	the formation of the joint venture and all other transactions as contemplated under the Joint Venture Agreement, including but not limited to the provision of the Options pursuant to the terms of the Joint Venture Agreement;
“U.S. / United States”	The United States of America; and
“US\$”	U.S. dollars, the lawful currency of the United States of America.

LETTER FROM THE BOARD



PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 635)

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*

Mr. CHENG Bing Kin, Alain *(Executive Director)*

Mr. IP Shu Wing, Charles *(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)*

Mr. YU Hon To, David *(Independent Non-executive Director)*

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Office:

21/F., The Toy House

100 Canton Road

Tsimshatsui, Kowloon

Hong Kong

21 August 2008

To the Shareholders and holders of the Share Options

Dear Sir or Madam,

MAJOR TRANSACTION

IN RELATION TO JOINT VENTURE AGREEMENT

INTRODUCTION

On 31 July 2008, the Company announced jointly with PTL that PTI, an indirect wholly-owned subsidiary of PTL and an indirect subsidiary of the Company, and GPUS (Delaware), a subsidiary of GPSpA (Italy), have entered into a conditional Joint Venture Agreement. The Joint Venture Agreement is subject to the approval of their respective boards of directors which must be obtained before 25 July 2008. The respective boards of directors of PTI and GPUS (Delaware) approved the Joint Venture Agreement on 25 July 2008.

The Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the purpose of this circular is to provide you with further details of the Transaction and the notice of the SGM.

* For identification purpose only

LETTER FROM THE BOARD

JOINT VENTURE AGREEMENT

Date: 10 July 2008

Parties: (i) PTI, an indirect wholly-owned subsidiary of PTL and an indirect subsidiary of the Company on the one part; and

(ii) GPUS (Delaware), a subsidiary of GPSpA (Italy) on the other part.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, GPUS (Delaware), GPSpA (Italy) and its ultimate beneficial owners are third parties independent of the Company and its substantial shareholders, directors and chief executive, and their respective associates.

Summary: PTI is principally engaged in the marketing, sales and distribution of various proprietary and licensed toy products in, amongst other jurisdictions, the United States and Canada. GPUS (Delaware) is a U.S. subsidiary of GPSpA (Italy), a major Italian toy manufacturer, distributor and retailer with extensive operations outside the United States and Canada.

Pursuant to the Joint Venture Agreement, LLC, a limited liability company, will be organized in the state of Delaware, United States to principally engage in the business of the marketing, sales and distribution of the Product Line bearing the "Gormiti" brand name in the United States and Canada. GPSpA (Italy) is the owner of the "Gormiti" brand name.

LLC will be 55% owned by GPUS (Delaware) and 45% owned by PTI, which will become an indirect associated company of the Company and an indirect associated company of PTL.

License to LLC: Under the terms of the Joint Venture Agreement, GPSpA (Italy) shall enter into a licensing agreement with LLC to grant to LLC an exclusive license to import, market, sell and distribute toy products specified in the Product Line bearing the "Gormiti" brand name within the United States and Canada in all channels and to all buyers for a term extending for the duration of LLC's existence. Under the licensing agreement, royalty (which will be calculated based on various factors including the country in which products are sold, the availability of media broadcast coverage in the United States relating to relevant products, and the types/categories of products in the Product Line) will be payable to GPSpA (Italy).

LETTER FROM THE BOARD

- Product Costing and Sourcing: GPHK (Hong Kong) will enter into an agreement with LLC to provide engineering and manufacturing services to LLC and will oversee all vendor selection, production planning, quality assurance/quality control activities subject to consultation with LLC. LLC shall purchase the finished goods of the Product Line from GPHK (Hong Kong) at cost plus a service fee charged at an agreed rate.
- Service Cost: Any commercially reasonable costs for services provided by either GPUS (Delaware) or PTI in connection with LLC's business shall, subject to agreement between the parties, be charged to LLC by way of a service fee charged at an agreed rate.
- Financing of LLC:
- (a) The financing required for LLC shall consist of equity and debt financing of which equity financing shall not be less than 50% of the overall debt/equity financing requirements of LLC at any time. Equity financing required from the parties will be proportionate to their ownership percentage in LLC. Pursuant to the Joint Venture Agreement, equity funding of LLC for the period up to 31 December 2008 shall not be less than US\$2,000,000 (approximately HK\$15,600,000), and this funding requirement was determined by the parties at arm's length negotiations by reference to the currently estimated funding requirements of LLC for a foreseeable period. Assuming this is the maximum funding requirement and no debt financing is undertaken, the total capital commitment of PTI under the Joint Venture Agreement which can be ascertained at present is 45% of US\$2,000,000, that is US\$900,000 (approximately HK\$7,020,000), which will be funded by the internal resources of PTL Group and payable in cash. This capital commitment required from PTI will result in none of the percentage ratios under Chapter 14 of the Listing Rules (as far as the Company is concerned) being more than 5% and only one of the relevant percentage ratios (as far as PTL is concerned) being more than 5% but less than 25%.
 - (b) In addition and subject to the equity contributions in (a) above, LLC shall pursue and obtain debt financing from independent/unaffiliated sources to meet the projected funding requirements with no obligation on either party to provide a guarantee of any such third party debt financing. Any shortfall in funding from such independent/unaffiliated sources will be contributed by PTI and GPUS (Delaware) in an agreed proportion.
- Board of Managers of LLC: The board of LLC shall constitute 5 managers, of which 3 managers (including the chief executive officer) shall be appointed by GPUS (Delaware) and the remaining 2 managers shall be appointed by PTI.

LETTER FROM THE BOARD

- Other terms:
- (a) The Joint Venture Agreement provides for the Put Option by PTI and the Call Option by GPUS (Delaware) with respect to PTI's membership interests in LLC which may become exercisable at the relevant party's election under certain pre-agreed conditions. The conditions for exercising the Options principally involve: (i) intentional misapplication of funds or commission of fraud, gross negligence or wilful misconduct; (ii) taking of unilateral action which should require joint approval; (iii) breach of funding obligations; (iv) bankruptcy, liquidation or dissolution; (v) unauthorized transfer of membership interest and in the case of PTI, a change in control to a specified toy industry player; or (vi) occurrence of a deadlock which could not be resolved through a pre-agreed procedure. The exercise price for each of the Options is to be fixed by reference to fair market value which is to be determined by an independent third party pursuant to the terms of the Joint Venture Agreement, and hence there is no pre-determined highest possible exercise price for the Options. No premium for any of the Options has been paid for such provisions.
 - (b) PTI and GPUS (Delaware) will use commercially reasonable efforts to enter into the Operating Agreement (which shall include fundamental terms and conditions of the Joint Venture Agreement and other customary terms) prior to 15 September 2008. Upon execution, the Operating Agreement shall supersede the Joint Venture Agreement.

REASONS FOR AND BENEFITS OF THE JOINT VENTURE AGREEMENT

The Preziosi Group is a major international toy manufacturer, distributor and retailer with an established track record and good reputation in the toy industry. The Directors therefore view this opportunity to collaborate with Preziosi Group as commercially attractive, specifically for the following reasons:-

- (a) PTI has an extensive marketing, sales and distribution know how in the United States and Canada as well as other international markets. PTI is well positioned to provide the marketing, sales, distribution and administration infrastructure required by LLC for the sales and distribution of the Product Line bearing the "Gormiti" brand name in the United States and Canada;
- (b) The Preziosi Group owns the "Gormiti" brand name and is therefore able to provide LLC with exclusive rights to the "Gormiti" brand name with respect to the Product Line in the United States and Canada; and
- (c) The "Gormiti" brand name is well received by customers in Europe with impressive performance. PTI will benefit from the sales generated in the United States and Canada in accordance with the terms of the Joint Venture Agreement.

LETTER FROM THE BOARD

The Directors have confirmed that the terms of the Joint Venture Agreement have been negotiated on an arm's length basis between the parties and on normal commercial terms. Such terms are considered by the Directors to be fair and reasonable and in the best interest of the Company and its Shareholders.

FINANCIAL EFFECTS

Pursuant to the Joint Venture Agreement, the Group shall contribute 45% of the equity financing of LLC. The total capital commitment at present is 45% of US\$2,000,000, that is US\$900,000 (approximately HK\$7,020,000), which will be funded by internal resources and payable in cash. Therefore, the cash outflow of the Group shall be increased for the Transaction. Offsetting the reduction in cash position, the investment in associated companies account will be increased by a like amount, maintaining overall assets at the same level.

After the incorporation of LLC, the Group will own 45% of its equity interest and LLC will become an indirect associated company of the Company. The Transaction will not cause any impact on the assets and liabilities of the Group. The Group will share the profit or loss of LLC in accordance with its shareholding therein.

FINANCIAL AND TRADING PROSPECTS

PTL Group is consistently pursuing its long-term growth strategy by investing in entertainment-driven properties, franchise acquisition, the development of proprietary intellectual property and category expansion.

The Directors consider that the formation and operation of LLC pursuant to the Joint Venture Agreement is in line with such long-term growth strategy.

The Directors further consider that after the formation and operation of LLC, the Group will benefit from the business prospects of LLC and potential profit contribution to the Group.

In addition to the toy business, the Group will continue its principal activities of property investments, property management, securities and other investments.

CHAPTER 14 OF THE LISTING RULES

The Company, through PIL Toys Limited, indirectly owns approximately 54.8% of PTL, while PTI is an indirect wholly-owned subsidiary of PTL. Consequently, PTI is a member of both the Group and the PTL Group.

By reference to the total capital commitment amount of PTI presently ascertainable under the Joint Venture Agreement, none of the percentage ratios (as far as the Company is concerned) is more than 5% and only one of the relevant percentage ratios (as far as PTL is concerned) is more than 5% but less than 25%. However, as a result of the existence of the Call Option and the operation of Rule 14.76(1) of the Listing Rules, the Transaction constitutes a major transaction for each of the Company and PTL and is therefore subject to the disclosures and shareholders' approval requirements under the Listing Rules. No shareholder of the Company or PTL is required to abstain from voting on the Transaction.

LETTER FROM THE BOARD

GENERAL

The Company is an investment holding company with its principal subsidiaries principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and in property investments, property management business, securities and other investments.

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

The Preziosi Group is principally engaged in the design, development, marketing and distribution of toys and confectionary products and is a major toy retailer in Italy.

SGM

The notice of the SGM is set out in Appendix III to this circular. At the SGM, an ordinary resolution will be proposed to approve the Transaction.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrars, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM. Completion and return of the proxy form will not preclude the Shareholders from attending and voting at the SGM if they so wish.

Pursuant to Rule 13.55(3) of the Listing Rules, the procedures for demanding a poll for any resolution at the SGM is set out in Appendix IV to this circular.

RECOMMENDATION

The terms of the Joint Venture Agreement have been negotiated on an arm's length basis between the parties and on normal commercial terms. Such terms are considered by the Directors to be fair and reasonable and in the best interest of the Company and its Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve and confirm the Transaction.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular and the unaudited interim results of the Company for the six months ended 30 June 2008 which were published on the date of this circular.

Yours faithfully,
For and on behalf of the Board
Chan Chun Hoo, Thomas
Chairman

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information of the Group for the three years ended 31 December 2005, 2006 and 2007 as extracted from the annual reports of the Company for the years ended 31 December 2006 and 31 December 2007. The relevant independent auditors' reports did not contain any modification or qualification. The financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Consolidated Income Statement

	For the year ended 31 December		
	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,310,264	1,197,083	996,049
Cost of sales	(637,264)	(600,608)	(519,888)
Gross profit	673,000	596,475	476,161
Marketing expenses	(305,822)	(296,536)	(245,976)
Selling, distribution and administration expenses	(247,783)	(269,592)	(258,426)
Revaluation surplus on investment properties	74,896	238,475	329,637
Restructuring expenses	(21,879)	–	(18,950)
Operating profit	172,412	268,822	282,446
Non-operating income/(expenses)			
Interest expense and bank charges	(7,576)	(7,755)	(10,440)
Other revenue	17,732	13,079	15,906
Net gain on investments	14,466	37,118	55,288
	197,034	311,264	343,200
Share of profits less losses of associated companies	1,797	3,458	3,426
Profit before taxation	198,831	314,722	346,626
Taxation charge	(2,841)	(54,353)	(30,340)
Profit for the year	<u>195,990</u>	<u>260,369</u>	<u>316,286</u>
Attributable to:			
Equity holders of the company	195,990	260,369	315,853
Minority interest	–	–	433
	<u>195,990</u>	<u>260,369</u>	<u>316,286</u>
Dividends	<u>93,393</u>	<u>130,952</u>	<u>229,006</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Earnings per share			
Basic	<u>1.10</u>	<u>1.39</u>	<u>1.50</u>
Diluted	<u>1.08</u>	<u>1.38</u>	<u>1.49</u>

Consolidated Balance Sheet

	As at 31 December		
	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Fixed assets			
– Investment properties	694,700	1,198,700	1,539,800
– Other property, plant and equipment	41,489	37,117	38,149
– Prepaid premium on leasehold land held for own use under an operating lease	49,234	48,102	48,597
	<u>785,423</u>	<u>1,283,919</u>	<u>1,626,546</u>
Goodwill	5,976	5,976	5,976
Investment in associated companies	36,328	34,836	25,090
Held-to-maturity investments	33,869	–	–
Deferred tax assets	85,728	80,152	91,976
	<u>947,324</u>	<u>1,404,883</u>	<u>1,749,588</u>
Current assets			
Inventories	57,786	49,470	33,368
Trade receivables	371,646	353,999	179,792
Deposit for purchase of investment property	21,835	–	–
Other receivables, deposits and prepayments	50,729	65,492	80,172
Taxation recoverable	43	2,023	3,177
Financial assets at fair value through profit or loss	226,347	331,204	567,943
Cash and bank balances	443,954	170,015	375,215
	<u>1,172,340</u>	<u>972,203</u>	<u>1,239,667</u>
Current liabilities			
Bank loans	19,957	107,542	160,275
Trade payables	92,899	92,585	76,027
Other payables and accrued charges	155,546	163,906	160,415
Provisions	51,775	49,260	35,798
Taxation payable	72,817	1,317	5,856
	<u>392,994</u>	<u>414,610</u>	<u>438,371</u>
Net current assets	<u>779,346</u>	<u>557,593</u>	<u>801,296</u>
Total assets less current liabilities	1,726,670	1,962,476	2,550,884
Non-current liabilities			
Bank loans	1,315	276	–
Deferred tax liabilities	45,262	94,090	154,109
	<u>46,577</u>	<u>94,366</u>	<u>154,109</u>
Net assets	<u>1,680,093</u>	<u>1,868,110</u>	<u>2,396,775</u>
Capital and reserves			
Share capital	186,766	187,108	222,523
Reserves	1,446,635	1,587,448	1,987,780
Proposed dividends	46,692	93,554	184,502
Total equity attributable to equity holders of the Company	1,680,093	1,868,110	2,394,805
Minority interests	–	–	1,970
Total equity	<u>1,680,093</u>	<u>1,868,110</u>	<u>2,396,775</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the audited consolidated financial statements of the Group for the year ended 31 December 2007 together with the accompanying notes, extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 US\$'000 (Note 32)	2007 HK\$'000	2006 HK\$'000
Turnover	3	127,698	996,049	1,197,083
Cost of sales		(66,652)	(519,888)	(600,608)
Gross profit		61,046	476,161	596,475
Marketing expenses		(31,535)	(245,976)	(296,536)
Selling, distribution and administration expenses		(33,132)	(258,426)	(269,592)
Revaluation surplus on investment properties		42,261	329,637	238,475
Restructuring expenses	31(a)	(2,429)	(18,950)	–
Operating profit	4	36,211	282,446	268,822
Non-operating income/(expenses)				
Interest expense and bank charges	5	(1,338)	(10,440)	(7,755)
Other revenue	3	2,039	15,906	13,079
Net gain on investments	6	7,088	55,288	37,118
		44,000	343,200	311,264
Share of profits less losses of associated companies		439	3,426	3,458
Profit before taxation		44,439	346,626	314,722
Taxation charge	7	(3,890)	(30,340)	(54,353)
Profit for the year		<u>40,549</u>	<u>316,286</u>	<u>260,369</u>
Attributable to:				
Equity holders of the company	8	40,494	315,853	260,369
Minority interest		55	433	–
		<u>40,549</u>	<u>316,286</u>	<u>260,369</u>
Dividends	9	<u>29,360</u>	<u>229,006</u>	<u>130,952</u>
		US\$	HK\$	HK\$
Earnings per share	10			
Basic		<u>0.19</u>	<u>1.50</u>	<u>1.39</u>
Diluted		<u>0.19</u>	<u>1.49</u>	<u>1.38</u>

Consolidated Balance Sheet*As at 31 December 2007*

	2007	2007	2006
<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 32)</i>		
Non-current assets			
Fixed assets			
– Investment properties	<i>13</i>	197,410	1,539,800
– Other property, plant and equipment	<i>13</i>	4,891	38,149
– Prepaid premium on leasehold land held for own use under an operating lease	<i>13</i>	6,230	48,102
		<u>208,531</u>	<u>1,626,546</u>
			1,283,919
Goodwill	<i>14</i>	766	5,976
Interest in an associated company	<i>16</i>	3,217	25,090
Deferred tax assets	<i>24</i>	11,792	91,976
		<u>224,306</u>	<u>1,749,588</u>
			1,404,883
Current assets			
Inventories	<i>17</i>	4,278	33,368
Trade receivables	<i>18</i>	23,050	179,792
Other receivables, deposits and prepayments		10,278	80,172
Taxation recoverable		407	3,177
Financial assets at fair value through profit or loss	<i>19</i>	72,813	567,943
Cash and bank balances	<i>26(b)</i>	48,105	375,215
		<u>158,931</u>	<u>1,239,667</u>
			972,203
Current liabilities			
Bank loans	<i>20</i>	20,548	160,275
Trade payables	<i>21</i>	9,747	76,027
Other payables and accrued charges		20,566	160,415
Provisions	<i>22</i>	4,589	35,798
Taxation payable		751	5,856
		<u>56,201</u>	<u>438,371</u>
			414,610

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

		2007	2007	2006
	<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 32)</i>		
Net current assets		<u>102,730</u>	<u>801,296</u>	<u>557,593</u>
Total assets less current liabilities		327,036	2,550,884	1,962,476
Non-current liabilities				
Bank loans	<i>20</i>	–	–	276
Deferred tax liabilities	<i>24</i>	<u>19,757</u>	<u>154,109</u>	<u>94,090</u>
		<u>19,757</u>	<u>154,109</u>	<u>94,366</u>
Net assets		<u><u>307,279</u></u>	<u><u>2,396,775</u></u>	<u><u>1,868,110</u></u>
Capital and reserves				
Share capital	<i>25(a)</i>	28,529	222,523	187,108
Reserves		254,843	1,987,780	1,587,448
Proposed dividends	<i>9</i>	<u>23,654</u>	<u>184,502</u>	<u>93,554</u>
Total equity attributable to equity holders of the Company		307,026	2,394,805	1,868,110
Minority interests		<u>253</u>	<u>1,970</u>	<u>–</u>
Total equity		<u><u>307,279</u></u>	<u><u>2,396,775</u></u>	<u><u>1,868,110</u></u>

Balance Sheet*As at 31 December 2007*

	<i>Note</i>	2007 <i>US\$'000</i> <i>(Note 32)</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets				
Investment in subsidiaries	15	188,426	1,469,722	1,157,826
Current assets				
Cash and bank balances		40	310	1,954
		40	310	1,954
Current liabilities				
Other payables and accrued charges		1	4	115
		1	4	115
Net current assets		39	306	1,839
Net assets		188,465	1,470,028	1,159,665
Capital and reserves				
Share capital	25(a)	28,529	222,523	187,108
Reserves	25(b)	144,220	1,124,921	879,003
Proposed dividends	9	15,716	122,584	93,554
Total equity		188,465	1,470,028	1,159,665

Consolidated Cash Flow Statement*For the year ended 31 December 2007*

	Note	2007 US\$'000 (Note 32)	2007 HK\$'000	2006 HK\$'000
Cash flows from operating activities				
Cash generated from operations	26(a)	13,470	105,068	60,005
Interest paid		(703)	(5,488)	(2,243)
Hong Kong profits tax paid		(405)	(3,163)	(5,110)
Overseas tax paid		–	–	(69,633)
Hong Kong profits tax refunded		80	626	1,314
Overseas tax refunded		3,048	23,777	–
Net cash generated from/(used in) operating activities		<u>15,490</u>	<u>120,820</u>	<u>(15,667)</u>
Cash flows from investing activities				
Purchases of investments		(103,551)	(807,697)	(167,977)
Proceeds from disposal of investments		80,348	626,717	134,381
Purchases of other property, plant and equipment		(888)	(6,927)	(2,123)
Proceeds from disposal of other property, plant and equipment		2	13	4
Purchases of investment properties		(1,842)	(14,369)	(243,690)
Bank interest received		1,672	13,045	12,053
Decrease in loan to an associated company		961	7,499	2,500
Dividend received from an associated company		628	4,900	2,450
Dividends received from investments		307	2,391	752
Net cash used in investing activities		<u>(22,363)</u>	<u>(174,428)</u>	<u>(261,650)</u>
Cash flows from financing activities				
Issue of shares		46,208	360,427	1,365
Share issuing expenses		–	–	(391)
New bank loan		15,385	120,000	87,500
Repayment of bank loans		(8,659)	(67,543)	(954)
Dividends paid		(19,753)	(154,076)	(84,142)
Net cash generated from financing activities		<u>33,181</u>	<u>258,808</u>	<u>3,378</u>
Net increase/(decrease) in cash and cash equivalents		26,308	205,200	(273,939)
Cash and cash equivalents at 1 January		<u>21,797</u>	<u>170,015</u>	<u>443,954</u>
Cash and cash equivalents at 31 December	26(b)	<u><u>48,105</u></u>	<u><u>375,215</u></u>	<u><u>170,015</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2007*

	Equity Holders of the Company						Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Reserve on consolidation HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	
At 1 January 2006	<u>186,766</u>	<u>742,234</u>	<u>1,116</u>	<u>21,082</u>	<u>16,901</u>	<u>711,994</u>	<u>1,680,093</u>
Total recognised income and expense for the year							
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>260,369</u>	<u>260,369</u>
Issue of shares	3	63	-	-	-	-	66
Share issuing expenses	-	(391)	-	-	-	-	(391)
2005 final dividend paid	-	-	-	-	-	(46,744)	(46,744)
2006 interim dividend paid	-	-	-	-	-	(37,398)	(37,398)
Employees share option scheme							
- value of employee services	-	-	-	-	10,816	-	10,816
- shares issued	339	1,060	-	-	(100)	-	1,299
- options lapsed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,535)</u>	<u>1,535</u>	<u>-</u>
	<u>342</u>	<u>732</u>	<u>-</u>	<u>-</u>	<u>9,181</u>	<u>(82,607)</u>	<u>(72,352)</u>
At 31 December 2006	<u><u>187,108</u></u>	<u><u>742,966</u></u>	<u><u>1,116</u></u>	<u><u>21,082</u></u>	<u><u>26,082</u></u>	<u><u>889,756</u></u>	<u><u>1,868,110</u></u>

	Equity Holders of the Company								
	Share capital	Share premium	Share redemption reserve	Employee		Retained profits	Total	Minority interest	Total equity
				Reserve on consolidation	share-based compensation reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2007	187,108	742,966	1,116	21,082	26,082	889,756	1,868,110	-	1,868,110
Total recognised income and expense for the year									
Profit for the year	-	-	-	-	-	315,853	315,853	433	316,286
Issue of shares	34,515	320,987	-	-	-	-	355,502	-	355,502
2006 final dividend paid	-	-	-	-	-	(65,743)	(65,743)	-	(65,743)
2006 special dividend paid	-	-	-	-	-	(43,829)	(43,829)	-	(43,829)
2007 interim dividend paid	-	-	-	-	-	(44,504)	(44,504)	-	(44,504)
Minority interest arose during the year	-	-	-	-	-	-	-	1,537	1,537
Employees share option scheme									
- value of employee services	-	-	-	-	4,491	-	4,491	-	4,491
- shares issued	900	5,330	-	-	(1,305)	-	4,925	-	4,925
- options lapsed	-	-	-	-	(522)	522	-	-	-
	35,415	326,317	-	-	2,664	(153,554)	210,842	1,537	212,379
At 31 December 2007	222,523	1,069,283	1,116	21,082	28,746	1,052,055	2,394,805	1,970	2,396,775

Notes to the Financial Statements

31 December 2007

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 HM11, Bermuda and its principal office is 21/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

The accounting policies adopted in current year are consistent with those of the previous year except HKAS 1 (Amendment) – Capital Disclosures and HKFRS 7 – Financial Instruments: Disclosures. The adoption of these standards did not have significant effects on the financial statements of the Group and the Company.

HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 25(c).

HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements.

New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued and relevant to its operation but are not yet effective. The Group is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	Group and Treasury Share Transactions ²

Notes:

- ¹ Effective for annual periods beginning on or after 1 January 2009
² Effective for annual periods beginning on or after 1 March 2007

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associated company.

The consolidated financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and financial assets at fair value through profit or loss are stated at fair value.

(c) Group accounting*(i) Consolidation*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group balances and transactions and any unrealised gain arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated to the extent that there is no evidence of impairment.

Investments in subsidiaries are recorded in the Company’s books at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

Associated companies are entities in which the Group has significant influence but not control, over its management, including participation in the financial and operating policy decision, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associated companies are accounted for in the consolidated financial statements under the equity method of accounting and are initially recognised at cost and adjusted thereafter for the post acquisition change in the Group’s share of the associated companies’ net assets.

The Group’s share of its associated companies’ post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group’s share of losses in an associated company equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

(d) Fixed assets*(i) 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.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were 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 based on market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed at least annually by external surveyors.

Subsequent costs are included in the asset's carrying amount 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 other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair value are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as other property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of other property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sales or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

(ii) Other property, plant and equipment

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Machinery, vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(iii) *Prepaid premium on leasehold land held for own use under an operating lease*

Prepaid premium on leasehold land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

(e) **Operating leases**

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the income statement on a straight-line basis over the lease term.

(f) **Investments**

The Group classifies its investments as financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

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 management. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

All financial assets are recognised when and only when the Group becomes a contractual party of the instrument. 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 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. 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 included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices.

The fair values of unlisted managed funds are based on the market value of the underlying portfolio of securities reported by the administrators of the funds.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(g) **Inventories**

Inventories comprise toys merchandise and are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

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

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less impairment losses for bad or doubtful debts and allowance for customer concession.

A provision for impairment of trade and other receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) Impairment of assets

Other property, plant and equipment, prepaid premium on leasehold land and investments in subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Financial liabilities

The Group's financial liabilities include trade payables, other payables and bank loans. They are recognised initially at their fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) 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. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

(l) Current taxation

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

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Revenue recognition

Revenue from sales is recognised on the transfer of risks and rewards of ownership, 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.

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

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

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

Advertising and marketing expenses are expensed as incurred, except for the production costs of commercials and related programming costs which are deferred and expensed in the year the commercial is first aired.

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.

Expenses relating to product development are charged to the income statement as incurred.

(p) Employee benefits*(i) Employee leave entitlements*

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

(ii) *Pension obligations*

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

(iii) *Share-based compensation*

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

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

(q) **Borrowing costs**

Borrowing costs are charged to the income statement in the year in which they are incurred.

(r) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment less bank overdrafts.

(s) **Foreign currency translation**

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) *Group companies*

The results and financial position of all the group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates; and
- (c) all resulting exchange differences are recognised as a separate component of equity.

(t) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical one as the secondary reporting format for the purposes of these financial statements.

Segment assets consist primarily of fixed assets, goodwill, inventories, trade and other receivables and operating cash. Segment liabilities comprise operating liabilities. Segment capital expenditure comprises additions to fixed assets.

Unallocated items mainly comprise financial and corporate assets, bank loans, tax balances, corporate and inactive subsidiaries' expenses.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

(u) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associated companies is included in investments in associated companies and is assessed for impairment as part of the investment in associates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business consolidation in which the goodwill arose. An impairment loss on goodwill is recognised as an expense and is not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(v) **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 resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. All provisions are current in nature and therefore the effect of the time value of money is not material. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(w) Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Company or the Group;
 - has an interest in the Company that gives it significant influence over the Company or the Group;
 - has joint control over the Company or the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

3 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, property investment and management and restaurant operation. Revenue recognised during the year is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of toys	909,030	1,127,997
Rental income from investment properties	52,701	39,425
Property management income	10,092	10,266
Restaurant income	24,226	19,395
	<u>996,049</u>	<u>1,197,083</u>
Other revenue		
Bank interest income	13,045	11,759
Dividend income from investments	2,861	1,320
	<u>15,906</u>	<u>13,079</u>
Total revenue	<u><u>1,011,955</u></u>	<u><u>1,210,162</u></u>

Business segments

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2007			
	Toy business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	909,030	87,019	–	996,049
Inter-segment revenue (<i>Note (iii)</i>)	–	360	(360)	–
	<u>909,030</u>	<u>87,379</u>	<u>(360)</u>	<u>996,049</u>
Results				
Segment results	(68,385)	365,206	–	296,821
Inter-segment transactions (<i>Note (iii)</i>)	(360)	360	–	–
	<u>(68,745)</u>	<u>365,566</u>	<u>–</u>	<u>296,821</u>
Unallocated costs				(14,375)
Operating profit				<u>282,446</u>
Assets				
Segment assets	373,739	1,641,440	(217)	2,014,962
Unallocated assets				974,293
Total assets				<u>2,989,255</u>
Liabilities				
Segment liabilities	200,568	32,009	(217)	232,360
Unallocated liabilities				360,120
Total liabilities				<u>592,480</u>
Other information				
Capital expenditure	2,526	15,124		
Depreciation	<u>2,678</u>	<u>5,028</u>		

	Year ended 31 December 2006			
	Toy business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	1,127,997	69,086	–	1,197,083
Inter-segment revenue (<i>Note (iii)</i>)	–	674	(674)	–
	<u>1,127,997</u>	<u>69,760</u>	<u>(674)</u>	<u>1,197,083</u>
Results				
Segment results	28,647	262,407	–	291,054
Inter-segment transactions (<i>Note (iii)</i>)	(674)	674	–	–
	<u>27,973</u>	<u>263,081</u>	<u>–</u>	<u>291,054</u>
Unallocated costs				<u>(22,232)</u>
Operating profit				<u>268,822</u>
Assets				
Segment assets	558,769	1,302,570	(222)	1,861,117
Unallocated assets				<u>515,969</u>
Total assets				<u>2,377,086</u>
Liabilities				
Segment liabilities	263,277	32,776	(222)	295,831
Unallocated liabilities				<u>213,145</u>
Total liabilities				<u>508,976</u>
Other information				
Capital expenditure	463	265,639		
Depreciation	<u>2,810</u>	<u>4,589</u>		

Notes:

- (i) **Toy business** refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and associated business** refers to the leasing of commercial, industrial and residential premises to generate rental income, the provision of property management services and the operation of restaurants.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

Geographical segments

A geographical analysis of the Group's turnover, segment assets and segment capital expenditure is as follows:

	Turnover 2007 <i>HK\$'000</i>	Segment assets 2007 <i>HK\$'000</i>	Segment Capital expenditure 2007 <i>HK\$'000</i>
Americas			
– U.S.A.	607,169	327,109	1,024
– Others	62,395	–	–
Europe	203,291	–	–
Asia Pacific	121,454	1,687,853	16,626
Others	1,740	–	–
	<u>996,049</u>	<u>2,014,962</u>	<u>17,650</u>
	Turnover 2006 <i>HK\$'000</i>	Segment assets 2006 <i>HK\$'000</i>	Segment Capital expenditure 2006 <i>HK\$'000</i>
Americas			
– U.S.A.	847,355	490,681	342
– Others	81,408	–	–
Europe	154,278	–	–
Asia Pacific	110,501	1,370,436	265,760
Others	3,541	–	–
	<u>1,197,083</u>	<u>1,861,117</u>	<u>266,102</u>

4 OPERATING PROFIT

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	434,258	522,981
Product development costs	24,668	22,073
Royalties paid	93,370	102,488
Direct operating expenses arising from investment properties that generate rental income	2,490	2,809
Direct operating expenses arising from investment properties that did not generate rental income	2,193	1,094
Provision for customer concession (<i>Note 18</i>)	12,304	14,823
Unutilised provision for customer concession (<i>Note 18</i>)	(1,301)	(1,656)
Reversal of provision for doubtful debts (<i>Note 18</i>)	(1,591)	–
Provision for customer and supplier claims (<i>Note 22</i>)	42,661	52,288
Unutilised provision for customer and supplier claims (<i>Note 22</i>)	(2,097)	(3,133)
Depreciation of fixed assets	8,196	7,554
Staff costs, including directors' remuneration (<i>Note 11</i>)	106,925	107,421
Operating leases expense on office and warehouse facilities	9,991	12,313
Loss on disposal of fixed assets	97	69
Auditors' remuneration	2,150	1,880
	<u>2,150</u>	<u>1,880</u>

5 INTEREST EXPENSE AND BANK CHARGES

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts, wholly repayable within five years	5,488	2,243
Bank charges	4,952	5,512
	<u>4,952</u>	<u>5,512</u>
	<u>10,440</u>	<u>7,755</u>

6 NET GAIN ON INVESTMENTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net realised gain on investments	28,269	4,555
Net unrealised gain on investments	27,019	32,563
	<u>27,019</u>	<u>32,563</u>
	<u>55,288</u>	<u>37,118</u>

7 TAXATION CHARGE

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	2007 HK\$'000	2006 HK\$'000
Current taxation		
Hong Kong profits tax	7,135	3,622
Overseas taxation	–	62
Overseas tax refunded (<i>Note</i>)	(22,879)	–
Over provision in prior years	<u>(2,111)</u>	<u>(3,735)</u>
	(17,855)	(51)
Deferred taxation		
Origination and reversal of temporary differences	<u>48,195</u>	<u>54,404</u>
	<u><u>30,340</u></u>	<u><u>54,353</u></u>

Note: This relates to the examination by the U.S. Tax Authority of certain returns of the U.S. subsidiaries of the Group.

The California Franchise Tax Board (“FTB”) had completed its examination of the state tax returns of the Group for the tax years 1988 through 1990 and had proposed adjustments to the Group’s apportionment of income to the State of California for these tax years.

The Group has settled all their tax liabilities regarding the tax case in 2006. However, the Group continued to pursue its refund claim through litigation with the FTB. In July 2007, the Group and the FTB agreed in principle to an out-of-court settlement, which resulted in a refund of tax, interest and penalties of approximately HK\$22,879,000.

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	<u>346,626</u>	<u>314,722</u>
Calculated at a taxation rate of 17.5% (2006: 17.5%)	60,660	55,076
Effect of different taxation rates in other countries	(10,364)	6,218
Non-taxable income	(9,740)	(9,295)
Non-deductible expenses for tax purposes	6,546	7,178
Decrease in unrecognised temporary differences and tax losses	(4,025)	(1,451)
Utilisation of previously unrecognised tax losses	(1,346)	(77)
Overseas tax refunded	(22,879)	–
Tax on gain on disposal of subsidiaries (<i>Note</i>)	13,555	–
Prior year over provision	(2,111)	(3,735)
Current year under provision	<u>44</u>	<u>439</u>
Taxation charge	<u>30,340</u>	<u>54,353</u>

Note: Tax on gain on disposal of subsidiaries in the U.S. represents the tax on the capital gain which arose when transfer of the subsidiaries during the process of the Reorganisation. Deferred tax assets were then utilised in respect of the net operating losses offsetting such tax.

8 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a profit of HK\$99,521,000 (2006: loss of HK\$5,857,000) which is dealt with in the financial statements of the Company.

9 DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Interim dividend paid of HK\$0.20, restated (2006: HK\$0.20, restated) per share	<u>44,504</u>	<u>37,398</u>
Final dividend proposed of HK\$0.25 (2006: HK\$0.30, restated) per share	55,931	56,132
Special dividend in specie proposed of HK\$0.57 (2006: HK\$nil) per share (<i>Note</i>)	128,571	–
Special dividend paid of HK\$nil (2006: HK\$0.20, restated) per share	<u>–</u>	<u>37,422</u>
	<u>184,502</u>	<u>93,554</u>
	<u>229,006</u>	<u>130,952</u>

Note: At a meeting held on 17 December 2007, the directors proposed a conditional special dividend in specie of the shares of PTL, a wholly owned subsidiary of the Company and the holding company of the Group's toy business, to effect the spin-off and separate listing of PTL. The distribution in the amount of approximately HK\$128,571,000 which equivalent to approximately 45% of the net asset value of PTL whereby the Company's investment cost in PTL is about HK\$66,653,000. Pursuant to the ordinary resolution passed on 25 January 2008, the shareholders of the Company approved the spin-off of the toy business by way of distribution in specie.

At a meeting held on 10 March 2008, the directors proposed a final dividend of HK\$0.25 per share on the basis of 223,724,956 shares in issue as at the date of this meeting. These proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2008.

The interim dividend per share for 2007 and the dividends per share for 2006 were restated to reflect the share consolidation as set out in note 31(b).

10 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to equity holders of the Company for the purpose of calculating basic and diluted earnings per share	<u>315,853</u>	<u>260,369</u>
	Number of shares (Note)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	210,842,400	186,940,700
Number of potential ordinary shares issuable under share options	<u>1,371,900</u>	<u>1,447,500</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>212,214,300</u>	<u>188,388,200</u>

Note: The weighted average number of ordinary shares for the periods presented has been adjusted to reflect the share consolidation as set out in note 31(b).

11 STAFF COSTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages, salaries and other benefits	99,808	94,114
Share-based compensation	4,491	10,816
Employer's contributions to provident fund	2,626	2,578
Forfeited contributions	<u>—</u>	<u>(87)</u>
	<u>106,925</u>	<u>107,421</u>

As at 31 December 2007 and 2006, there was no contribution payable and no forfeited contribution available to reduce future contributions in respect of the provident fund schemes.

12 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of each director for the year ended 31 December 2007 is set out below:

Name of director	Fee	Salary	Bonus	Share-based compen- sation	Other benefits	Employer's contribution to provident fund	Total
	2007	2007	2007	2007	2007	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note 1)		
CHAN Chun Hoo, Thomas	-	120	3,000	-	166	7	3,293
CHENG Bing Kin, Alain	-	1,580	720	146	343	12	2,801
CHOW Yu Chun, Alexander (Note 2)	99	-	-	79	121	-	299
IP Shu Wing, Charles	100	-	-	167	37	-	304
LEE Peng Fei, Allen	100	-	-	167	172	-	439
LO Kai Yiu, Anthony	100	-	-	167	197	-	464
TO Shu Sing, Sidney	-	1,920	850	213	58	12	3,053
TSIM Tak Lung	100	-	-	167	197	-	464
YU Hon To, David	100	-	-	167	122	-	389
	<u>599</u>	<u>3,620</u>	<u>4,570</u>	<u>1,273</u>	<u>1,413</u>	<u>31</u>	<u>11,506</u>

Name of director	Fee	Salary	Bonus	Share-based compen- sation	Other benefits	Employer's contribution to provident fund	Total
	2006	2006	2006	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note 1)		
CHAN Chun Hoo, Thomas	-	120	3,000	-	158	7	3,285
CHENG Bing Kin, Alain	-	1,416	600	338	303	12	2,669
CHOW Yu Chun, Alexander (Note 2)	84	-	-	154	47	-	285
IP Shu Wing, Charles	100	-	-	353	12	-	465
LEE Peng Fei, Allen	100	-	-	353	99	-	552
LO Kai Yiu, Anthony	100	-	-	353	99	-	552
TO Shu Sing, Sidney	-	1,740	750	528	58	12	3,088
TSIM Tak Lung	100	-	-	353	91	-	544
YU Hon To, David	100	-	-	353	74	-	527
	<u>584</u>	<u>3,276</u>	<u>4,350</u>	<u>2,785</u>	<u>941</u>	<u>31</u>	<u>11,967</u>

Notes:

- (1) Other benefits include insurance premium, club membership and housing allowance for executive directors, and committee work and meeting attendance allowance for non-executive directors.
- (2) Mr. Chow Yu Chun, Alexander resigned as a director on 28 December 2007.

(b) Five highest paid individuals' emoluments

Three (2006: two) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other two (2006: three) highest paid individuals are as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, other allowances and benefits in kind	6,392	9,250
Share-based compensation	1,992	3,652
Performance bonus	–	1,110
Employer's contribution to provident fund	115	218
	<u>8,499</u>	<u>14,230</u>

The emoluments of these two (2006: three) individuals are within the following bands:

	Number of individuals	
	2007	2006
HK\$		
2,500,001 – 3,000,000	1	–
3,000,001 – 3,500,000	–	2
5,500,001 – 6,000,000	1	–
7,500,001 – 8,000,000	–	1
	<u>2</u>	<u>3</u>

The employees, whose emoluments are disclosed above, include senior executives who were also directors of subsidiaries during the year. No directors of subsidiaries waived any emoluments.

13 FIXED ASSETS – GROUP

	Buildings <i>HK\$'000</i>	Machinery, vehicle, equipment, furniture and fixtures <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Prepaid premium on leasehold land held for own use under an operating lease <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation							
At 1 January 2006	26,539	40,317	34,765	101,621	694,700	49,961	846,282
Additions	–	1,575	548	2,123	265,525	–	267,648
Revaluation surplus	–	–	–	–	238,475	–	238,475
Disposals	–	(15,479)	(4,031)	(19,510)	–	–	(19,510)
At 31 December 2006	26,539	26,413	31,282	84,234	1,198,700	49,961	1,332,895
At 1 January 2007	26,539	26,413	31,282	84,234	1,198,700	49,961	1,332,895
Additions	–	5,091	1,836	6,927	14,369	–	21,296
Revaluation surplus	–	–	–	–	329,637	–	329,637
Reclassification	538	–	–	538	(2,906)	1,013	(1,355)
Disposals	–	(153)	(2,385)	(2,538)	–	–	(2,538)
At 31 December 2007	27,077	31,351	30,733	89,161	1,539,800	50,974	1,679,935
Accumulated amortisation and depreciation							
At 1 January 2006	594	30,029	29,509	60,132	–	727	60,859
Charge for the year	927	3,389	2,106	6,422	–	1,132	7,554
Disposals	–	(15,407)	(4,030)	(19,437)	–	–	(19,437)
At 31 December 2006	1,521	18,011	27,585	47,117	–	1,859	48,976
At 1 January 2007	1,521	18,011	27,585	47,117	–	1,859	48,976
Charge for the year	1,040	3,850	2,041	6,931	–	1,265	8,196
Reclassification	(608)	–	–	(608)	–	(747)	(1,355)
Disposals	–	(105)	(2,323)	(2,428)	–	–	(2,428)
At 31 December 2007	1,953	21,756	27,303	51,012	–	2,377	53,389
Net book value							
At 31 December 2007	25,124	9,595	3,430	38,149	1,539,800	48,597	1,626,546
At 31 December 2006	25,018	8,402	3,697	37,117	1,198,700	48,102	1,283,919

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

	2007		2006	
	Land and building <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Land and building <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>
In Hong Kong, held under:				
Leases of over 50 years	–	331,000	–	284,600
Leases of between 10 and 50 years	<u>73,721</u>	<u>1,208,800</u>	<u>73,120</u>	<u>914,100</u>
	<u><u>73,721</u></u>	<u><u>1,539,800</u></u>	<u><u>73,120</u></u>	<u><u>1,198,700</u></u>

The investment properties were revalued as at 31 December 2007 on the market value basis. 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.

Other fixed assets are stated at cost less accumulated depreciation.

Details of the principal properties of the Group as at 31 December 2007 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq. ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun	Industrial	2047	317,100 Sq. ft.	100%
A number of residential flats situate at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel	Residential	2895	39,040 Sq. ft.	100%

14 GOODWILL – GROUP

HK\$'000

Cost

At 1 January 2006, 31 December 2006 and 31 December 2007

5,976

15 INVESTMENT IN SUBSIDIARIES – COMPANY

2007
HK\$'000

2006
HK\$'000

Amounts due from subsidiaries, net of provisions

1,469,722

1,157,826

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK\$322,874,000 (2006: HK\$341,136,000) which are interest free, are interest bearing at 1% (2006: 1%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2007 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
<i>Shares held indirectly:</i>				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK\$10 each	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment, Hong Kong
Okura FNB Limited	Hong Kong	1 ordinary share of HK\$1	70%	Restaurant operation, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding, Hong Kong
PIL Investments Limited	The British Virgin Islands	100 ordinary shares of US\$1 each	100%	Investment holding, Hong Kong
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK\$1	100%	Provision of services and trading, Hong Kong
Playmates Toys China Limited	The People's Republic of China	HK\$1,000,000 registered capital	100%	Provision of services, PRC
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	100%	Toy development, marketing and distribution, U.S.A.
Playmates Toys International Limited	Hong Kong	1 ordinary share of US\$1	100%	Toy distribution in non-U.S. markets, Hong Kong
Playmates Toys Limited	Bermuda	495,000,000 ordinary shares of HK\$0.01 each	100%	Investment holding, Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	1 ordinary share of HK\$1	70%	Restaurant operation, Hong Kong

The above table includes subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16 INTEREST IN AN ASSOCIATED COMPANY – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Share of net assets other than goodwill	25,090	21,789
Share of goodwill	—	5,548
	25,090	27,337
Loan to an associated company	—	7,499
	<u>25,090</u>	<u>34,836</u>

As at 31 December 2007, the Group held interests in the following associated company:

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	Ordinary shares of US\$1 each	49%

The associated company is held indirectly by the Company and it operates in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys, dolls and die cast models.

Summary financial information of associated company

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Equity <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Profit <i>HK\$'000</i>
2007					
100 per cent	78,317	27,112	51,205	139,588	7,369
Group's effective interest	<u>38,375</u>	<u>13,285</u>	<u>25,090</u>	<u>68,398</u>	<u>3,611</u>
2006					
100 per cent	103,812	48,061	55,751	214,275	7,034
Group's effective interest	<u>51,190</u>	<u>23,853</u>	<u>27,337</u>	<u>105,993</u>	<u>3,458</u>

In prior year, the Group held a 50% interest in Nippon Toys Limited ("NTL"), another associated company. During the year, the Group's interest in NTL has been diluted to the effect that such company can no longer be recognised as an associated company of the Group. A loss on deemed disposal of the associated company of HK\$772,000 was recognised in the income statement. The investment cost in NTL was reclassified to the financial assets at fair value through profit or loss account.

17 INVENTORIES – GROUP

As at 31 December 2007, the carrying amount of inventories that are carried at net realisable value amounted to HK\$12,344,000 (2006: HK\$8,848,000).

18 TRADE RECEIVABLES – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade receivables	186,014	364,150
Less: Allowance for customer concession	(6,222)	(8,560)
Provision for doubtful debts	—	(1,591)
	<u>179,792</u>	<u>353,999</u>

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

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment 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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	178,256	342,867
31 – 60 days	261	4,291
Over 60 days	1,275	6,841
	<u>179,792</u>	<u>353,999</u>

The movement of the provision for doubtful debts and allowance for customer concession of trade receivables is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
At 1 January	10,151	14,957
Additional provisions made	12,304	14,823
Provisions utilised	(13,341)	(17,973)
Reversal of unutilised provisions	(2,892)	(1,656)
	<u>6,222</u>	<u>10,151</u>
At 31 December	<u>6,222</u>	<u>10,151</u>

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Neither past due nor impaired	<u>178,846</u>	<u>343,828</u>
1 – 90 days past due	861	8,493
91 – 180 days past due	52	1,299
Over 180 days past due	<u>33</u>	<u>379</u>
	<u><u>179,792</u></u>	<u><u>353,999</u></u>

Receivables that were neither past due nor impaired related to a wide range of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
As market value		
Listed equity investment in Hong Kong	132,734	–
Listed equity investment outside Hong Kong	125,261	134,214
Unlisted managed funds	<u>309,948</u>	<u>196,990</u>
	<u><u>567,943</u></u>	<u><u>331,204</u></u>

20 BANK LOANS – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	160,275	41,042
In the second year	<u>–</u>	<u>276</u>
	160,275	41,318
Unsecured bank loan repayable within one year	<u>–</u>	<u>66,500</u>
	160,275	107,818
Current portion included in current liabilities	<u>(160,275)</u>	<u>(107,542)</u>
	<u><u>–</u></u>	<u><u>276</u></u>

All bank loans were denominated in HK dollar and bear floating interest rates ranging from 4.25% p.a. to 8.75% p.a. (2006: from 4.66% p.a. to 9.00% p.a.).

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

The effective interest rate at the balance sheet date was 4.59% p.a. (2006: 5.00% p.a.).

As at 31 December 2007, the Group has banking facilities amounting to HK\$777 million (2006: HK\$777 million), of which HK\$160 million (2006: HK\$108 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and other fixed assets with aggregate net book value of HK\$1,260 million (2006: HK\$971 million) of the Group at 31 December 2007.

21 TRADE PAYABLES – GROUP

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	34,166	54,760
31 – 60 days	41,391	37,380
Over 60 days	470	445
	<u>76,027</u>	<u>92,585</u>

22 PROVISIONS – GROUP

The Group continually assesses potential exposures to customer and supplier claims and, where necessary, establishes provisions for any such exposures. All provisions are established for specific exposures. The assessment of these provisions is conducted by management periodically.

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

Subsequent developments and the eventual settlement of each exposure in a subsequent period will determine whether the corresponding provision is insufficient or excessive as the case may be. The making up of an insufficient provision, or the reversal of an excessive provision, will have a corresponding negative or positive impact on the profit or loss of that subsequent period where appropriate.

The summary of changes in provisions during the year reported is as follows:

	<i>HK\$'000</i>
At 1 January 2007	49,260
Additional provisions made	42,661
Provisions utilised	(54,026)
Reversal of unutilised provisions	(2,097)
	<u>35,798</u>
At 31 December 2007	<u>35,798</u>

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

At the special general meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan (“Plan”) and a Share Option Scheme (“Scheme”) respectively were 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 Plan and the Scheme within ten years after the date of grant. Movements in the number of share options outstanding during the year are as follows:

	2007		2006	
	Weighted average exercise price HK\$	Number of options '000	Weighted average exercise price HK\$	Number of options '000
At the beginning of the year	0.951	93,987	0.942	81,803
Granted	–	–	0.913	21,390
Exercised (<i>Note (a)</i>)	0.547	(9,004)	0.384	(3,386)
Lapsed	1.104	<u>(1,741)</u>	1.013	<u>(5,820)</u>
At the end of the year (<i>Note (b)</i>)	0.991	<u>83,242</u>	0.951	<u>93,987</u>

Notes:

- (a) These share options were exercised during the year ended 31 December 2007 at exercise prices ranging from HK\$0.199 to HK\$1.206 (2006: from HK\$0.199 to HK\$0.626) per share. The weighted average closing price per ordinary share of the Company immediately before the dates on which the options were exercised during the year was HK\$1.1363.
- (b) The terms of the share options outstanding at the end of the year are as follows:

Expiry date	Exercise price HK\$	Number of options		Exercisable and vested number of options	
		2007 '000	2006 '000	2007 '000	2006 '000
Directors					
25 August 2008	0.532	–	529	–	529
26 May 2009	0.506	–	529	–	529
19 October 2009	0.434	–	660	–	660
21 July 2010	0.626	–	551	–	551
20 May 2011	0.297	–	1,024	–	1,024
8 August 2012	0.199	250	1,450	250	1,450
9 March 2013	0.550	–	1,200	–	1,200
6 January 2014	1.360	1,790	1,790	1,790	1,340
21 September 2015	1.206	7,125	7,250	5,313	3,625
3 May 2016	0.910	<u>4,876</u>	<u>6,000</u>	<u>1,876</u>	<u>1,500</u>
		<u>14,041</u>	<u>20,983</u>	<u>9,229</u>	<u>12,408</u>

Other employees					
14 May 2008	0.532	281	282	281	282
26 May 2009	0.506	247	247	247	247
21 July 2010	0.626	796	905	796	905
20 May 2011	0.297	537	716	537	716
27 August 2011	0.294	8,163	8,163	8,163	8,163
8 August 2012	0.199	2,851	3,086	2,851	3,086
9 March 2013	0.550	4,184	4,953	4,184	4,953
6 January 2014	1.360	9,366	9,702	9,366	7,206
18 March 2014	1.240	11,000	11,000	11,000	8,250
21 September 2015	1.206	18,429	19,324	13,773	9,662
8 January 2016	1.030	500	500	250	125
3 May 2016	0.910	12,847	14,126	6,113	3,532
		<u>69,201</u>	<u>73,004</u>	<u>57,561</u>	<u>47,127</u>
		<u>83,242</u>	<u>93,987</u>	<u>66,790</u>	<u>59,535</u>

No share options were cancelled during the year (2006: nil).

The weighted average exercise price, number of options and exercise price shown herein have not been adjusted to reflect the share consolidation as set out in note 31(b) to the financial statements.

24 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 17.5% (2006: 17.5%) in Hong Kong, and federal and state tax rates of 34% (2006: 35%) and 8.84% (2006: 8.46%) respectively in the United States of America.

The movement on the deferred tax liabilities/(assets) account is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	13,938	(40,466)
Charged to income statement	<u>48,195</u>	<u>54,404</u>
At 31 December	<u>62,133</u>	<u>13,938</u>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Accelerated tax depreciation		Revaluation of properties		Total	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	18,806	17,437	76,408	29,567	95,214	47,004
Charged to income statement	<u>2,512</u>	<u>1,369</u>	<u>57,617</u>	<u>46,841</u>	<u>60,129</u>	<u>48,210</u>
At 31 December	<u><u>21,318</u></u>	<u><u>18,806</u></u>	<u><u>134,025</u></u>	<u><u>76,408</u></u>	<u><u>155,343</u></u>	<u><u>95,214</u></u>
Deferred tax assets	Tax losses		Employees benefits		Total	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(73,481)	(82,402)	(7,795)	(5,068)	(81,276)	(87,470)
(Credited)/charged to income statement	<u>(10,815)</u>	<u>8,921</u>	<u>(1,119)</u>	<u>(2,727)</u>	<u>(11,934)</u>	<u>6,194</u>
At 31 December	<u><u>(84,296)</u></u>	<u><u>(73,481)</u></u>	<u><u>(8,914)</u></u>	<u><u>(7,795)</u></u>	<u><u>(93,210)</u></u>	<u><u>(81,276)</u></u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2007	2006
	HK\$'000	HK\$'000
Deferred tax assets	(91,976)	(80,152)
Deferred tax liabilities	<u>154,109</u>	<u>94,090</u>
	<u><u>62,133</u></u>	<u><u>13,938</u></u>

The recognition of the deferred tax asset mainly depends on whether sufficient future profits will be available. On each balance sheet date, the Group will assess the probability that future taxable profits will be available against the tax losses carried forward so as to evaluate the recoverability of the deferred tax assets. Deferred tax assets shown in the consolidated balance sheet include an amount of HK\$9,004,000 which is expected to be settled within 12 months.

Deferred tax liabilities shown in the consolidated balance sheet are expected to be settled after more than 12 months.

25 CAPITAL AND RESERVES

(a) Share Capital

	Authorised Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2006 and 2007	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2006	1,867,660,247	186,766
Exercise of warrants 2006	30,650	3
Exercise of warrants 2007	4,520	–
Exercise of share options	<u>3,386,000</u>	<u>339</u>
At 1 January 2007	1,871,081,417	187,108
Exercise of warrants 2007 (<i>Note (i)</i>)	345,147,152	34,515
Exercise of share options (<i>Note 23</i>)	<u>9,004,000</u>	<u>900</u>
At 31 December 2007	<u>2,225,232,569</u>	<u>222,523</u>

Notes:

- (i) The warrants were exercisable from 26 May 2006 to 25 May 2007 at an initial subscription price of HK\$1.03 per share (subject to adjustment). On 25 May 2007, 28,796,407 warrants which had not been exercised, were lapsed.

(b) Reserves

Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	740,378	1,116	16,901	292,713	1,051,108
Loss for the year	-	-	-	(5,857)	(5,857)
2005 final dividend paid	-	-	-	(46,744)	(46,744)
2006 interim dividend paid	-	-	-	(37,398)	(37,398)
Issue of shares	63	-	-	-	63
Share issuing expenses	(391)	-	-	-	(391)
Employees share option scheme					
– value of employee services	-	-	10,816	-	10,816
– shares issued	1,060	-	(100)	-	960
– options lapsed	-	-	(1,535)	1,535	-
At 31 December 2006	<u>741,110</u>	<u>1,116</u>	<u>26,082</u>	<u>204,249</u>	<u>972,557</u>
At 1 January 2007	741,110	1,116	26,082	204,249	972,557
Profit for the year	-	-	-	99,521	99,521
2006 final dividend paid	-	-	-	(65,743)	(65,743)
2006 special dividend paid	-	-	-	(43,829)	(43,829)
2007 interim dividend paid	-	-	-	(44,504)	(44,504)
Issue of shares	320,987	-	-	-	320,987
Employees share option scheme					
– value of employee services	-	-	4,491	-	4,491
– shares issued	5,330	-	(1,305)	-	4,025
– options lapsed	-	-	(522)	522	-
At 31 December 2007	<u>1,067,427</u>	<u>1,116</u>	<u>28,746</u>	<u>150,216</u>	<u>1,247,505</u>

Nature and purpose of reserves

Company

(i) Share premium and capital redemption reserve

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

(ii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees recognised in accordance with the accounting policy adopted for share-based compensation in note 2(p)(iii).

Group*(iii) Reserve on consolidation*

Reserve on consolidation arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993 which also created an amount of HK\$1,856,000 included in the share premium of the Group of HK\$1,069,283,000 as at 31 December 2007.

(c) Capital Management

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

Capital represents total equity and debts, the Group manages the capital structure and makes adjustments to it in light of changes in economic conditions.

The debt to equity ratio defined and calculated by the Group as total bank borrowings expressed as a percentage of total equity, at 31 December 2007 was 6.7% compared to 5.8% at 31 December 2006.

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to cash generated from operations**

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	346,626	314,722
Bank interest income	(13,045)	(11,759)
Interest on bank loans and overdrafts	5,488	2,243
Dividend income from investments	(2,861)	(1,320)
Depreciation	8,196	7,554
Share-based compensation	4,491	10,816
Revaluation surplus on investment properties	(329,637)	(238,475)
Loss on disposal of other property, plant and equipment	97	69
Net gain on investments	(55,288)	(37,118)
Loss on deemed disposal of an associated company	772	-
Share of profits less losses of associated companies	(3,426)	(3,458)
	<u> </u>	<u> </u>
Operating (loss)/profit before working capital changes	(38,587)	43,274
Decrease in inventories	16,102	8,316
Decrease in trade receivables, other receivables, deposits and prepayments	161,064	2,884
(Decrease)/increase in trade payables, other payables and accrued charges and provisions	(33,511)	5,531
	<u> </u>	<u> </u>
Cash generated from operations	<u>105,068</u>	<u>60,005</u>

(b) Analysis of cash and cash equivalents

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	<u>375,215</u>	<u>170,015</u>

27 FINANCIAL GUARANTEE CONTRACTS

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK\$777 million (2006: HK\$777 million), of which HK\$160 million (2006: HK\$108 million) of such banking facilities were utilised as at 31 December 2007. The Company does not consider the fair value of issuing these guarantees can be practically estimated because there is no commercial comparables.

28 COMMITMENTS**Licensing commitments**

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	23,335	24,469
In the second to fifth years inclusive	<u>33,189</u>	<u>19,188</u>
	<u><u>56,524</u></u>	<u><u>43,657</u></u>

The Company did not have any commitments at 31 December 2007 (2006: HK\$nil).

29 OPERATING LEASE ARRANGEMENTS

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:

(a) As lessee

At 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	6,049	8,759
In the second to fifth years inclusive	<u>7,372</u>	<u>15,183</u>
	<u><u>13,421</u></u>	<u><u>23,942</u></u>

(b) As lessor

At 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	47,976	42,579
In the second to fifth years inclusive	<u>36,868</u>	<u>55,683</u>
	<u><u>84,844</u></u>	<u><u>98,262</u></u>

30 RELATED-PARTY TRANSACTIONS

The Group did not enter into any material related party transaction during the year except the following:

Key management compensation

Remuneration for key management personnel, including amounts paid to the company's executive directors and the highest paid employees as disclosed in note 12, is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	15,149	18,505
Employer's contributions to provident fund	146	249
Share-based compensation	<u>2,351</u>	<u>4,518</u>
	<u><u>17,646</u></u>	<u><u>23,272</u></u>

Total remuneration is included in "staff cost" (note 11).

31 POST BALANCE SHEET EVENT**(a) Corporate reorganisation**

Pursuant to the ordinary resolution passed on 25 January 2008, the shareholders of the Company approved the spin-off of the toy business by way of distribution ("Spin-Off by way of Distribution") which involved the spin-off of PTL and its subsidiaries. The Spin-Off by way of Distribution was carried out by way of a distribution in specie of approximately 45% of the entire issued share capital of PTL to the shareholders of the Company. Following the Spin-Off by way of Distribution, PTL obtained a separate listing of its shares on The Stock Exchange of Hong Kong Limited by way of introduction on 1 February 2008. The Company continues to be the ultimate holding company of PTL as it holds the remaining approximately 55% of the entire issued share capital of PTL not being distributed under the Spin-Off by way of Distribution. Details of the Spin-Off by way of Distribution are set out in the circular of the Company dated 31 December 2007. Legal and professional fees incurred for this corporate reorganisation have been expensed in current year.

(b) Capital reorganisation

Pursuant to the special resolution passed on 25 January 2008, the reorganisation of the share capital of the Company was effected which involved capital reduction (“Capital Reduction”) and share consolidation (“Share Consolidation”). Pursuant to the Capital Reduction, the nominal value of the issued share capital of the Company was reduced by HK\$0.09 per share by cancelling an equivalent amount of the paid up capital per share so that the nominal value of each share in issue was reduced from HK\$0.10 to HK\$0.01. Immediately following the Capital Reduction, the Share Consolidation was implemented whereby every ten issued shares of HK\$0.01 each resulting from the Capital Reduction was consolidated into one consolidated share of HK\$0.10.

32 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 2007.

33 COMPARATIVE FIGURES

In accordance with the change in the Group’s internal financial reporting, the Group has determined the operation of restaurants to be included in the property investment and associated business segment. As a result, certain comparative figures of turnover and revenue, cost of sales, and selling, distribution and administration expenses have been re-classified to conform to current year’s presentation.

34 FINANCIAL RISK MANAGEMENT**(a) Categories of financial instruments**

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	179,792	353,999
Other receivables, deposits and prepayments	80,172	65,492
Financial assets at fair value through profit or loss	567,943	331,204
Cash and bank balances	<u>375,215</u>	<u>170,015</u>
Financial liabilities		
Bank loans	160,275	107,818
Trade payables	76,027	92,585
Other payables and accrued charges	<u>160,415</u>	<u>163,906</u>

(b) Financial risk factors

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

*(a) Market risk**(i) Currency risk*

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

(ii) Interest rate risk

The Group's bank loans are principally exposed to interest rate risk. The Group maintains revolving credit facility with commercial banks that is used as the primary source of financing for the short term seasonal working capital requirement. As such, risk of changes in interest rate is not significant.

At 31 December 2007, it is estimated that a sensitivity to a reasonable general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year by approximately HK\$801,000 (2006: HK\$539,000).

(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 balance sheet as 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 2007, it is estimated that a sensitivity to a reasonable 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 net assets by approximately HK\$28,397,000 (2006: HK\$16,560,000).

(b) Credit risk

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

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

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

Concentrations of Credit Risk

The Group places its cash investments in highly rated financial institutions which limits the amount of credit exposure to any one financial institution.

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

Sales

– the largest customer	23%
– five largest customers in aggregate	57%

(c) *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 Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

(c) **Fair value estimation**

Fair values

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10 March 2008.

INDEBTEDNESS

At the close of business on 30 June 2008, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement of the Group, the Group had secured short-term bank borrowings of approximately HK\$243 million which were secured by guarantees executed by both the Company and the Company's indirect subsidiary, PTL and were secured by the Group's certain investment properties, other fixed assets and investments with the aggregate net book value of approximately HK\$1,420 million.

As at 30 June 2008, save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorized or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at the close of business on 30 June 2008.

As at 30 June 2008, save as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 June 2008 and up to and including the Latest Practicable Date.

WORKING CAPITAL

The Directors are of the opinion that, following the funding of PTI's total capital commitment to LLC under the Joint Venture Agreement, after taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular, in the absence of any unforeseeable circumstances.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Transaction. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares and underlying shares of the Company or any associated corporation

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

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
Chan Chun Hoo, Thomas	Personal	2,892,000 ordinary shares	1.29%
	Corporate (<i>Note (a)</i>)	87,708,000 ordinary shares	39.20%
Cheng Bing Kin, Alain	Personal	190,000 ordinary shares	0.08%
Ip Shu Wing, Charles	Personal	2,245,400 ordinary shares	1.00%
Lee Peng Fei, Allen	Personal	60,000 ordinary shares	0.03%
Lo Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.13%
To Shu Sing, Sidney	Personal	1,860,000 ordinary shares	0.83%

Long positions in shares of the Company (continued)

Name of director	Nature of interest	Number of shares held	Percentage interest held
Tsim Tak Lung	Personal	163,680 ordinary shares	0.07%
Yu Hon To, David	Personal	110,000 ordinary shares	0.05%
	Corporate (<i>Note (b)</i>)	456,000 ordinary shares	0.20%

Long positions in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
Cheng Bing Kin, Alain	Personal	159,000 share options	159,000 shares	0.07%
Ip Shu Wing, Charles	Personal	137,600 share options	137,600 shares	0.06%
Lee Peng Fei, Allen	Personal	175,000 share options	175,000 shares	0.08%
Lo Kai Yiu, Anthony	Personal	200,000 share options	200,000 shares	0.09%
To Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.14%
Tsim Tak Lung	Personal	175,000 share options	175,000 shares	0.08%
Yu Hon To, David	Personal	175,000 share options	175,000 shares	0.08%

Long positions in shares of PTL

Name of director	Nature of interest	Number of shares held	Percentage interest held
Chan Chun Hoo, Thomas	Personal	6,292,000 ordinary shares	1.27%
	Corporate (<i>Note (c)</i>)	358,983,044 ordinary shares	72.52%
Cheng Bing Kin, Alain	Personal	474,000 ordinary shares	0.10%
Ip Shu Wing, Charles	Personal	2,245,400 ordinary shares	0.45%
Lee Peng Fei, Allen	Personal	60,000 ordinary shares	0.01%
Lo Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.06%
To Shu Sing, Sidney	Personal	1,730,000 ordinary shares	0.35%
Tsim Tak Lung	Personal	163,680 ordinary shares	0.03%
Yu Hon To, David	Personal	110,000 ordinary shares	0.02%
	Corporate (<i>Note (d)</i>)	456,000 ordinary shares	0.09%

Long positions in underlying shares of PTL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares <i>(ordinary shares)</i>	Percentage interest held
Cheng Bing Kin, Alain	Personal	500,000 share options	500,000 shares	0.10%
To Shu Sing, Sidney	Personal	500,000 share options	500,000 shares	0.10%

Notes:

- (a) 87,708,000 ordinary shares of the Company were beneficially owned by Angers Investments Limited (“AIL”). All of the issued share capital of AIL is beneficially owned by a private company which is in turn wholly-owned by Mr. Chan Chun Hoo, Thomas.
- (b) 456,000 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.
- (c) Mr. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of AIL, and is therefore deemed to be interested in the 87,708,000 shares of PTL in aggregate which AIL is interested in. Since AIL directly owns approximately 39.20% of the shareholding of the Company and is deemed to be interested in the 271,275,044 shares of PTL in aggregate which the Company is interested in, Mr. Chan is also deemed to be interested in the 271,275,044 shares of PTL in aggregate which the Company is interested in.
- (d) 456,000 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.

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 as at the Latest Practicable Date.

Details of the share options held by the Directors of the Company as at the Latest Practicable Date are disclosed below:

Share options of the Company

Name of director	Date of grant	Exercise price per share of the Company HK\$	Number of share options
Cheng Bing Kin, Alain	7 January 2004	13.60	59,000
	22 September 2005	12.06	62,500
	4 May 2006	9.10	37,500
Ip Shu Wing, Charles	22 September 2005	12.06	100,000
	4 May 2006	9.10	37,600
Lee Peng Fei, Allen	22 September 2005	12.06	100,000
	4 May 2006	9.10	75,000
Lo Kai Yiu, Anthony	9 August 2002	1.99	25,000
	22 September 2005	12.06	100,000
	4 May 2006	9.10	75,000
To Shu Sing, Sidney	7 January 2004	13.60	120,000
	22 September 2005	12.06	150,000
	4 May 2006	9.10	37,500
Tsim Tak Lung	22 September 2005	12.06	100,000
	4 May 2006	9.10	75,000
Yu Hon To, David	22 September 2005	12.06	100,000
	4 May 2006	9.10	75,000

The above share options are exercisable in stages in accordance with the terms of the Share Option Scheme of the Company adopted on 28 June 2002 within ten years after the date of grant.

Share options of PTL

Name of director	Date of grant	Exercise price per share of PTL HK\$	Number of share options
Cheng Bing Kin, Alain	31 March 2008	0.35	500,000
To Shu Sing, Sidney	31 March 2008	0.35	500,000

The above share options are exercisable in stages in accordance with the terms of the Share Option Scheme of PTL adopted on 25 January 2008 within ten years after the date of grant.

As at the Latest Practicable Date, none of the Directors and chief executive 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.

Interests of substantial shareholders

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to the Directors and the chief executive of the Company, the persons, other than the Directors and the chief executive of the Company, who had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
State Street Corporation	Custodian corporation/ Approved lending agent	11,261,136 ordinary shares <i>(Note)</i>	5.03%
The Goldman Sachs Group, Inc.	Interest of controlled companies	18,283,460 ordinary shares	8.17%

Note:

All the shares held by State Street Corporation are in the lending pool.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company which will not expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, no Director or his associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' INTERESTS

There were no contracts or arrangements subsisting as at the Latest Practicable Date in which a Director is materially interested or which is significant in relation to the business of the Group.

As at the Latest Practicable Date, no Director had any interest, direct or indirect, in any assets which have been, since 31 December 2007, acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years preceding the Latest Practicable Date which are or may be material:

- (a) a securities purchase agreement dated 31 May 2007 between Playmates Inc. and Playmates International Limited (“**PIL**”), whereby Playmates Inc. transferred the entire issued share capital of Playmates Asia Services Limited (“**PAS**”) to PIL for a consideration of US\$1,720,000;
- (b) a securities purchase agreement dated 31 May 2007 between Next Electronix, LLC and PIL, whereby Next Electronix, LLC transferred the entire issued share capital of Playmates Toys International Limited (“**PTIL**”) to PIL for a consideration of US\$2,848,000;
- (c) a contribution and assignment agreement dated 31 May 2007 between PIL and Playmates Toys Enterprises Limited (“**PTE**”), whereby PIL contributed the entire issued share capital of PAS to PTE;
- (d) a contribution and assignment agreement dated 31 May 2007 between PIL and PTE, whereby PIL contributed the entire issued share capital of PTIL to PTE;
- (e) a contribution and assignment agreement dated 31 May 2007 between PIL and PTE, whereby PIL contributed the entire issued share capital of Playmates Inc. to PTE;

- (f) a contribution and assignment agreement dated 31 May 2007 between PTE and Playmates Asia Trading Limited (now known as Playmates Toys Asia Limited), whereby PTE transferred substantially all of PAS's assets in Hong Kong to Playmates Asia Trading Limited;
- (g) a contribution and assignment agreement dated 31 May 2007 between PIL and PTL, whereby PIL contributed the entire issued share capital of PTE to PTL;
- (h) a contribution and assignment agreement dated 31 May 2007 between PIL and PIL Toys Limited ("**PIL Toys**"), whereby PIL contributed the entire issued share capital of PTL to PIL Toys;
- (i) a contribution and assignment agreement dated 31 May 2007 between PIL and PIL Investments Limited, whereby PIL contributed the entire issued share capital of PIL Toys to PIL Investments Limited;
- (j) a termination agreement dated 31 May 2007 between PTI and PAS, whereby PTI and PAS agreed to terminate a sourcing and support agreement between PTI and PAS effective on 1 January 2005;
- (k) a termination agreement dated 31 May 2007 between PTI and PTIL, whereby PTI and PTIL agreed to terminate a non-exclusive license and distribution agreement between PTI and PTIL effective on 1 January 2005;
- (l) a sale and purchase agreement dated 27 December 2007 between PIL Investments Limited and PTE, whereby PIL Investments Limited transferred its 49% interest in the issued share capital of Unimax Holdings Limited to PTE for a consideration of HK\$1.00;
- (m) a trade mark assignment agreement dated 27 December 2007 between Playmates IP Limited and PTL to assign certain registered trade marks and trade mark applications in classes 16 and 28 to the PTL Group for a consideration of HK\$10.00 for each of the registered trade marks and trade mark applications;
- (n) a compliance services agreement dated 27 December 2007 entered into between PIL Finance Limited and PTL to provide, or procure to be provided, certain compliance services to the PTL Group;
- (o) Deed of Tax Indemnity dated 27 December 2007 entered into among the Company, PTL, PIL, PIL Investments Limited and PIL Toys; and
- (p) the Joint Venture Agreement.

Save as disclosed above, no material contract (not being contracts entered into in the ordinary course of business) has been entered into by members of the Group within two years preceding the Latest Practicable Date.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is located at 21/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (c) Ms. Ng Ka Yan is the company secretary who is a solicitor in Hong Kong.
- (d) Ms. Yim Shuk Yee, Kitty is the qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules, who is a member of the American Institute of Certified Public Accountants.
- (e) The Company's branch share registrar and transfer office in Hong Kong is Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Deacons at 5/F., Alexandra House, 18 Chater Road, Central, Hong Kong for a period of 14 days (except public holidays) from the date of this circular:

- (a) the Memorandum of Association and Bye-Laws of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2005, 2006 and 2007;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix; and
- (d) this circular.

**PLAYMATES HOLDINGS LIMITED****彩星集團有限公司****(Incorporated in Bermuda with limited liability)*

(Stock Code: 635)

NOTICE IS HEREBY GIVEN that the Special General Meeting (“SGM”) of Playmates Holdings Limited (“**Company**”) will be held at 11/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, 9 September 2008 at 9:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution of the Company as an Ordinary Resolution:–

ORDINARY RESOLUTION

“**THAT** the joint venture agreement dated as of 10 July 2008 entered into between Playmates Toys Inc. and Giochi Preziosi U.S.A., Inc. (“**Joint Venture Agreement**”) relating to the setting up of a limited liability company to be organized in Delaware, United States in accordance with the provisions of the Joint Venture Agreement for the purpose as stated thereunder, which was supplemented on 25 July 2008, details of which are set out in the circular of the Company dated 21 August 2008, and all transactions as contemplated under the Joint Venture Agreement, including but not limited to the provision of the call option exercisable by Giochi Preziosi U.S.A., Inc. and the put option exercisable by Playmates Toys Inc. pursuant to the terms of the Joint Venture Agreement, be and are hereby approved, ratified and confirmed;

AND the directors of the Company be and are hereby authorized to do all such acts and things as they consider necessary or expedient at their absolute discretion to give effect to the transactions contemplated by and implement the Joint Venture Agreement.”

By order of the Board
Ng Ka Yan
Company Secretary

Hong Kong, 21 August 2008

Notes :

- (1) Every member of the Company entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be delivered to the Company’s branch share registrars, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM.

* *For identification purpose only*

Pursuant to Bye-Law 66 of the Company's Bye-Laws, at any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Company's Bye-Laws) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members of the Company present in person or in the case of a member of the Company being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members of the Company present in person or in the case of a member of the Company being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members of the Company having the right to vote at the meeting; or
- (d) by a member or members of the Company present in person or in the case of a member of the Company being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or
- (e) if required by the rules of the Designated Stock Exchange, by the chairman of such meeting and/or a director or directors of the Company who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

A demand by a person as proxy for a member of the Company or in the case of a member of the Company being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a member of the Company.