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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 Toys 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 TOYS LIMITED

彩星玩具有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 869)

MAJOR TRANSACTION

IN RELATION TO JOINT VENTURE AGREEMENT

21 August 2008

* *For identification purpose only*

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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 Toys 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;
“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;
“PHL”	Playmates Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“PHL Group”	PHL and its subsidiaries, including the Group;
“PTI”	Playmates Toys Inc., a company incorporated in California, United States with limited liability and is an indirect wholly-owned subsidiary of the Company and an indirect subsidiary of PHL;
“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;
“Share Options”	the outstanding share options granted by the Company pursuant to a share option scheme adopted on 25 January 2008;
“Shareholders”	holders of shares of HK\$0.01 each in the share capital of the Company;

DEFINITIONS

“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 TOYS LIMITED

彩星玩具有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 869)

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)*
Mr. NOVAK, Lou Robert *(Executive Director)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. YANG, Victor *(Independent Non-executive Director)*

Registered Office:

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2 Church Street
Hamilton HM 11
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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 PHL that PTI, an indirect wholly-owned subsidiary of the Company and an indirect subsidiary of PHL, 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. The purpose of this circular is to provide you with the relevant information relating to the Transaction.

* For identification purpose only

LETTER FROM THE BOARD

JOINT VENTURE AGREEMENT

Date: 10 July 2008

Parties: (i) PTI, an indirect wholly-owned subsidiary of the Company and an indirect subsidiary of PHL 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 PHL.

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 the 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 PHL is concerned) being more than 5% and only one of the relevant percentage ratios (as far as the Company 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

The 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 business prospects of LLC and potential profit contribution to the Group.

CHAPTER 14 OF THE LISTING RULES

PHL, through PIL Toys Limited, indirectly owns approximately 54.8% of the Company, while PTI is an indirect wholly-owned subsidiary of the Company. Consequently, PTI is a member of both the PHL Group and the 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 PHL is concerned) is more than 5% and only one of the relevant percentage ratios (as far as the Company 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 PHL and the Company and is therefore subject to the disclosures and shareholders' approval requirements under the Listing Rules. No shareholder of PHL or the Company is required to abstain from voting on the Transaction.

LETTER FROM THE BOARD

PIL Toys Limited, being the controlling shareholder (as defined in the Listing Rules) of the Company holding approximately 54.8% of all Shareholders' voting rights, has given a written confirmation dated 29 July 2008 to the Company that it approves the Transaction. Pursuant to Rule 14.44 of the Listing Rules, the shareholders' approval requirement for the Company is deemed to have been fulfilled and hence no separate general meeting of the Company will need to be convened for approval of the Transaction.

GENERAL

PHL 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.

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.

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.

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 report of the Company for the year ended 31 December 2007 and the Listing Document of the Company dated 31 December 2007. The relevant independent auditors' reports and accountants' report 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	1,277,607	1,127,997	909,030
Cost of sales	<u>(637,264)</u>	<u>(586,826)</u>	<u>(502,967)</u>
Gross profit	640,343	541,171	406,063
Marketing expenses	(305,822)	(296,536)	(245,976)
Selling, distribution and administration expenses	(242,002)	(216,662)	(213,919)
Restructuring expenses	<u>–</u>	<u>–</u>	<u>(14,913)</u>
Operating profit/(loss)	92,519	27,973	(68,745)
Non-operating income/(expenses)			
Interest expense and bank charges	(7,341)	(5,877)	(4,079)
Other revenue	<u>3,002</u>	<u>5,131</u>	<u>4,688</u>
Profit/(loss) before taxation	88,180	27,227	(68,136)
Taxation credit/(charge)	<u>14,674</u>	<u>(4,033)</u>	<u>34,551</u>
Profit/(loss) attributable to shareholders	<u>102,854</u>	<u>23,194</u>	<u>(33,585)</u>
Dividend	<u>–</u>	<u>–</u>	<u>36,660</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share			
Basic	<u>20.78</u>	<u>4.69</u>	<u>(6.78)</u>

Consolidated Balance Sheet

	As at 31 December		
	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	8,324	5,904	5,642
Interest in an associated company	–	–	25,090
Deferred tax assets	85,728	80,077	91,747
	<u>94,052</u>	<u>85,981</u>	<u>122,479</u>
Current assets			
Inventories	57,606	49,353	33,274
Trade receivables	371,370	353,212	179,272
Other receivables, deposits and prepayments	44,442	59,759	73,556
Amount due from a fellow subsidiary	130	244	246
Amount due from an intermediate holding company	93	93	1,303
Taxation recoverable	–	1,043	3,005
Cash and bank balances	80,057	90,541	81,995
	<u>553,698</u>	<u>554,245</u>	<u>372,651</u>
Current liabilities			
Bank loans	19,000	66,500	–
Trade payables	90,777	91,041	73,881
Other payables and accrued charges	132,489	122,976	90,889
Amount due to a fellow subsidiary	–	–	7,892
Amount due to the ultimate holding company	14,245	19,942	2,702
Provisions	51,775	49,260	35,798
Taxation payable	72,817	755	2,472
	<u>381,103</u>	<u>350,474</u>	<u>213,634</u>
Net current assets	<u>172,595</u>	<u>203,771</u>	<u>159,017</u>
Total assets less current liabilities	<u>266,647</u>	<u>289,752</u>	<u>281,496</u>
Non-current liabilities			
Deferred tax liabilities	270	181	240
Net assets	<u>266,377</u>	<u>289,571</u>	<u>281,256</u>
Capital and reserves			
Share capital	93	93	4,950
Reserves	266,284	289,478	276,306
Total equity	<u>266,377</u>	<u>289,571</u>	<u>281,256</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 29)	2007 HK\$'000	2006 HK\$'000
Turnover	3	116,542	909,030	1,127,997
Cost of sales		<u>(64,483)</u>	<u>(502,967)</u>	<u>(586,826)</u>
Gross profit		52,059	406,063	541,171
Marketing expenses		(31,535)	(245,976)	(296,536)
Selling, distribution and administration expenses		(27,425)	(213,919)	(216,662)
Restructuring expenses	2(a)	<u>(1,912)</u>	<u>(14,913)</u>	<u>–</u>
Operating (loss)/profit	4	(8,813)	(68,745)	27,973
Non-operating income/(expenses)				
Interest expense and bank charges	5	(523)	(4,079)	(5,877)
Other revenue	3	<u>601</u>	<u>4,688</u>	<u>5,131</u>
(Loss)/profit before taxation		(8,735)	(68,136)	27,227
Taxation credit/(charge)	6	<u>4,430</u>	<u>34,551</u>	<u>(4,033)</u>
(Loss)/profit attributable to shareholders	7	<u>(4,305)</u>	<u>(33,585)</u>	<u>23,194</u>
Dividend	8	<u>4,700</u>	<u>36,660</u>	<u>–</u>
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	9			
Basic		<u>(0.87)</u>	<u>(6.78)</u>	<u>4.69</u>

Consolidated Balance Statement*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 29)</i>		
Non-current assets			
Property, plant and equipment	12	723	5,642
Interest in an associated company	14	3,217	25,090
Deferred tax assets	21	11,762	91,747
		<u>15,702</u>	<u>122,479</u>
			<u>85,981</u>
Current assets			
Inventories	15	4,266	33,274
Trade receivables	16	22,983	179,272
Other receivables, deposits and prepayments		9,430	73,556
Amount due from a fellow subsidiary	17	32	246
Amount due from an intermediate holding company	17	167	1,303
Taxation recoverable		385	3,005
Cash and bank balances	23(b)	10,512	81,995
		<u>47,775</u>	<u>372,651</u>
			<u>554,245</u>
Current liabilities			
Bank loans	18	–	66,500
Trade payables	19	9,472	73,881
Other payables and accrued charges		11,652	90,889
Amount due to a fellow subsidiary	17	1,012	7,892
Amount due to the ultimate holding company	17	346	2,702
Provisions	20	4,589	35,798
Taxation payable		317	2,472
		<u>27,388</u>	<u>213,634</u>
			<u>350,474</u>
Net current assets		<u>20,387</u>	<u>159,017</u>
			<u>203,771</u>
Total assets less current liabilities		36,089	281,496
			289,752
Non-current liabilities			
Deferred tax liabilities	21	31	240
		<u>31</u>	<u>240</u>
			<u>181</u>
Net assets		<u>36,058</u>	<u>281,256</u>
			<u>289,571</u>
Capital and reserves			
Share capital	22(a)	635	4,950
Reserves		35,423	276,306
		<u>36,058</u>	<u>281,256</u>
			<u>289,571</u>
Total equity		<u>36,058</u>	<u>281,256</u>
			<u>289,571</u>

Balance Sheet*As at 31 December 2007*

	<i>Note</i>	2007 <i>US\$'000</i> <i>(Note 29)</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets				
Investment in subsidiaries	<i>13</i>	18,892	147,357	–
Current assets				
Other receivables, deposits and prepayments		6	51	32
Amount due from an intermediate holding company	<i>17</i>	<u>12</u>	<u>93</u>	<u>93</u>
		<u>18</u>	<u>144</u>	<u>125</u>
Current liabilities				
Other payables and accrued charges		1,114	8,693	–
Amount due to a fellow subsidiary	<i>17</i>	<u>1,008</u>	<u>7,860</u>	<u>106</u>
		<u>2,122</u>	<u>16,553</u>	<u>106</u>
Net current (liabilities)/assets		<u>(2,104)</u>	<u>(16,409)</u>	<u>19</u>
Net assets		<u><u>16,788</u></u>	<u><u>130,948</u></u>	<u><u>19</u></u>
Capital and reserves				
Share capital	<i>22(a)</i>	635	4,950	93
Reserves	<i>22(b)</i>	<u>16,153</u>	<u>125,998</u>	<u>(74)</u>
Total equity		<u><u>16,788</u></u>	<u><u>130,948</u></u>	<u><u>19</u></u>

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

	<i>Note</i>	2007 <i>US\$'000</i> <i>(Note 29)</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cash flows from operating activities				
Cash generated from operations	23(a)	4,234	33,022	31,225
Interest paid		(15)	(118)	(1,337)
Hong Kong profits tax paid		(203)	(1,580)	(3,257)
Hong Kong profits tax refunded		64	498	–
Overseas tax paid		–	–	(69,633)
Overseas tax refunded		3,048	23,777	1,314
		<u>3,048</u>	<u>23,777</u>	<u>1,314</u>
Net cash generated from/(used in) operating activities		<u>7,128</u>	<u>55,599</u>	<u>(41,688)</u>
Cash flows from investing activities				
Purchases of property, plant and equipment		(324)	(2,526)	(463)
Proceeds from disposal of property, plant and equipment		2	13	4
Bank interest received		601	4,688	5,131
		<u>601</u>	<u>4,688</u>	<u>5,131</u>
Net cash generated from investing activities		<u>279</u>	<u>2,175</u>	<u>4,672</u>
Cash flows from financing activities				
New bank loan		–	–	47,500
Contribution by the intermediate holding company as a result of the Reorganisation		4,723	36,840	–
Repayment of bank loans		(8,526)	(66,500)	–
Dividend paid		(4,700)	(36,660)	–
		<u>(4,700)</u>	<u>(36,660)</u>	<u>–</u>
Net cash (used in)/generated from financing activities		<u>(8,503)</u>	<u>(66,320)</u>	<u>47,500</u>
Net (decrease)/increase in cash and cash equivalents		(1,096)	(8,546)	10,484
Cash and cash equivalents at 1 January		<u>11,608</u>	<u>90,541</u>	<u>80,057</u>
Cash and cash equivalents at 31 December	23(b)	<u><u>10,512</u></u>	<u><u>81,995</u></u>	<u><u>90,541</u></u>

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

	Share capital	Capital reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006	<u>93</u>	<u>110,540</u>	<u>155,744</u>	<u>266,377</u>
Total recognised income and expense for the year:				
Profit for the year	<u>–</u>	<u>–</u>	<u>23,194</u>	<u>23,194</u>
At 31 December 2006	<u><u>93</u></u>	<u><u>110,540</u></u>	<u><u>178,938</u></u>	<u><u>289,571</u></u>
	Share capital	Capital reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2007	<u>93</u>	<u>110,540</u>	<u>178,938</u>	<u>289,571</u>
Total recognised income and expense for the year:				
Loss for the year	<u>–</u>	<u>–</u>	<u>(33,585)</u>	<u>(33,585)</u>
Issue of shares	4,857	(4,857)	–	–
Dividend paid	–	–	(36,660)	(36,660)
Arising from the Reorganisation	–	36,840	–	36,840
Arising from acquisition of an associated company	<u>–</u>	<u>25,090</u>	<u>–</u>	<u>25,090</u>
	<u>4,857</u>	<u>57,073</u>	<u>(36,660)</u>	<u>25,270</u>
At 31 December 2007	<u><u>4,950</u></u>	<u><u>167,613</u></u>	<u><u>108,693</u></u>	<u><u>281,256</u></u>

Notes to the Financial Statements*31 December 2007***1 GENERAL INFORMATION**

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton 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. In the opinion of the directors, the ultimate holding company of the Company is PHL, which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 13 to the financial statements.

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

PHL, the ultimate holding company underwent a reorganisation in May 2007 to effectively consolidate the toy business under the Company (the "Reorganisation"). Pursuant to the Reorganisation, all the interests in the companies operating the toy business were transferred to the Company and the Company became the holding company of the subsidiaries now comprising the Group. The associated company was then acquired from an intermediate holding company as part of the Reorganization in December 2007. As a result no profit or loss was recorded in the periods presented. HK\$14,913,000 had been incurred mainly for the legal and professional services provided in respect of the listing of the Company's shares and the whole amount was charged to the income statement in the current year.

The Reorganisation has been reflected in the financial statements by regarding the Group now comprising the Company and the subsidiaries as a continuity entity. The financial statements for the year ended 31 December 2007 have been prepared using the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and consolidated results include the results of the subsidiaries now comprising the Group as if the current structure had been in existence throughout the period presented. The comparative figures in respect of the year ended 31 December 2006 have been prepared on the same basis.

(b) 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 22(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

(c) 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.

(d) 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.

(e) Property, plant and equipment

All 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:

Leasehold improvements	5-10 years
Machinery, 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.

(f) 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.

(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 receivables 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 the receivables.

(i) Impairment of assets

Property, plant and equipment, and investment 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 amortization, 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) 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.

(l) 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.

(m) 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.

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

(n) 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.

(o) 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's ultimate holding company operates an equity-settled, share-based compensation plan. Options had been granted to the employees of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding credit to the current account with the ultimate holding company. 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 ultimate holding company revises the number of options that are expected to become exercisable. The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to the current account with the ultimate holding company.

(p) **Borrowing costs**

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

(q) **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.

(r) **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.

(s) **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 property, plant and equipment, inventories, trade and other receivables and operating cash. Segment capital expenditure comprises additions to property, plant and equipment.

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

(t) 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.

(u) 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. 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
Other revenue		
Bank interest income	4,688	5,131
Total revenue	<u>913,718</u>	<u>1,133,128</u>

Business segments

No business segment analysis is shown as the Group's principal activities of the business segment is design, development, marketing and distribution of toys and family entertainment activity products.

Geographical segments

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

	Turnover 2007 <i>HK\$'000</i>	Segment assets 2007 <i>HK\$'000</i>	Capital expenditure 2007 <i>HK\$'000</i>
Americas			
– U.S.A.	607,169	328,781	1,024
– Others	62,395	–	–
Europe	203,291	–	–
Asia Pacific	34,435	46,507	1,502
Others	1,740	–	–
	<u>909,030</u>	<u>375,288</u>	<u>2,526</u>

	Turnover 2006 <i>HK\$'000</i>	Segment assets 2006 <i>HK\$'000</i>	Capital expenditure 2006 <i>HK\$'000</i>
Americas			
– U.S.A.	847,355	491,031	342
– Others	81,408	–	–
Europe	154,278	–	–
Asia Pacific	41,415	68,075	121
Others	3,541	–	–
	<u>1,127,997</u>	<u>559,106</u>	<u>463</u>

4 OPERATING (LOSS)/PROFIT

Operating (loss)/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
Provision for customer concession (<i>Note 16</i>)	12,304	14,823
Unutilised provision for customer concession (<i>Note 16</i>)	(1,301)	(1,656)
Reversal of provision for doubtful debts (<i>Note 16</i>)	(1,591)	–
Provision for customer and supplier claims (<i>Note 20</i>)	42,661	52,288
Unutilised provision for customer and supplier claims (<i>Note 20</i>)	(2,097)	(3,133)
Depreciation of property, plant and equipment	2,678	2,810
Staff costs, including directors' remuneration (<i>Note 10</i>)	85,047	84,503
Operating leases expense on office and warehouse facilities	10,289	12,987
Loss on disposal of property, plant and equipment	97	69
Auditors' remuneration	<u>1,600</u>	<u>1,380</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	118	1,337
Bank charges	<u>3,961</u>	<u>4,540</u>
	<u>4,079</u>	<u>5,877</u>

6 TAXATION CREDIT/(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, mainly the U.S., 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. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profit. The tax rate for federal tax is 34% (2006: 35%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2006: 8.46%).

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

	2007 HK\$'000	2006 HK\$'000
Current taxation		
Hong Kong profits tax	(1,934)	(2,363)
Overseas taxation	-	(62)
Overseas tax refunded (<i>Note</i>)	22,879	-
Over/(under) provision in prior years – Hong Kong	106	(94)
Over provision in prior years – overseas	1,889	4,048
	<u>22,940</u>	<u>1,529</u>
Deferred taxation		
Origination and reversal of temporary differences	11,611	(5,562)
	<u>34,551</u>	<u>(4,033)</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 (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the U.S. as follows:

	2007 HK\$'000	2006 HK\$'000
(Loss)/profit before taxation	<u>(68,136)</u>	<u>27,227</u>
Applicable U.S. taxation rate of 42.84% (2006: 43.46%)	29,189	(11,832)
Effect of different taxation rates in other countries	(5,879)	2,699
Non-taxable income	279	1,804
Non-deductible expenses for tax purposes	(4,499)	(3,388)
Unrecognised temporary differences	4,039	2,601
Overseas tax refunded	22,879	–
Tax on gain of transfer of subsidiaries in the U.S. arising from the Reorganisation (<i>Note</i>)	(13,555)	–
Over provisions for tax cases	–	4,048
Prior year over/(under) provision	1,995	(94)
Others	<u>103</u>	<u>129</u>
Taxation credit/(charge)	<u>34,551</u>	<u>(4,033)</u>

Note: Tax on gain of transfer 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.

7 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of HK\$16,451,000 (2006: HK\$50,000) which is dealt with in the financial statements of the Company.

8 DIVIDEND

During the year, a subsidiary of the Group, solely for the purpose of effecting the Reorganisation, proposed and then paid a dividend of HK\$36,660,000 to an intermediate holding company.

Directors do not recommend the payment of final dividend.

9 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to the Company's shareholders for each of the years presented and on the 495,000,000 ordinary shares issued (pursuant to the Reorganisation) as if these shares had been in issue on 1 January 2006.

No diluted (loss)/earnings per share have been presented as there are no dilutive potential shares.

10 STAFF COSTS

	2007 HK\$'000	2006 HK\$'000
Wages, salaries and other benefits	79,686	74,674
Share-based compensation	3,127	7,701
Employer's contributions to provident fund	2,234	2,215
Forfeited contributions	—	(87)
	<u>85,047</u>	<u>84,503</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.

11 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 2007 HK\$'000	Salary 2007 HK\$'000	Bonus 2007 HK\$'000	Share-based compensation 2007 HK\$'000	Other benefits 2007 HK\$'000	Employer's contribution to provident fund 2007 HK\$'000	Total 2007 HK\$'000
CHAN Chun Hoo, Thomas	10	—	—	—	—	—	10
CHOW Yu Chun, Alexander	47	—	—	—	46	—	93
LEE Ching Kwok, Rin	47	—	—	—	46	—	93
NOVAK, Lou Robert	5	3,715	—	1,839	202	103	5,864
SOONG, Ronnie	5	2,408	—	153	57	12	2,635
YANG, Victor	47	—	—	—	46	—	93
	<u>161</u>	<u>6,123</u>	<u>—</u>	<u>1,992</u>	<u>397</u>	<u>115</u>	<u>8,788</u>

Name of director	Fee 2006 HK\$'000	Salary 2006 HK\$'000	Bonus 2006 HK\$'000	Share-based compensation 2006 HK\$'000	Other benefits 2006 HK\$'000	Employer's contribution to provident fund 2006 HK\$'000	Total 2006 HK\$'000
CHAN Chun Hoo, Thomas	—	—	—	—	—	—	—
CHOW Yu Chun, Alexander	—	—	—	—	—	—	—
LEE Ching Kwok, Rin	—	—	—	—	—	—	—
NOVAK, Lou Robert	—	3,510	637	3,278	271	103	7,799
SOONG, Ronnie	—	2,381	364	364	78	12	3,199
YANG, Victor	—	—	—	—	—	—	—
	<u>—</u>	<u>5,891</u>	<u>1,001</u>	<u>3,642</u>	<u>349</u>	<u>115</u>	<u>10,998</u>

Note: Other benefits include insurance premium for executive directors and committee work and meeting attendance allowance for non-executive directors.

* Mr. To Shu Sing, Sidney, resigned as director of the Company on 17 December 2007, did not receive any emoluments for the year ended 31 December 2007 (2006: nil).

(b) Five highest paid individuals' emoluments

Two (2006: two) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (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	6,329	7,153
Share-based compensation	265	305
Performance bonus	195	421
Employer's contribution to provident fund	179	206
	<u>6,968</u>	<u>8,085</u>

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

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

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements <i>HK\$'000</i>	Machinery, equipment, furniture and fixtures <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2006	12,042	16,717	31,062	59,821
Additions	–	–	463	463
Disposals	<u>(8,392)</u>	<u>(7,086)</u>	<u>(4,032)</u>	<u>(19,510)</u>
At 31 December 2006	<u>3,650</u>	<u>9,631</u>	<u>27,493</u>	<u>40,774</u>
At 1 January 2007	3,650	9,631	27,493	40,774
Additions	558	258	1,710	2,526
Disposals	<u>(32)</u>	<u>(153)</u>	<u>(2,385)</u>	<u>(2,570)</u>
At 31 December 2007	<u>4,176</u>	<u>9,736</u>	<u>26,818</u>	<u>40,730</u>
Accumulated depreciation				
At 1 January 2006	10,880	14,479	26,138	51,497
Charge for the year	501	339	1,970	2,810
Disposals	<u>(8,388)</u>	<u>(7,018)</u>	<u>(4,031)</u>	<u>(19,437)</u>
At 31 December 2006	<u>2,993</u>	<u>7,800</u>	<u>24,077</u>	<u>34,870</u>
At 1 January 2007	2,993	7,800	24,077	34,870
Charge for the year	455	321	1,902	2,678
Disposals	<u>(32)</u>	<u>(105)</u>	<u>(2,323)</u>	<u>(2,460)</u>
At 31 December 2007	<u>3,416</u>	<u>8,016</u>	<u>23,656</u>	<u>35,088</u>
Net book value				
At 31 December 2007	<u>760</u>	<u>1,720</u>	<u>3,162</u>	<u>5,642</u>
At 31 December 2006	<u>657</u>	<u>1,831</u>	<u>3,416</u>	<u>5,904</u>

Property, plant and equipment are stated at cost less accumulated depreciation.

13 INVESTMENT IN SUBSIDIARIES – COMPANY

	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	147,380	–
Amount due to a subsidiary	(23)	–
	<u>147,357</u>	<u>–</u>

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>				
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

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.

14 INTEREST IN AN ASSOCIATED COMPANY – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Share of net assets	<u>25,090</u>	<u>–</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>

The associated company was acquired from an intermediate holding company as part of the Reorganisation at a nominal amount of HK\$1 which gave rise to a reserve on consolidation of HK\$25,090,000, representing share of net asset value of the associated company. The acquisition was completed on 27 December 2007 and no share of the profit of the associated company was recorded for the year ended 31 December 2007.

15 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).

16 TRADE RECEIVABLES – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade receivables	185,494	363,363
Less: Allowance for customer concession	(6,222)	(8,560)
Provision for doubtful debts	<u>–</u>	<u>(1,591)</u>
	<u>179,272</u>	<u>353,212</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. The following is an aging analysis of trade receivables at the balance sheet date:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	177,805	342,115
31 – 60 days	240	4,291
Over 60 days	1,227	6,806
	<u>179,272</u>	<u>353,212</u>

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

	2007	2006
	<i>HK\$'000</i>	<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)
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	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	178,693	343,652
1 – 90 days past due	535	7,917
91 – 180 days past due	12	1,299
Over 180 days past due	32	344
	<u>179,272</u>	<u>353,212</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.

17 AMOUNT DUE FROM/TO RELATED COMPANIES – GROUP AND COMPANY

The amounts due from/to related companies are unsecured, interest free and have no fixed term of repayment.

18 BANK LOANS – GROUP

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Unsecured bank loan repayable within one year	<u>–</u>	<u>66,500</u>

All bank loans were denominated in HK dollars.

As at 31 December 2007, the Group has banking facilities amounting to HK\$255 million (2006: HK\$255 million), of which HK\$nil (2006: HK\$67 million) were utilised.

19 TRADE PAYABLES – GROUP

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	32,672	53,216
31 – 60 days	40,739	37,380
Over 60 days	<u>470</u>	<u>445</u>
	<u>73,881</u>	<u>91,041</u>

20 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	<u>(2,097)</u>
At 31 December 2007	<u>35,798</u>

21 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 assets/(liabilities) account is as follows:

	2007 HK\$'000	2006 HK\$'000
At 1 January	79,896	85,458
Credited/(charged) to income statement	<u>11,611</u>	<u>(5,562)</u>
At 31 December	<u><u>91,507</u></u>	<u><u>79,896</u></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	
	2007 HK\$'000	2006 HK\$'000
At 1 January	(94)	(270)
(Charged)/credit to income statement	<u>(49)</u>	<u>176</u>
At 31 December	<u><u>(143)</u></u>	<u><u>(94)</u></u>

Deferred tax assets	Tax losses		Employees benefits		Total	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
At 1 January	72,195	80,660	7,795	5,068	79,990	85,728
Credited/(charged) to income statement	<u>10,541</u>	<u>(8,465)</u>	<u>1,119</u>	<u>2,727</u>	<u>11,660</u>	<u>(5,738)</u>
At 31 December	<u><u>82,736</u></u>	<u><u>72,195</u></u>	<u><u>8,914</u></u>	<u><u>7,795</u></u>	<u><u>91,650</u></u>	<u><u>79,990</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 HK\$'000	2006 HK\$'000
Deferred tax assets	91,747	80,077
Deferred tax liabilities	<u>(240)</u>	<u>(181)</u>
	<u><u>91,507</u></u>	<u><u>79,896</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.

22 CAPITAL AND RESERVES

(a) Share Capital

	Authorised Ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Redenominated and subdivided shares (<i>Note (i)</i>)	9,360,000	93
Additions (<i>Note (ii)</i>)	<u>2,990,640,000</u>	<u>29,907</u>
At 31 December 2007	<u>3,000,000,000</u>	<u>30,000</u>

	Issued and fully paid Ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Redenominated and subdivided shares (<i>Note (i)</i>)	9,360,000	93
Issue of shares (<i>Note (iii)</i>)	<u>485,640,000</u>	<u>4,857</u>
At 31 December 2007	<u>495,000,000</u>	<u>4,950</u>

Notes:

- (i) At 31 December 2006 and 1 January 2007, both the authorised share capital and the issued and fully paid share capital of the Company were US\$12,000 represented by 12,000 shares of US\$1 each, which were then redenominated and subdivided into 9,360,000 shares of HK\$0.01 each in December 2007;
- (ii) The authorised share capital was increased from HK\$93,600 to HK\$30,000,000 by the creation of an additional 2,990,640,000 shares of HK\$0.01 each; and
- (iii) 485,640,000 shares of HK\$0.01 each were issued to PIL Toys Limited, the then immediate sole shareholder of the Company, as payment of dividend.

On 25 January 2008, the Company adopted a share option scheme (the "Scheme"). No option has been granted under the Scheme up to the date of this report.

(b) Reserves**Company**

	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006	–	(24)	(24)
Loss for the year	–	(50)	(50)
	<u>–</u>	<u>(50)</u>	<u>(50)</u>
At 31 December 2006	<u>–</u>	<u>(74)</u>	<u>(74)</u>
At 1 January 2007	–	(74)	(74)
Loss for the year	–	(16,451)	(16,451)
Arising from the Reorganisation	147,380	–	147,380
Issue of shares	(4,857)	–	(4,857)
	<u>142,523</u>	<u>(16,525)</u>	<u>125,998</u>
At 31 December 2007	<u>142,523</u>	<u>(16,525)</u>	<u>125,998</u>

*Nature and purpose of reserves***Company**

The contributed surplus represents the book value of assets contributed by an intermediate holding company pursuant to the Reorganisation. The application of the contributed surplus is governed by the Companies Act 1981 of Bermuda.

Group

The capital reserve of HK\$110,540,000 represents the aggregate amount of the share capital and share premium of the companies comprising the Group. During the year, the Group recorded a contribution of HK\$36,840,000 made by Playmates International Limited, an intermediate holding company pursuant to the Reorganisation and a reserve on consolidation in the amount of HK\$25,090,000 arose from the acquisition of an associated company from PIL Investments Limited, an intermediate holding company as part of the Reorganisation.

(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 0% compared to 23% at 31 December 2006.

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation	(68,136)	27,227
Bank interest income	(4,688)	(5,131)
Interest on bank loans and overdrafts	118	1,337
Depreciation	2,678	2,810
Loss on disposal of property, plant and equipment	97	69
	<u> </u>	<u> </u>
Operating (loss)/profit before working capital changes	(69,931)	26,312
Decrease in inventories	16,079	8,253
Decrease in trade receivables, other receivables, deposits and prepayments	160,143	2,841
Decrease in trade payables, other payables and accrued charges and provisions	(62,709)	(11,764)
(Decrease)/increase in due from/to related companies	(10,560)	5,583
	<u> </u>	<u> </u>
Cash generated from operations	<u>33,022</u>	<u>31,225</u>

(b) Analysis of cash and cash equivalents

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	<u>81,995</u>	<u>90,541</u>

(c) Significant non-cash transaction

The Group acquired from an intermediate holding company, as part of the Reorganisation, 49% interest in the share capital of the associated company at a nominal amount of HK\$1 which gave rise to a reserve on consolidation of HK\$25,090,000.

24 CONTINGENT LIABILITIES

The Company has guaranteed the due performance of Playmates Toys Inc. ("PTI"), an indirect wholly owned subsidiary of the Company, under a licensing agreement to secure its rights to design, develop, market and distribute certain toys.

25 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	2006
	<i>HK\$'000</i>	<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).

26 OPERATING LEASE ARRANGEMENTS

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

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	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,209	7,731
In the second to fifth years inclusive	<u>7,372</u>	<u>11,548</u>
	<u><u>13,581</u></u>	<u><u>19,279</u></u>

27 RELATED-PARTY TRANSACTIONS

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	360	674
Share-based compensation in respect of share options granted by the ultimate holding company	<u><u>3,127</u></u>	<u><u>7,701</u></u>

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 11, is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Director's fee	20	–
Salaries and other short-term employee benefits	12,906	15,628
Employer's contributions to provident fund	294	354
Share-based compensation	<u>2,257</u>	<u>4,574</u>
	<u><u>15,477</u></u>	<u><u>20,556</u></u>

Total remuneration is included in "staff cost" (note 10).

Corporate guarantees

The ultimate holding company has given guarantees to certain banks for facilities granted to certain subsidiaries of the Company during the year free of charge.

Trademark

A fellow subsidiary had provided the right for the use of certain trademark by PTI at nil consideration during the year.

28 POST BALANCE SHEET EVENT

In January 2008, PHL underwent a spin-off of toy business by way of distribution ("Spin-Off by way of Distribution") which involved the spin-off of the Company 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 the Company to the shareholders of PHL. Following the Spin-Off by way of Distribution, the Company obtained a separate listing of its shares on The Stock Exchange of Hong Kong Limited by way of introduction on 1 February 2008. PHL continues to be the ultimate holding company of the Company as it holds the remaining approximately 55% of the entire issued share capital of the Company not being distributed under the Spin-Off by way of Distribution. Details of the listing by introduction are set out in the listing document of the Company dated 31 December 2007.

29 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.

30 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	179,272	353,212
Other receivables, deposits and prepayments	73,556	59,759
Amount due from a fellow subsidiary	246	244
Amount due from an intermediate holding company	1,303	93
Cash and bank balances	<u>81,995</u>	<u>90,541</u>
Financial liabilities		
Bank loans	–	66,500
Trade payables	73,881	91,041
Other payables and accrued charges	90,889	122,976
Amount due to a fellow subsidiary	7,892	–
Amount due to the ultimate holding company	<u>2,702</u>	<u>19,942</u>

(b) Financial risk factors

Exposure to market (including currency and interest rate 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 not have impact on the Group's profit for the year (2006: increase/decrease by HK\$332,000).

(b) Credit risk

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

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and 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:

<i>Sales</i>	
– 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 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.

31 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\$48 million which were secured by guarantees executed by the Company. As at 30 June 2008, the amount due to a fellow subsidiary was approximately HK\$663,000 which was unsecured, interest free and repayment on demand.

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. Attention is also drawn to the unaudited interim results of the Company for the six months ended 30 June 2008 which were published on the date of this circular which reported a lower level of operating performance of the Group reflecting the negative sentiment in the global economic environment. Notwithstanding such lower level of operating performance, the Directors confirmed that the financial or trading position of the Group remains healthy since 31 December 2007.

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' 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 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	6,292,000 ordinary shares	1.27%
	Corporate (<i>Note (a)</i>)	358,983,044 ordinary shares	72.52%
Novak, Lou Robert	Personal	1,303,388 ordinary shares	0.26%
To Shu Sing, Sidney	Personal	1,730,000 ordinary shares	0.35%

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
Chow Yu Chun, Alexander	Personal	400,000 share options	400,000 shares	0.08%
Lee Ching Kwok, Rin	Personal	400,000 share options	400,000 shares	0.08%
Novak, Lou Robert	Personal	4,950,000 share options	4,950,000 shares	1.00%
To Shu Sing, Sidney	Personal	500,000 share options	500,000 shares	0.10%
Yang, Victor	Personal	400,000 share options	400,000 shares	0.08%

Long positions in shares of PHL

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 (b)</i>)	87,708,000 ordinary shares	39.20%
Novak, Lou Robert	Personal	1,303,388 ordinary shares	0.58%
To Shu Sing, Sidney	Personal	1,860,000 ordinary shares	0.83%

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interest held
Novak, Lou Robert	Personal	3,300,000 share options	3,300,000 shares	1.48%
To Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.14%

Notes:

- (a) Mr. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of Angers Investments Limited (“AIL”) and is therefore deemed to be interested in the 87,708,000 shares of the Company in aggregate which AIL is interested in. Since AIL directly owns approximately 39.20% of the shareholding of PHL and is deemed to be interested in the 271,275,044 shares of the Company in aggregate which PHL is interested in, Mr. Chan is also deemed to be interested in the 271,275,044 shares of the Company in aggregate which PHL is interested in.
- (b) 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 PHL in aggregate which AIL is interested in.

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
Chow Yu Chun, Alexander	31 March 2008	0.35	400,000
Lee Ching Kwok, Rin	31 March 2008	0.35	400,000
Novak, Lou Robert	31 March 2008	0.35	4,950,000
To Shu Sing, Sidney	31 March 2008	0.35	500,000
Yang, Victor	31 March 2008	0.35	400,000

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

Share options of PHL

Name of director	Date of grant	Exercise price per share of PHL HK\$	Number of share options
Novak, Lou Robert	7 January 2004	13.60	400,000
	19 March 2004	12.40	1,100,000
	22 September 2005	12.06	1,100,000
	4 May 2006	9.10	700,000
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

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

As at the Latest Practicable Date, none of the Directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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 of the Company, the persons, other than the Directors 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
AIL	Corporate (<i>Note (a)</i>)	358,983,044 ordinary shares	72.52%
PHL	Corporate (<i>Note (b)</i>)	271,275,044 ordinary shares	54.80%
Playmates International Limited	Corporate (<i>Note (b)</i>)	271,275,044 ordinary shares	54.80%
PIL Investments Limited	Corporate (<i>Note (b)</i>)	271,275,044 ordinary shares	54.80%
PIL Toys Limited	Corporate	271,275,044 ordinary shares	54.80%

Notes:

- (a) AIL directly owns approximately 39.20% of the shareholding of PHL, and is therefore deemed to be interested in the 271,275,044 shares of the Company in aggregate which PHL is interested in.
- (b) Playmates International Limited is a wholly-owned subsidiary of PHL; PIL Investments Limited is a wholly-owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly-owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 271,275,044 shares of the Company in which PIL Toys Limited is beneficially interested in.

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 the Company, whereby PIL contributed the entire issued share capital of PTE to the Company;
- (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 the Company 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 the Company to assign certain registered trade marks and trade mark applications in classes 16 and 28 to the 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 the Company to provide, or procure to be provided, certain compliance services to the Group;
- (o) Deed of Tax Indemnity dated 27 December 2007 entered into among PHL, the Company, 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) Mr. Lee Tak Fai, Thomas is the qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified 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 report of the Company for the year ended 31 December 2007;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix; and
- (d) this circular.