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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)

**CONNECTED TRANSACTION
IN RELATION TO
ISSUE OF CONVERTIBLE BONDS**

**Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders**



A notice convening a special general meeting of the Company to be held at Four Seasons Ballroom, 2/F., Renaissance Kowloon Hotel Hong Kong, 22 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 3 December 2009 at 10:00 a.m. is contained in pages 44 to 45 of this document. Whether or not you are able to attend the special general meeting, you are requested to complete and return the form of proxy enclosed with this document, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the special general meeting to the branch share registrars of the Company, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong. Completion of the form of proxy shall not preclude you from attending and voting at the special general meeting should you so wish.

Please note that NO refreshments will be served at the special general meeting.

17 November 2009

* For identification purpose only

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DEFINITIONS

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

“Announcement”	the joint announcement issued by the Company and PHL dated 30 October 2009 in relation to, among other things, the issue and subscription of the Convertible Bonds;
“associates”	has the meaning ascribed to it under the Listing Rules;
“Banking Facilities”	the revolving banking facilities up to the aggregate sum of HK\$80 million from time to time granted by the Banks to the Group, which are secured by the Charges on Deposits;
“Banks”	certain principal banks of the Company, all of whom are independent third parties and are not connected persons of the Company, PHL or their respective associates;
“Board”	the board of directors of the Company;
“Business Day”	any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business;
“Charges on Deposits”	all the charges on cash deposits up to the aggregate sum of HK\$80 million provided by the PHL Group in favour of the Banks as security for the Banking Facilities;
“Company”	Playmates Toys Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“Completion”	completion of the issue of and subscription for the First Convertible Bond and/or the Second Convertible Bond (as the case may be) pursuant to the terms of the Subscription Agreement;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Conversion Price”	the conversion price of US\$0.10 per Conversion Share, subject to usual anti-dilution adjustments of the conversion price in favour of the holder of the Convertible Bonds;
“Conversion Shares”	up to 300 million new Shares which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds;

DEFINITIONS

“Convertible Bonds”	the First Convertible Bond and the Second Convertible Bond; and “Convertible Bond” shall mean either the First Convertible Bond or the Second Convertible Bond, as the case may be;
“Directors”	directors of the Company;
“First Convertible Bond”	convertible bond(s) due after 5 years from the date of issuance in an aggregate principal amount of US\$20 million to be subscribed by PIL Toys pursuant to the Subscription Agreement, which entitle PIL Toys to convert the principal amount outstanding into Conversion Shares at the Conversion Price;
“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;
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor, being all the independent non-executive directors of the Company;
“Independent Financial Adviser”	Access Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Issue;
“Independent Shareholders”	shareholders of the Company who are not required to abstain from voting at the SGM under the Listing Rules;
“Latest Practicable Date”	13 November 2009, 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;
“Mirage Group”	Mirage Licensing, Inc. and its affiliates;
“Mr. Chan”	Mr. Chan Chun Hoo, Thomas, the chairman of the Board and the board of directors of PHL respectively;

DEFINITIONS

“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, excluding the Group;
“PHL Independent Shareholders”	shareholders of PHL who are not required to abstain from voting at the PHL SGM under the Listing Rules;
“PHL SGM”	the special general meeting of the shareholders of PHL to be convened for the purpose of considering and, if thought fit, approving the subscription of the Convertible Bonds and the transactions contemplated thereunder;
“PIL Toys”	PIL Toys Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of PHL;
“Proposed Issue”	the proposed issue of the Convertible Bonds in accordance with the terms and conditions of the Subscription Agreement;
“Second Convertible Bond”	convertible bond(s) due after 5 years from the date of issuance in an aggregate principal amount of US\$10 million to be subscribed by PIL Toys pursuant to the Subscription Agreement, which entitle PIL Toys to convert the principal amount outstanding into Conversion Shares at the Conversion Price;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the shareholders of the Company to be convened for the purpose of considering and, if thought fit, approving the issue of the Convertible Bonds;
“Share”	ordinary share of par value HK\$0.01 each in the share capital of the Company;
“Shareholders”	holders of shares of par value HK\$0.01 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	the conditional agreement dated 29 October 2009 entered into between the Company and PIL Toys in relation to the issue and subscription of the Convertible Bonds;

DEFINITIONS

“TGC”	TGC Assets Limited (formerly known as Angers Investments Limited), a substantial shareholder of both the Company and PHL, the entire issued share capital of which is beneficially owned by Mr. Chan;
“US\$”	United States dollars, the lawful currency of United States of America; and
“%”	per cent.

For illustration purpose, in this circular, amounts in US\$ have been translated into HK\$ at the exchange rate of US\$1.00 to HK\$7.75. Such translation does not constitute a representation that any amount has been, could have been or may be exchanged at such rate.

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:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office:

21/F., The Toy House
100 Canton Road
Tsimshatsui, Kowloon
Hong Kong

17 November 2009

To the Shareholders and holders of the share options of the Company

Dear Sir or Madam,

**CONNECTED TRANSACTION
IN RELATION TO
ISSUE OF CONVERTIBLE BONDS**

1. INTRODUCTION

The Board has announced that on 29 October 2009, the Company and PIL Toys, an indirect wholly-owned subsidiary of PHL, as the subscriber entered into the Subscription Agreement in relation to the Proposed Issue pursuant to which the Company will issue the Convertible Bonds to PIL Toys upon Completion.

PHL indirectly owns approximately 54.80% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Mr. Chan, being a director and the ultimate controlling shareholder (as such term is defined in the Listing Rules) of PHL and hence a connected person of PHL, holds indirectly through TGC an aggregate of approximately 15.47% of the Company, which results in the Company being a connected person of PHL.

* *For identification purpose only*

LETTER FROM THE BOARD

The Proposed Issue constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules and accordingly it is subject to the approval of the Independent Shareholders at the SGM. The Conversion Shares will be issued under a special mandate proposed to be sought from the Independent Shareholders at the SGM.

PHL, Mr. Chan and TGC, given their interests in the Company and PHL, are considered to have a material interest in the Proposed Issue and the transactions contemplated thereunder. Accordingly, they and their respective associates will abstain from voting at the SGM on the resolution in relation to the issue of the Convertible Bonds.

The Independent Board Committee comprises three independent non-executive directors, Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor, has been constituted to advise the Independent Shareholders, and Access Capital Limited has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as regards the terms of the Subscription Agreement and the transactions contemplated therein, including but not limited to the Proposed Issue.

The purpose of this circular is to provide you with, among other things, (i) information on the Proposed Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Proposed Issue; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules.

2. THE CONVERTIBLE BONDS

The aggregate principal amount of the Convertible Bonds is US\$30 million. Subject to fulfillment of the conditions precedent stated in the section headed “Conditions Precedent to the Subscription Agreement” below, PIL Toys shall subscribe for, and the Company shall issue, the Convertible Bonds of an aggregate principal amount of US\$30 million at its full face value upon Completion.

3. PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are summarised as follows:

Date: 29 October 2009

Parties:

Issuer: the Company; and

Subscriber: PIL Toys, an indirect wholly-owned subsidiary of PHL.

LETTER FROM THE BOARD

Conditions Precedent to the Subscription Agreement:

Completion of the Subscription Agreement is conditional upon the satisfaction of the following conditions precedent:

- (i) the passing by the requisite majority required under the Listing Rules of the PHL Independent Shareholders in the PHL SGM of all necessary resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, including the exercise of conversion rights attached to the Convertible Bonds;
- (ii) the passing by the requisite majority required under the Listing Rules of the Independent Shareholders in the SGM of all necessary resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the issue of Conversion Shares which fall to be issued and allotted on exercise of conversion rights attached to the Convertible Bonds;
- (iii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares; and
- (iv) (if required) the Bermuda Monetary Authority granting its consent to the issue of the Convertible Bonds and the allotment and issue, as well as the free transferability of the Convertible Bonds and the Conversion Shares.

None of the above conditions precedent can be waived. If any of the above conditions precedent cannot be fulfilled by 31 December 2009 (or such later date as the Company and PIL Toys may agree), the Subscription Agreement will lapse, and become null and void and the parties to the Subscription Agreement will be released from all obligations thereunder, save for the liabilities of any antecedent breaches thereof.

Completion:

First Convertible Bond

Completion of the subscription for the First Convertible Bond shall take place on the third Business Day following the date of fulfillment of the conditions precedent stated in the section headed "Conditions Precedent to the Subscription Agreement" above, or such other date as the Company and PIL Toys may agree in writing.

Upon Completion of the subscription for the First Convertible Bond, PIL Toys shall deliver to the Company a banker's draft or cashier order issued by a licensed bank in Hong Kong in the sum of US\$20,000,000 and made payable to the Company or as it may direct in writing.

LETTER FROM THE BOARD

Second Convertible Bond

Subject to the fulfillment of the conditions precedent stated in the section headed “Conditions Precedent to the Subscription Agreement” above, the Second Convertible Bond will be issued on 31 March 2011 and Completion of the subscription for the Second Convertible Bond shall take place on the same day.

Upon Completion of the subscription for the Second Convertible Bond, PIL Toys shall deliver to the Company a banker’s draft or cashier order issued by a licensed bank in Hong Kong in the sum of US\$10,000,000 and made payable to the Company or as it may direct in writing.

4. PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The terms and conditions for the First Convertible Bond and the Second Convertible Bond are the same, save and except the principal amounts to be issued thereunder. The principal terms of the Convertible Bonds are summarised as follows:

Aggregate principal amount:	US\$20 million for the First Convertible Bond; and US\$10 million for the Second Convertible Bond.
Issue price:	100% of the aggregate principal amount of the relevant Convertible Bond.
Redemption price at maturity:	100% of the outstanding principal amount of the relevant Convertible Bond on the maturity date.
Conversion Price:	US\$0.10 per Conversion Share, subject to usual anti-dilution adjustments of the Conversion Price in favour of the holder of the Convertible Bonds in certain events such as share consolidation, share subdivision, capitalization issue, capital distribution, rights issue and other equity or equity derivatives issues.
Interest rate:	2% per annum, payable at the end of each 6-month period commencing on the date of the issue of the relevant Convertible Bond. All outstanding interest accrued shall be paid in full on the maturity date.
Default interest rate:	In the event that the Company shall be in arrears of any payment under the relevant Convertible Bond, a default interest at the rate of 8% per annum shall be payable by the Company.
Maturity:	The fifth anniversary from the date of issue of the relevant Convertible Bond.

LETTER FROM THE BOARD

- Transferability:** The Convertible Bonds or any part thereof are freely transferable or assignable provided that they may not, without the prior written consent of the Company, be transferred or assigned to any person who is at the time of such transfer or assignment a connected person of the Company or a connected person of PHL.
- Conversion Period:** The Convertible Bonds are convertible at any time from the date of issue and up to the maturity date of the Convertible Bonds.
- Conversion Rights:** The holder of the Convertible Bonds shall have the right to convert all or part of the principal amount of the Convertible Bonds into Conversion Shares at the Conversion Price of US\$0.10 per Conversion Share during the Conversion Period (as set out above) provided that any such conversion shall not result in the shareholding of the Company held by the public being less than the then minimum public float requirement as stipulated by the Listing Rules at the time of such conversion.
- Conversion Shares:** Upon full conversion of the First Convertible Bond and assuming no adjustment to the Conversion Price of US\$0.10 per Conversion Share and there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 200 million Conversion Shares with an aggregate nominal value of HK\$2,000,000 will be issued by the Company, representing approximately 40.40% of the number of Shares in issue and approximately 28.78% of the number of Shares in issue as enlarged by the issue of the Conversion Shares.
- Upon full conversion of the First Convertible Bond and the Second Convertible Bond and assuming no adjustment to the Conversion Price of US\$0.10 per Conversion Share and there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 300 million Conversion Shares with an aggregate nominal value of HK\$3,000,000 will be issued by the Company, representing approximately 60.61% of the number of Shares in issue and approximately 37.74% of the number of Shares in issue as enlarged by the issue of the Conversion Shares.
- Ranking of the Conversion Shares:** The Conversion Shares, when allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds, shall rank *pari passu* in all respects with all other then issued Shares at the date of the relevant conversion notice and shall be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the relevant conversion notice.

LETTER FROM THE BOARD

- Early repayment:** The Company shall be entitled to request for early repayment of all or part of the outstanding sums under the Convertible Bonds at any time from the date of issue of the Convertible Bonds and provided that: (i) any early repayment shall be in a sum of not less than a whole multiple of US\$1 million; (ii) there is no occurrence of any event of default as set out in the Subscription Agreement and (iii) if any early repayment is made at any time during two years from the date of issue of the relevant Convertible Bond, the Company shall pay to the holder of such Convertible Bond each time upon any such early repayment a sum equal to 1% of the principal amount under the Convertible Bond so repaid.
- Redemption:** The Company shall be required to redeem upon maturity of the 5-year term at 100% all or any part of the principal amount of the relevant Convertible Bond in respect of which the conversion rights have not been exercised.
- Voting:** The holder of the Convertible Bonds will not be entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of it being the holder of the Convertible Bonds.
- Listing:** No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other securities exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Bonds.

The Conversion Price of US\$0.10 per Conversion Share, which is equivalent to HK\$0.775 per Conversion Share based on the exchange rate of US\$1.00 = HK\$7.75 for the purpose of this circular, represents:

- a premium of approximately 256% to the closing price of HK\$0.218 per Share as quoted on the Stock Exchange on 28 October 2009, being the last trading day immediately before the date of the Announcement;
- a premium of approximately 256% over the average closing price of approximately HK\$0.218 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 28 October 2009, being the last trading day immediately before the date of the Announcement;
- a premium of approximately 263% over the average closing price of approximately HK\$0.213 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 28 October 2009, being the last trading day immediately before the date of the Announcement;

LETTER FROM THE BOARD

- a discount of approximately 30% to the closing price of HK\$1.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 22% over the average closing price of approximately HK\$0.997 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the parties with reference to the prevailing market price of the Shares prior to the signing of the Subscription Agreement.

5. EFFECT ON SHAREHOLDING OF THE COMPANY FOLLOWING THE FULL CONVERSION OF THE CONVERTIBLE BONDS

The shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company upon full conversion of: (i) the First Convertible Bond; and (ii) the First Convertible Bond and the Second Convertible Bond respectively are and will be as follows:

Shareholders	Shareholdings as at the Latest Practicable Date		Shareholding after full conversion of: (i) the First Convertible Bond; and (ii) the First Convertible Bond and the Second Convertible Bond (assuming no adjustment to the Conversion Price and no further issue of Shares as at the Latest Practicable Date, save and except the Conversion Shares)	
	<i>No. of Shares</i>	%	<i>No. of Shares</i>	%
PHL Group	271,275,044	54.80	(i) 471,275,044 (ii) 571,275,044	(i) 67.81 (ii) 71.86
Mr. Chan and TGC	76,600,000	15.47	(i) 76,600,000 (ii) 76,600,000	(i) 11.02 (ii) 9.63
Other Directors	9,033,388	1.83	(i) 9,033,388 (ii) 9,033,388	(i) 1.30 (ii) 1.14
Public shareholders	138,091,568	27.90	(i) 138,091,568 (ii) 138,091,568	(i) 19.87 (ii) 17.37
Total	<u>495,000,000</u>	<u>100.00</u>	<u>(i) 695,000,000</u> <u>(ii) 795,000,000</u>	<u>(i) 100.00</u> <u>(ii) 100.00</u>

LETTER FROM THE BOARD

Notes:

1. The above shareholding structures are based on the assumption that there is no exercise of the subscription rights attaching to the outstanding share options of the Company and there is no further issue of the Shares (other than the Conversion Shares). As at the Latest Practicable Date, the Company has outstanding share options granted by the Company to the Directors, employees of the Group and other participants pursuant to the share option scheme adopted on 25 January 2008, entitling the grantees to subscribe for a maximum of 11,362,000 Shares. Such share options are exercisable in stages in accordance with the terms of the share option scheme within ten years from the date of the grant.
2. As at the Latest Practicable Date, the total number of issued Shares is 495,000,000, and the PHL Group holds 271,275,044 Shares (or approximately 54.80% of the entire issued share capital of the Company). Assuming: (i) full conversion of the First Convertible Bond by the PHL Group at the Conversion Price of US\$0.10 per Conversion Share; and (ii) there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 471,275,044 Shares will be held by the PHL Group, representing approximately 67.81% of the number of Shares in issue as enlarged by the issue of the Conversion Shares, and an aggregate of 547,875,044 Shares will be held by the PHL Group, Mr. Chan, TGC and their respective associates, representing approximately 78.83% of the number of Shares in issue as enlarged by the issue of the Conversion Shares. Assuming: (i) full conversion of the First Convertible Bond and the Second Convertible Bond by the PHL Group at the Conversion Price of US\$0.10 per Conversion Share; and (ii) there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 571,275,044 Shares will be held by the PHL Group, representing approximately 71.86% of the number of Shares in issue as enlarged by the issue of the Conversion Shares, and an aggregate of 647,875,044 Shares will be held by the PHL Group, Mr. Chan, TGC and their respective associates, representing approximately 81.49% of the number of Shares in issue as enlarged by the issue of the Conversion Shares. In order to ensure sufficient public float of the Shares upon any conversion of the Convertible Bonds, the Convertible Bonds contain a term that any such conversion shall not result in the shareholding of the Company held by the public being less than the then minimum public float requirement as stipulated by the Listing Rules at the time of such conversion.
3. PIL Toys may exercise the conversion rights in respect of all or any part of the outstanding principal amounts under the First Convertible Bond and the Second Convertible Bond at the same time or different times.
4. Based on the assumptions in note 2 above and for information purpose only, upon full conversion of the First Convertible Bond and the Second Convertible Bond, the PHL Group will acquire an additional shareholding interest of approximately 17.06% in the Company. The net asset value of the Company as at 30 June 2009 was HK\$93,495,000. There was no net profit (either before or after taxation) for the Company in respect of the two financial years ended 31 December 2007 and 2008. The net loss before and after tax for the Company in respect of the two financial years ended 31 December 2007 and 2008 were HK\$68,136,000 and HK\$33,585,000, and HK\$143,698,000 and HK\$190,516,000 respectively.

6. EQUITY FUND-RAISING ACTIVITIES DURING THE PAST 12 MONTHS

The Company has not carried out any equity fund-raising activities during the 12 months immediately preceding the date of this circular.

7. REASONS FOR THE PROPOSED ISSUE

The principal activity of the Company is investment holding with its principal subsidiaries engaged in the design, development, marketing and distribution of toys and family entertainment activity products.

LETTER FROM THE BOARD

As disclosed in the circular of PHL dated 13 February 2009, in view of the unprecedented global financial crisis and recessionary economic environment ignited by the series of high profile failures of major U.S. and European financial institutions in 2008, and the resulting tightening of the availability of fund by banking institutions, PHL and the Company entered into an agreement whereby the Banking Facilities were made available to the Group on the condition that the Charges on Deposits be executed as security. However, the availability of the Banking Facilities is subject to relevant renewal and other termination provisions by the Banks. The Directors consider that it will be in the interests of the Group to secure a more stable source of finance so that the Group can be better equipped with steady and strong working capital base.

The Group has committed to invest in the development of a number of new toy product brands to be launched during 2010, including *Shrek Forever After*, the fourth and the latest in the series of *Shrek* movies from DreamWorks Animation; *Lucha Libre AAA*, Mexican wrestling league soon to be introduced in the U.S. market; *Hero 108*, a new TV series to go on Cartoon Network; *Inazuma-Oh*, a vehicle concept; and *Rainbow Brite*, a classic doll brand from Hallmark. The Group will also increase investment in product line expansion for *iCarly*, currently the highest rated show on Nickelodeon.

Nickelodeon recently announced that it has acquired the global rights to the *Teenage Mutant Ninja Turtles* from the Mirage Group, the original owner of the property, including all broadcast rights and merchandising rights, and will continue to work with the Group as the master toy licensee. Nickelodeon also announced plans to develop a new CG-animated television series based on the popular superhero franchise, anticipated to premiere in 2012 and additionally, in partnership with Viacom's Paramount Pictures, a new release of a new *Teenage Mutant Ninja Turtles* feature film is also planned for 2012.

The Directors consider that the acquisition of the *Teenage Mutant Ninja Turtles* and the plans announced by Nickelodeon represent significant new opportunities for the Group. It is expected that the Group will benefit from the broadening of the scope of creative inspiration to continue its long-standing commitment of making innovative, fun toys based on the legendary and new adventures of the *Teenage Mutant Ninja Turtles* to entertain generation after generation of kids around the world. It is anticipated that requirements in working capital funds will be needed in the near future to pursue the new opportunities.

The Directors also consider that the issue of the Convertible Bonds will provide a more stable source of finance so that the Group can be better equipped with steady and strong working capital base. The Directors have considered other alternative means for fund raising such as rights issue, open offer and further debt financing. However, in view of the current financial environment ignited by the series of high profile failures of major U.S. and European financial institutions in the late third and fourth quarters of 2008, the Directors are of the view that the Proposed Issue is a more practicable and appropriate means for fund raising, which can strengthen the financial position and capability of the Company and can raise additional working capital funds for the operation of its existing business and the pursuit of new opportunities, including those described above.

LETTER FROM THE BOARD

Against the above background, the Company shall within one month from the date of issue of the First Convertible Bond (or such other later time as PIL Toys may agree): (i) procure the discharge and release of the Charges on Deposits; and (ii) enter into a cancellation agreement with PHL to terminate the agreement dated 4 February 2009 made between the Company and PHL in respect of the Charges on Deposits and the continuing connected transactions as contemplated therein between the Company and PHL. The proceeds from the issue of the Convertible Bonds will be applied by the Group for working capital of the Group which is to be used for the operation of its existing toy and related businesses and future development.

8. GENERAL

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

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

9. SGM

Under the Listing Rules, the Proposed Issue and the transactions contemplated thereunder constitute a non-exempt connected transaction of the Company and require the approval of the Independent Shareholders at the SGM by vote to be taken by poll. PHL, TGC and Mr. Chan, given their interests in the Company and PHL, are considered to have a material interest in the Proposed Issue. Accordingly, they and their respective associates will abstain from voting at the SGM on the resolution in relation to the issue of the Convertible Bonds.

A notice convening the SGM is set out in Appendix II to this circular for the purpose of considering and, if thought fit, passing the ordinary resolution to approve the issue of the Convertible Bonds and all the transactions contemplated thereunder.

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

10. RECOMMENDATIONS

The Directors consider that the terms of the Proposed Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM as set out in the notice of the SGM contained in this circular.

LETTER FROM THE BOARD

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in relation to the Proposed Issue for inclusion in this circular:



PLAYMATES TOYS LIMITED

彩星玩具有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 869)

17 November 2009

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO ISSUE OF CONVERTIBLE BONDS

We refer to the circular of the Company dated 17 November 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the Proposed Issue, details of which are set out in the letter from the Board set out on pages 5 to 15 of this Circular.

Having considered the terms of the Proposed Issue and the advice of the Independent Financial Adviser in relation thereto as set out on pages 17 to 35 of the Circular, the Independent Board Committee considers that the terms of the Proposed Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the issue of the Convertible Bonds and the transactions contemplated thereunder.

The Independent Board Committee draws the attention of the Independent Shareholders to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which sets out the considerations and factors taken into account in arriving at its recommendations.

Yours faithfully,
For and on behalf of
the Independent Board Committee

CHOW Yu Chun, Alexander

LEE Ching Kwok, Rin

YANG, Victor

Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

17 November 2009

*To the Independent Board Committee and
the Independent Shareholders of Playmates Toys Limited*

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO ISSUE OF CONVERTIBLE BONDS

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Issue, details of which are set out in the “Letter from the Board” contained in the circular dated 17 November 2009 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Unless otherwise stated, terms defined in the Circular shall have the same meanings in this letter.

On 29 October 2009, PIL Toys, an indirect wholly-owned subsidiary of PHL, and the Company entered into the Subscription Agreement in relation to the subscription by PIL Toys of the Convertible Bonds to be issued by the Company in an aggregate principal of US\$30 million at the Conversion Price of US\$0.10 per Conversion Share.

Pursuant to the Subscription Agreement, the Company will issue to PIL Toys, and PIL Toys will subscribe for: (i) the First Convertible Bond in the aggregate sum of US\$20 million; and (ii) the Second Convertible Bond in the aggregate sum of US\$10 million, subject to the terms and conditions as set out in the “Letter from the Board”.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon full conversion of the First Convertible Bond and assuming no adjustment to the Conversion Price of US\$0.10 per Conversion Share and there is no further issue of Shares (other than the Conversion Shares), an aggregate of 200 million Conversion Shares will be issued by the Company, representing approximately 40.40% of the number of Shares in issue and approximately 28.78% of the number of Shares in issue as enlarged by the issue of the Conversion Shares.

Upon full conversion of the First Convertible Bond and the Second Convertible Bond and assuming no adjustment to the Conversion Price of US\$0.10 per Conversion Share and there is no further issue of Shares (other than the Conversion Shares), an aggregate of 300 million Conversion Shares will be issued by the Company, representing approximately 60.61% of the number of Shares in issue and approximately 37.74% of the number of Shares in issue as enlarged by the issue of the Conversion Shares.

Since PHL is the controlling shareholder of the Company and indirectly owns approximately 54.80% of the Company as at the Latest Practicable Date, PHL is a connected person of the Company under the Listing Rules. Mr. Chan, being a director and the ultimate controlling shareholder (as such term is defined in the Listing Rules) of PHL and hence a connected person of PHL, holds indirectly through TGC an aggregate of approximately 15.47% of the Company, which results in the Company being a connected person of PHL.

The Proposed Issue therefore constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules and accordingly it is subject to the approval of the Independent Shareholders at the SGM.

PHL, Mr. Chan and TGC, given their interests in PHL and the Company, are considered to have a material interest in the Proposed Issue and the transactions contemplated thereunder. Accordingly, they and their respective associates will abstain from voting at the SGM on the resolution in relation to the issue of the Convertible Bonds.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of six Directors, namely Mr. Chan, Mr. Novak, Lou Robert and Mr. To Shu Sing, Sidney as executive Directors and Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor as independent non-executive Directors.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor, has been established to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated therein, i.e. the Proposed Issue, are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect and to give our opinion in relation to the Subscription Agreement and the transactions contemplated therein for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. BASIS AND ASSUMPTIONS

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Subscription Agreement and the transactions contemplated therein, we have taken into consideration the following principal factors and reasons:

1. Principal activities of the Group and its recent financial results

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the operating results and financial positions of the Group for the two years ended 31 December 2008 and for the six months period ended 30 June 2008 and 2009 as extracted from the Company's annual report for the year ended 31 December 2008 and interim report for the six months ended 30 June 2009 ("Interim Report"), respectively:

Table A: Summary of recent financial results of the Group

	For the year ended		For the	
	31 December		six months ended	
	2007	2008	2008	2009
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	909,030	703,596	232,096	335,638
Gross profit	406,063	269,473	89,306	169,775
(Loss)/Gain before tax	(68,136)	(143,698)	(71,184)	4,428
(Loss)/Gain for the year/period	(33,585)	(190,516)	(41,860)	1,613
			31 December	30 June
			2008	2009
			(Audited)	(Unaudited)
			<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			90,114	81,024
Current assets			225,488	168,887
Current liabilities			223,521	156,416
Net assets			92,081	93,495

As shown in Table A above, the turnover of the Group reduced from approximately HK\$909.0 million in 2007 to approximately HK\$703.6 million in 2008, representing a decrease of approximately 22.6%, while loss for the year worsen from approximately HK\$33.6 million in 2007 to approximately HK\$190.5 million in 2008, representing an increase in loss of approximately 467.0%. For the six months period ended 30 June 2009, the Group's turnover during the six months ended 2009 were approximately HK\$335.6 million, an increase of approximately 44.6% over the same period in 2008, of which U.S. and European sales increased by approximately 43.9% and 28.1% respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The management of the Company analysed the aforesaid increase as the results of the increase in sales of boys brands worldwide due to, among others, (i) strong initial sell-in of toy lines based on two major theatrical releases in May 2009: *Star Trek* and *Terminator: Salvation*, though both were still below management expectation in terms of toy sales; and (ii) the introduction of *Dinosaur King* action figures and accessories in key European markets. In addition, the Group experienced increase in the sales of girls brands can be attributable to the *Disney Fairies* brand following the release of the “*Tinker Bell*” DVD in the second half of 2008. Gross profit ratio on toy sales was approximately 51% for the six months period ended 30 June 2009 (compared to approximately 38% during the same period in 2008). The improved gross profit margin for the aforesaid period is attributed to a more profitable product mix of sales, relatively stable input costs and less discounted sales on discontinued products.

As at 30 June 2009, the Group has a cash and bank balance of approximately HK\$49.3 million and a bank loan of approximately HK\$35.0 million, representing a net cash balance of approximately HK\$14.3 million. From our discussion with the management of the Company, we understand that following the outbreak of the global financial crisis in late 2008, the optimism of the Group in obtaining bank borrowings at reasonable costs under the continuing tight credit environment, particularly as the Group’s toy-related businesses are generally cyclical with a close correlation to the state of global economy as a whole remains low. This is borne out by the fact that in early 2009, certain principal bankers of the Company agreed to allow the Group to utilize the Banking Facilities, but such consent was conditional upon the execution of the Charges on Deposit up to the aggregate sum of HK\$80 million provided by the PHL Group as security to the Banking Facilities.

2. Reasons for the Proposed Issue

The Directors are encouraged by the following recent major business developments of the Group as stated in the “Letter from the Board”:

- (i) The Group has committed to invest in the development of a number of new toy product brands to be launched during 2010, including *Shrek Forever After*, the fourth and the latest in the series of *Shrek* movies from DreamWorks Animation; *Lucha Libre AAA*, Mexican wrestling league soon to be introduced in the U.S. market; *Hero 108*, a new TV series to go on Cartoon Network; *Inazuma-Oh*, a vehicle concept; and *Rainbow Brite*, a classic doll brand from Hallmark. The Group will also increase investment in product line expansion for *iCarly*, currently the highest rated show on Nickelodeon.
- (ii) Nickelodeon recently announced that it has acquired the global rights to the *Teenage Mutant Ninja Turtles* from the Mirage Group, the original owner of the property, including all broadcast rights and merchandising rights, and will continue to work with the Group as the master toy licensee. Nickelodeon also announced plans to develop a new CG-animated television series based on the popular superhero franchise, anticipated to premiere in 2012 and additionally, in partnership with Viacom’s Paramount Pictures, a new release of a new *Teenage Mutant Ninja Turtles* feature film is also planned for 2012.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors consider that the acquisition of the *Teenage Mutant Ninja Turtles* and the plans announced by Nickelodeon represent significant new opportunities for the Group. It is also expected that the Group will benefit from the broadening of the scope of creative inspiration to continue its long-standing commitment of making innovative, fun toys based on the legendary and new adventures of the *Teenage Mutant Ninja Turtles* to entertain generation after generation of kids around the world.

In anticipation of the potential new business prospects associated with the above-mentioned developments, the Directors consider it appropriate that the Group should possess the necessary and readily deployable financial resources in capturing the new business opportunities. Given the recent experience in credit squeeze following the outbreak of the global financial crisis in late 2008, the Directors consider it important and prudent that the Group should secure long-term financing arrangements in support of the future working capital requirements associated with the implementation of the new projects as described above.

The Directors have considered other alternative means for fund raising such as further debt financing, rights issue and open offer.

However, in view of the current financial environment ignited by the series of high profile failures of major U.S. and European financial institutions in the late third and fourth quarters of 2008, and given the relatively modest asset base of the Group and its financial performance in the last few years, and reflected on its recent experience in obtaining the Banking Facilities which was made possible only with the support of the Charges on Deposit, and such availability of the Banking Facilities is subject to relevant renewal and other termination provisions by the Banks, the Directors considered that it is not practical for the Company to obtain long-term bank borrowings and that it will be in the interests of the Group to secure a more stable source of finance so that the Group can be better equipped with steady and strong working capital base.

The Directors also advised that prior to the Announcement, the Share price has been traded at a level significantly lower than the Share price at the time of its listing in February 2008 and given the low liquidity in the trading volume of the Shares and the relatively modest size of market capitalization at approximately HK\$107.9 million on 28 October 2009, being the last trading day immediately before the date of the Announcement (“Last Trading Day”), any equity issuances either by a placement of Shares, an open offer or a rights issue benchmarked against the pre-Announcement Share price with an aim to raise approximately US\$30 million (representing approximately HK\$232.5 million) would be difficult and potentially dilutive to the value to the Shareholders (in the event of a placement of Shares), irrespective of the Company being or not being able to procure investors or underwriting support for such equity funding exercise.

Consequently, the Directors consider that the proposed issue of the unsecured Convertible Bonds, in two separate tranches under the Subscription Agreement, would allow the Group to lock in a five-year long-term committed financing at a reasonable annual coupon costs. In addition, by pricing the Conversion Price at a significant premium to the pre-Announcement

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

historical price of the Shares, it would help to address the above-mentioned concern on dilution of value of the Shareholders, and it also underpins the confidence and commitment of PHL to the long-term future of the Group. We further understand from the management of the Company that the proposed issue of the Convertible Bonds in two tranches (of US\$20 million under the First Convertible Bond upon Completion and the Second Convertible Bond of US\$10 million in March 2011), would provide a more stable source of finance so that the Company can be better equipped with steady and strong working capital base for its future financing requirement. In this connection, Independent Shareholders should also note that the Company is not liable to any placing or arrangement fees under the Proposed Issue.

The financial support currently given to the Group by the PHL Group in the form of the Charges on Deposits will be replaced by the proposed subscription of the Convertible Bonds, and the Company shall within one month from the date of issue of the First Convertible Bond (or such other later time as PIL Toys may agree): (i) procure the discharge and release of the Charges on Deposits; and (ii) enter into a cancellation agreement with PHL to terminate the agreement dated 4 February 2009 made between PHL and the Company in respect of the Charges on Deposits and the continuing connected transactions as contemplated therein between PHL and the Company. Consequently, the discharge and release of the Charges on Deposits and the entering into of a cancellation agreement with PHL to terminate the agreement dated 4 February 2009 made between PHL and the Company in respect of the Charges on Deposits shall relieve the Company to pay the 1% fee for the provision of the Charge on Deposit.

Taking into account of the foregoing and, in particular, the relatively modest size of the Company's market capitalization as at the Last Trading Day, as compared to the principal amount of Convertible Bonds, being US\$30 million (representing approximately HK\$232.5 million), we concur with the views of the Directors that the Proposed Issue would be a better means to provide the long-term financing to the Company for exploiting various new business opportunities.

Given the present credit and financial markets conditions and the present circumstances of the Group, the Directors are of the view that the Proposed Issue is prudent and strategically appropriate, and is in the interest of the Company and the Shareholders. We concur with this view.

3. Summary of the principal terms of the Convertible Bonds

The terms and conditions for the First Convertible Bond and the Second Convertible Bond are the same, save and except the principal amounts to be issued thereunder. The principal terms of the Convertible Bonds are summarised as follows:

Aggregate principal amount:	US\$20 million for the First Convertible Bond; and US\$10 million for the Second Convertible Bond.
Issue price:	100% of the aggregate principal amount of the relevant Convertible Bond.

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Redemption price at maturity:	100% of the outstanding principal amount of the relevant Convertible Bond on the maturity date.
Conversion Price:	US\$0.10 per Conversion Share, subject to usual anti-dilution adjustments.
Interest rate:	2% per annum, payable at the end of each 6-month period commencing on the date of the issue of the relevant Convertible Bond. All outstanding interest accrued shall be paid in full on the maturity date.
Default interest rate:	In the event that the Company shall be in arrears of any payment under the relevant Convertible Bond, a default interest at the rate of 8% per annum shall be payable by the Company.
Maturity:	The fifth anniversary from the date of issue of the relevant Convertible Bond.
Conversion Period:	The Convertible Bonds are convertible at any time from the date of issue and up to the maturity date of the Convertible Bonds.
Conversion Rights:	The holder of the Convertible Bonds shall have the right to convert all or part of the principal amount of the Convertible Bonds into Conversion Shares at the Conversion Price of US\$0.10 per Conversion Share during the Conversion Period (as set out above) provided that any such conversion shall not result in the shareholding of the Company held by the public being less than the then minimum public float requirement as stipulated by the Listing Rules at the time of such conversion.
Early repayment:	The Company shall be entitled to request for early repayment of all or part of the outstanding sums under the Convertible Bonds at any time from the date of issue of the Convertible Bonds and provided that: (i) any early repayment shall be in a sum of not less than a whole multiple of US\$1 million; (ii) there is no occurrence of any event of default as set out in the Subscription Agreement; and (iii) if any early repayment is made at any time during two years from the date of issue of the relevant Convertible Bond, the Company shall pay to the holder of such Convertible Bond each time upon any such early repayment a sum equal to 1% of the principal amount under the Convertible Bond so repaid.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Conversion Price

The Conversion Price of US\$0.10 per Conversion Share, which is equivalent to HK\$0.775 per Conversion Share based on the exchange rate of US\$1.00 = HK\$7.75 for the purpose of the Circular, represents:

- a premium of approximately 256% to the closing price of HK\$0.218 per Share, as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 256% over the average closing price of approximately HK\$0.218 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 263% over the average closing price of approximately HK\$0.213 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.
- a discount of approximately 30% to the closing price of HK\$1.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 22% over the average closing price of approximately HK\$0.997 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the parties with reference to the prevailing market price of the Shares prior to the signing of the Subscription Agreement.

4. Evaluation of the terms of the Convertible Bonds

To assess the fairness and reasonableness of the Conversion Price, we set out the following informative analysis for illustrative purposes:

Review of historical Share prices and trading volume

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 November 2008 up to and including the Last Trading Day (the "Review Period") are shown as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table B: Historic Share price table

Month	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$
2008			
November	0.12	0.06	0.074
December	0.079	0.059	0.065
2009			
January	0.075	0.061	0.069
February	0.085	0.062	0.075
March	0.084	0.061	0.072
April	0.089	0.077	0.083
May	0.17	0.084	0.132
June	0.175	0.15	0.160
July	0.164	0.141	0.151
August	0.165	0.141	0.152
September	0.25	0.146	0.211
October (up to and including the Last Trading Day)	0.22	0.207	0.213

Source: website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the average daily closing price of the Shares as set out in Table B above ranged from HK\$0.065 to HK\$0.213 per Share. The Conversion Price of US\$0.1 (which is approximately HK\$0.775) is significant above all the average daily closing price of the Shares during the Review Period as set out in Table B above and represents a premium of approximately 210% over the highest closing price of the Shares of HK\$0.25 during the Review Period.

The historic all time highest closing price of the Shares since its listing on the Stock Exchange, being on 1 February 2008, up to and including the Last Trading Day (the “Historic Highest Closing Price”) was HK\$0.64 on 1 February 2008. The Conversion Price of US\$0.1 (which is approximately HK\$0.775) represents a premium of approximately 21.1% over the Historic Highest Closing Price.

The average daily trading volume of the Shares from 1 January 2009 up to and including the Last Trading Day is approximately 335,071 Shares, representing approximately 0.068% of the total issued Share capital of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison with issue and subscription of convertible notes/bonds/debentures

As part of our analyses, we have identified a total of 24 transactions of subscriptions of convertible notes/bonds/debentures, which to the best of our knowledge and belief, represented all the transactions during the three-months period from 29 July 2009 up to the Last Trading Day as announced by companies listed on the Stock Exchange (the “Comparables”). Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and thus the Comparables are only used to provide a general reference for the recent common market practice of Hong Kong listed companies in issue and subscription of convertible notes/bonds/debentures exercises. Our relevant finding is summarised in Table C below:

Table C: Convertible notes/bonds/debentures Comparables

Date of announcement	Company	Stock Code	Term (year)	Interest rate per annum (%)	Premium/ (Discount) of the conversion price over/(to) closing price per share on the last trading day prior to announcements in relation to the respective issue of convertible notes/bonds/debentures (%)	Amount raised HK\$ '000	% dilution to existing shareholders upon full conversion (%)
12 October 2009	SMI Corporation Limited	198	2	1	(7.02)	39,750	6.7
9 October 2009	Huafeng Group Holdings Limited	364	3	1	(11.11)	150,000	30.2
6 October 2009	Rojam Entertainment Holdings Limited	8075	3	2	(54.00)	25,000	20.6
30 September 2009	ITC Corporation Limited	372	2	5	19.05	72,000	16.0
24 September 2009	SJM Holdings Limited	880	6	Nil	20.00	2,000,000	7.0
23 September 2009	Goldin Financial Holdings Limited	530	3	5	17.80	1,398,875	50.0
23 September 2009	Geely Automobile Holdings Limited	175	5	3	6.10	1,897,000	12.1
23 September 2009	GOME Electrical Appliances Holding Limited ⁽¹⁾	493	5	3	29.00	2,712,889	6.0
18 September 2009	ABC Communications (Holdings) Limited	30	1	Nil	(9.09)	150,000	13.8
18 September 2009	Shun Tak Holdings Limited ⁽²⁾	242	5	3.30	24.32	1,550,000	8.6
17 September 2009	Forefront Group Limited ⁽³⁾	885	2	Nil	(4.35)	300,000	55.4
16 September 2009	Tack Hsin Holdings Limited	611	3	Nil	(64.29)	80,000	35.7
11 September 2009	Emperor Entertainment Group Limited	8078	5	6-month HIBOR + 2	0.00	100,000	35.5
8 September 2009	Value Convergence Holdings Limited ⁽⁴⁾	821	2	1	2.04	600,000	61.8

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Date of announcement	Company	Stock Code	Interest rate per annum (year)	Term	Premium/ (Discount) of the conversion price over/(to) closing price per share on the last trading day prior to announcements in relation to the respective issue of convertible notes/ bonds/debentures (%)	Amount raised HK\$'000	% dilution to existing shareholders upon full conversion (%)
28 August 2009	Jackin International Holdings Limited	630	2	15	27.6	50,000	16.4
26 August 2009	Paradise Entertainment Limited ⁽⁵⁾	1180	2	6	25.00	40,000	17.0
24 August 2009	Golden Meditech Company Limited ⁽⁶⁾	801	5	3	(10.70)	117,800	7.2
24 August 2009	Sewco International Holdings Limited	209	2	3	8.57	250,000	59.6
20 August 2009	China Strategic Holdings Limited	235	0.5	Nil	(65.52)	7,800,000	97.1
18 August 2009	China Properties Investment Holdings Limited	736	2	Nil	(38.54)	600,000	62.7
10 August 2009	Star Cruises Limited	678	7	7.5	(18.12)	1,163,000	12.2
6 August 2009	Lonking Holdings Limited	3339	5	Nil	22.16	1,046,000	6.5
6 August 2009	Fulbond Holdings Limited	1041	3	Nil	(74.36)	800,000	86.1
4 August 2009	South Sea Petroleum Holdings Limited	76	3	6	51.96	171,000	16.7
Minimum			0.5	Nil	(74.36)	25,000	6.0
Max			7	15	51.96	7,800,000	97.1
Average			3.27	2.82	(4.31)	963,263	30.9
2 November 2009	Company	869	5	2	256	232,500	37.7

Notes:

1. inclusive of the optional convertible bonds of an aggregate principal amount of RMB340 million, as it forms part of the same subscription agreement.
2. inclusive of the option convertible bonds of an aggregate principal amount of up to HK\$155 million, as it is under the same subscription agreement.
3. inclusive of the optional convertible bonds of a maximum principal amount of up to HK\$150 million, as it forms part of the same bond instrument.
4. inclusive of the optional convertible bonds of an aggregate principal amount of up to HK\$300 million, as it forms part of the same bond instrument.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. inclusive of the additional convertible notes in the aggregate principal amount of HK\$20 million, as such subscription contemplated under the same subscription agreement.
6. inclusive of the bonus warrants attached to the convertible bonds entitling the holder(s) thereof to subscribe for up to 29,002,098 shares, as the aforesaid bonus warrants form part of the subscription agreements in relation to the convertible bonds.

Based on the Table C above, Table D below categorises the Comparables with reference to the principal terms and maturity profile:

Table D: Comparables profile table

Number of Comparables	Interest rate (%)	Maturity (years)	Early redemption at par/no early redemption	Early redemption at premium ⁽¹⁾	Range of early redemption premium ⁽¹⁾
8	Zero coupon	0.5-6	4	4 ^(2 & 4)	0.25% – 30.0%
11	0.1% to 5%	2-5	8 ^(6 & 7)	3 ^(2, 3 & 5)	0.25% – 3.6%
4	5.1% or above	2-7	4	0	–
1	Floating/variable rates	5	1	0	–

Notes:

1. inclusive of redemption at the option of the listed issuer and the holders of the convertible bonds/notes/debentures.
2. inclusive of comparable(s) of which the early redemption premium(s) are of an amount, calculated with reference to the principal amount of the relevant convertible bonds/notes/debentures, which represent for the holders of the convertible bonds/notes/debentures a gross yield of a pre-determined percentage per annum.
3. inclusive of a comparable of which the early redemption premium is of an amount equal to the sum of (a) the aggregate principal amount of the relevant convertible bonds to be redeemed, (b) the amount of interest accrued on the aggregate principal amount of such convertible bonds from the last interest payment date up to and including the relevant early redemption date, and (c) the additional amount of (simple) interest accrued on the principal amount of such convertible bonds commencing on the issue date in respect of such convertible bonds and calculated at a pre-determined rate per annum up to and including the relevant early redemption date.
4. other than a specific period which such convertible bonds can be redeemed by the listed issuer at 0.25% premium over the principal amount of such convertible bonds, the convertible bonds will be redeemed at 100% of its outstanding principal amount.
5. inclusive of a comparable of which, within three months immediately after the issue of the convertible bonds, such convertible bonds can be redeemed by the listed issuer at 0.25% premium over its the principal amount, other than the aforesaid period, such convertible bonds will be redeemed at 100% of its outstanding principal amount.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. inclusive of a comparable of which the convertible bonds are redeemable at par unless one of the following events occur: (i) a change of control; (ii) delisting of the listed issuer or suspension of the shares of the listed issuer for a continuous period of more than 20 trading days; or (iii) an event of default (as defined in the relevant bond instrument).
7. inclusive of a comparable in which the listed issuer may at any time elect to repurchase in whole or in part at a price agreed between the listed issuer and the holder of such convertible bonds.

(a) *the Conversion Price*

We note from Table C above that the conversion prices of the Comparables range from a discount of approximately 74.4% to a premium of approximately 52.0% with an average of a discount of approximately 4.3% to the respective closing prices of their shares on the last trading day prior to the release of announcements in relation to the respective issue of convertible notes/bonds/debentures.

As the Subscription Agreement was entered into on 29 October 2009, the terms of the Convertible Bonds (including the Conversion Price) were agreed prior to the issue of the Announcement. Following the resumption of trading of the Shares on 2 November 2009 after the issue of the Announcement, the price of the Shares has increased from the closing price of HK\$0.218 as at the Last Trading Day to the level of the closing share price of the Shares as at the Latest Practicable Date was HK\$1.10, which represents a premium of approximately 41.9% over the Conversion Price.

At the time of the entering of the Subscription Agreement, neither the Company or PHL could know the price level of the Shares after the Announcement. There is no certainty of the present level of the Share price being sustainable. The Directors are of the view as that both the Company and PHL were negotiating the terms of the Subscription Agreement with reference to the then available information, including the historical price and trading level of the Shares, the terms of the Subscription Agreement (including the Conversion Price) were negotiated at arm's length basis.

In view of the foregoing and in particular, the Conversion Price, which represents (i) a premium of approximately 21.1% over the Historic Highest Closing Price; and (ii) a premium of approximately 256% over the closing price per Share as at the Last Trading Day, which is significantly above the highest conversion price premium of the Comparables, we are of the opinion that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) *Interest rate, maturity and redemption*

Based on the analysis as per Table C, the 2% coupon interest rate attached to the Convertible Bonds is within range of the coupon interest rates of the Comparables, being from nil% to 15%, and is below the average of approximately 2.8%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the event that the Company makes early repayment of all or part of the outstanding sums under the Convertible Bonds at any time during two years from the date of issue of the relevant Convertible Bond, the Company shall pay to the holder of such Convertible Bond each time upon any such early repayment a sum equal to 1% of the principal amount under the Convertible Bond so repaid. Based on our analysis, the aforesaid premium charged in the event of early redemption is within range of the Comparables' early redemption premiums, being from nil% to 30% premium, to their respective principal amount of the convertible note/bond/debenture.

(c) Default interest rate

From our discussion with the management of the Group, we understand that the default rate of 8% was negotiated with reference to the market norm of default rates charge by financial institutions.

Given (i) the coupon interest rate of the Convertible Bonds falls within the range of the Comparables and is below the average interest rate of the Comparables; (ii) the early repayment of the Convertible Bonds (within two years from the date of issue of the relevant Convertible Bond) at a premium of 1% of the principal amount under the Convertible Bond so repaid is within range of the Comparables, and (iii) the default rate is based on market norm of default rate on loans from financial institutions, we are of the view that the interest rate and the early repayment arrangement of the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) *Dilution effect on the shareholding interests of the existing public Shareholders*

The shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company upon full conversion of: (i) the First Convertible Bond, and (ii) the First Convertible Bond and the Second Convertible Bond, respectively, are and will be as follows:

Table E: Potential dilution effects on shareholding interests

Shareholders	Shareholdings as at the Latest Practicable Date		Shareholding after full conversion of: (i) the First Convertible Bond; and (ii) the First Convertible Bond and the Second Convertible Bond, (assuming no adjustment to the Conversion Price and no further issue of Shares as at the Latest Practicable Date, save and except the Conversion Shares)	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
PHL Group	271,275,044	54.80	(i) 471,275,044 (ii) 571,275,044	(i) 67.81 (ii) 71.86
Mr. Chan and TGC	76,600,000	15.47	(i) 76,600,000 (ii) 76,600,000	(i) 11.02 (ii) 9.63
Other Directors	9,033,388	1.83	(i) 9,033,388 (ii) 9,033,388	(i) 1.30 (ii) 1.14
Public Shareholders	138,091,568	27.90	(i) 138,091,568 (ii) 138,091,568	(i) 19.87 (ii) 17.37
Total	<u>495,000,000</u>	<u>100.0</u>	(i) <u>695,000,000</u> (ii) <u>795,000,000</u>	(i) <u>100.00</u> (ii) <u>100.00</u>

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Notes:

1. The above shareholding structures are based on the assumption that there is no exercise of the subscription rights attaching to the outstanding share options of the Company and there is no further issue of the Shares (other than the Conversion Shares). As at the Latest Practicable Date, the Company has outstanding share options granted by the Company to the Directors, employees of the Group and other participants pursuant to the share option scheme adopted on 25 January 2008, entitling the grantees to subscribe for a maximum of 11,362,000 Shares. Such share options are exercisable in stages in accordance with the terms of the share option scheme within ten years from the date of the grant.
2. As at the Latest Practicable Date, the total number of issued Shares is 495,000,000, and the PHL Group holds 271,275,044 Shares (or approximately 54.80% of the entire issued share capital of the Company). Assuming: (i) full conversion of the First Convertible Bond by the PHL Group at the Conversion Price of US\$0.10 per Conversion Share; and (ii) there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 471,275,044 Shares will be held by the PHL Group, representing approximately 67.81% of the number of Shares in issue as enlarged by the issue of the Conversion Shares, and an aggregate of 547,875,044 Shares will be held by the PHL Group, Mr. Chan, TGC and their respective associates, representing approximately 78.83% of the number of Shares in issue as enlarged by the issue of the Conversion Shares. Assuming: (i) full conversion of the First Convertible Bond and the Second Convertible Bond by the PHL Group at the Conversion Price of US\$0.10 per Conversion Share; and (ii) there is no further issue of the Shares (other than the Conversion Shares), an aggregate of 571,275,044 Shares will be held by the PHL Group, representing approximately 71.86% of the number of Shares in issue as enlarged by the issue of the Conversion Shares, and an aggregate of 647,875,044 Shares will be held by the PHL Group, Mr. Chan, TGC and their respective associates, representing approximately 81.49% of the number of Shares in issue as enlarged by the issue of the Conversion Shares. In order to ensure sufficient public float of the Shares upon any conversion of the Convertible Bonds, the Convertible Bonds contain a term that any such conversion shall not result in the shareholding of the Company held by the public being less than the then minimum public float requirement as stipulated by the Listing Rules at the time of such conversion.
3. PIL Toys may exercise the conversion rights in respect of all or any part of the outstanding principal amounts under the First Convertible Bond and the Second Convertible Bond at the same time or different times.
4. Based on the assumptions in note 2 above and for information purpose only, upon full conversion of the First Convertible Bond and the Second Convertible Bond, the PHL Group will acquire an additional shareholding interest of approximately 17.06% in the Company.

As shown in Table C above, the shareholding dilution effect of the Comparables ranges from approximately 6.0% to 97.1% with an average of approximately 30.9%. Under the Proposed Issue, the shareholding interests of the existing public Shareholders would be diluted by a maximum of approximately 37.7% after full conversion of the Convertible Bonds, which is within the range of dilution effect of the Comparables.

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Taking into account, (i) the reasons for the Proposed Issue; (ii) the terms of the Proposed Issue (including tenure, Conversion Price, coupon interest rate and redemption features) and those of the Comparables; and (iii) the dilution effect of the Convertible Bonds which falls within the range of those of Comparables, we are of the view that the level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

From the perspective of PHL as the sole subscriber of the Convertible Bonds, we understand from the management of the Company that by providing considerable funding flexibility to the Company including the early repayment right, an up-front commitment to facilitate a future drawdown of the Second Convertible Bond, and to set the Conversion Price at a premium to the historical highest traded price of the Shares, PHL demonstrated its commitment to the future of the Group and correspondingly required the Company to commit to the issue of the First Convertible Bond and the Second Convertible Bond as an integrated financing package. Having regard to this and aforesaid analysis of the terms of the Convertible Bonds, we concur with the view of the Directors that the Subscription Agreement and the transactions contemplated therein are on normal commercial terms and considered to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

5. Expected financial effects of the Proposed Issue

Liquidity and working capital

As stated in the “Letter from the Board”, the proceeds from the issue of the Convertible Bonds will be applied towards general working capital of the Group which is to be used for the operations of its existing toy and related businesses and future development. Upon the issue of the Convertible Bonds, the current assets of the Group would increase by the relevant drawdown amount.

Net asset value

As set out in Interim Report, the net asset value of the Group was approximately HK\$93.5 million as at 30 June 2009. As advised by the Company, the Convertible Bonds to be issued by the Company will be accounted for in two separate components on the Company’s balance sheet, including a liability and an equity component on initial recognition. The liability component will be included on the balance sheet of the Company, while the total assets will increase by the net proceeds of the Proposed Issue. The net effect of the aforesaid will be the increase in the net asset value, which is represented by the corresponding increase in the equity component on the Company’s balance sheet. Hence, there will be a positive impact on the net asset value of the Group upon the issue of the Convertible Bonds.

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Gearing

As set out in Interim Report, the Group had bank and other borrowings of approximately HK\$35.0 million and was in a net cash position of approximately HK\$14.3 million at 30 June 2009, the gearing ratio (defined as total bank and other borrowings less cash and bank balances over Shareholders' fund) of the Group was therefore nil. As advised by the Company, upon completion of the Proposed Issue, the total bank and other borrowings will be increased by the issue of Convertible Bond(s), therefore the gearing ratio will increase. Upon conversion of the Convertible Bond(s), the total bank and other borrowings will decrease whilst the Shareholders' fund will increase as a result of the issue of Conversion Shares, consequently the gearing ratio will decrease.

Taking into account (i) the reasons for the Proposed Issue and the possible benefits of the Proposed Issue to the Group; (ii) the Proposed Issue will provide the Group a significant amount of working capital of up to US\$30 million; (iii) the enhancement on the net asset value upon the issue of the Convertible Bonds as mentioned above, we are of the view that the expected financial effects of the Proposed Issue are in the interests of the Company and its Shareholders as a whole.

V. RECOMMENDATION

As confirmed by the Board, we understand that the Board considers that the entering into of the Subscription Agreement is not in the ordinary and usual course of business. However, the Board considers that the intended application of proceeds as described in the "Letter from the Board" to be in the ordinary and usual course of business for the Group.

Having considered the above principal factors, namely (i) the background to and reasons for and the terms of the Subscription Agreement and (ii) the Proposed Issue and the terms of the Convertible Bonds being on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the intended application of the proceeds under the Proposed Issue to be in the ordinary and usual course of business for the Group, we also consider that the Subscription Agreement and the transactions completed therein are in the interests of the Group and the Shareholders as a whole. Therefore, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour for the ordinary resolution to approve the Proposed Issue and the transactions therein at the SGM.

Yours faithfully,

For and on behalf of

Access Capital Limited

Alexander Tai

Principal Director

Jimmy Chung

Principal Director

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 Proposed Issue. 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 and underlying shares of equity derivatives of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate (Note (a))	347,875,044 ordinary shares	70.28%
NOVAK, Lou Robert	Personal	5,303,388 ordinary shares	1.07%
TO Shu Sing, Sidney	Personal	3,730,000 ordinary shares	0.75%

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	6,892,000 ordinary shares	3.08%
	Corporate (Note (b))	89,708,000 ordinary shares	40.06%
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 <i>(ordinary shares)</i>	Percentage interest held
CHAN Chun Hoo, Thomas	Corporate <i>(Note (b))</i>	16,784,400 warrants	16,784,400 shares	7.50%
NOVAK, Lou Robert	Personal	260,677 warrants	260,677 shares	0.12%
	Personal	3,300,000 share options	3,300,000 shares	1.47%
TO Shu Sing, Sidney	Personal	372,000 warrants	372,000 shares	0.17%
	Personal	307,500 share options	307,500 shares	0.14%

Notes:

- (a) Mr. Chan is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 76,600,000 shares of the Company in aggregate which TGC is interested in. Since TGC directly owns approximately 40.06% 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 is the beneficial owner of all of the issued share capital of TGC and is therefore deemed to be interested in the 89,708,000 shares and 16,784,400 warrants of PHL in aggregate which TGC 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 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, persons (other than the Directors) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
TGC	Corporate (Note (a))	347,875,044 ordinary shares	70.28%
PHL	Corporate (Note (b))	271,275,044 ordinary shares	54.80%
Playmates International Limited	Corporate (Note (b))	271,275,044 ordinary shares	54.80%
PIL Investments Limited	Corporate (Note (b))	271,275,044 ordinary shares	54.80%
PIL Toys	Corporate	271,275,044 ordinary shares	54.80%

Notes:

- (a) TGC directly owns approximately 40.06% 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 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 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 are 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 has any interest, direct or indirect, in any assets which have been, since 31 December 2008, 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. 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.

7. EXPERT QUALIFICATION AND CONSENT

The following is the qualification of the expert who has made statement in this circular:

Name	Qualification
Access Capital Limited	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Access Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/opinion and references to its name in the form and context in which they are included.

8. EXPERTS' INTERESTS

As at the Latest Practicable Date,

- (a) Access Capital Limited did not have any direct or indirect interest in any asset which had since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) Access Capital Limited was not beneficially interested in the share capital of any member of the Group or did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. 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 2008, being the date to which the latest published audited financial statements of the Group was made up.

10. 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) The Company's branch share registrars and transfer office in Hong Kong is Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. 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 letter from the Board, the text of which is set out on pages 5 to 15 of this circular;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 35 of this circular;
- (d) the Subscription Agreement;
- (e) the written consent from Access Capital Limited referred to in the section headed “Expert Qualification and Consent” in this appendix; and
- (f) this circular.

**PLAYMATES TOYS LIMITED****彩星玩具有限公司****(Incorporated in Bermuda with limited liability)*

(Stock Code: 869)

NOTICE IS HEREBY GIVEN that a special general meeting (“SGM”) of Playmates Toys Limited (“**Company**”) will be held at Four Seasons Ballroom, 2/F., Renaissance Kowloon Hotel Hong Kong, 22 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 3 December 2009 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution of the Company as an Ordinary Resolution:

ORDINARY RESOLUTION**“THAT**

- (i) the Subscription Agreement entered into between the Company as the issuer and PIL Toys, an indirect wholly-owned subsidiary of PHL, as the subscriber for the issue of the Convertible Bonds in the aggregate principal amount of US\$30 million to PIL Toys convertible up to 300 million Conversion Shares in total at the Conversion Price of US\$0.10 per Conversion Share within five years from the date of issue of the Convertible Bonds (a copy of the Subscription Agreement having been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder, including, without limitation, (a) the issue of the Convertible Bonds and (b) the issue of new Shares by the Company pursuant to the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved, confirmed and ratified and any director be and is hereby authorized to make such changes or amendments to the Subscription Agreement and to execute other documents in relation thereto as such director, in his absolute discretion, deems fit;
- (ii) the Directors be and are hereby authorized to issue the Convertible Bonds and allot and issue such number of Shares fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds on and subject to the terms and conditions contained in the Subscription Agreement (“**Specific Mandate**”) and THAT the Specific Mandate shall be in addition to, and shall not prejudice or revoke the existing general mandate granted to the Directors by the Shareholders in the annual general meeting of the Company held on 12 May 2009 or such other general or specific mandate(s) which may from time to time be granted to the Directors; and

* *For identification purpose only*

- (iii) the Directors be and are hereby authorised to take all steps and to do all such acts and things, to sign and execute all such further documents as the Directors may in their absolute discretion consider necessary, desirable or expedient to implement and/or give effect to or in connection with the Subscription Agreement and all the transactions contemplated thereunder.

Capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 17 November 2009, unless the context requires otherwise.”

By order of the Board
Ng Ka Yan
Company Secretary

Hong Kong, 17 November 2009

Notes:

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