2007 PLAYMATES TOYS

annual report

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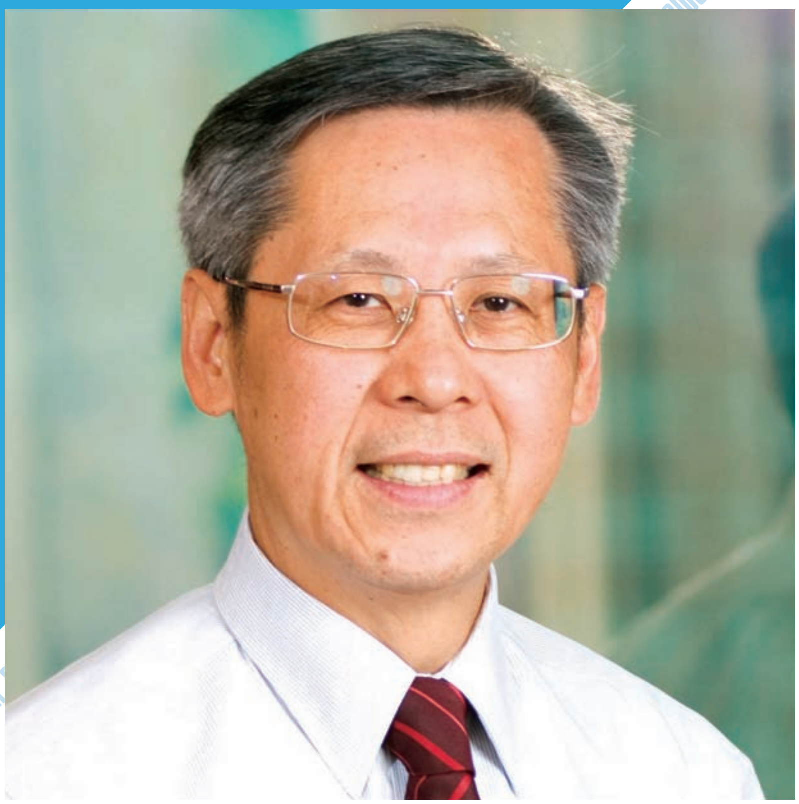
STATEMENT
from the chairman



2007 was a year of challenges for Playmates Toys. Faced with rising costs, a slowing U.S. economy and industry product recalls, our sales and profits were below expectations. In spite of these challenges, we continued to pursue our growth strategy by investing in acquisition of licensed properties, the development of proprietary product lines and category expansion.

A milestone accomplishment in 2007 was the successful spin-off of the Company from Playmates Holdings Limited and our listing on the Hong Kong Stock Exchange. Among the benefits that will result from the listing are: the enhancement of our business profile with major customers and licensors, the increased opportunity to secure new major entertainment licenses, the ability to provide a more direct means of incentivizing executives and staff, and the availability of new sources of capital to implement our strategic plans.

As we enter our 42nd year in business with a new corporate identity, it is with the dedication and commitment of our employees and our business partners that Playmates Toys continues to be an important player in the global toy business. Our history is filled with successes, while our future holds new potentials. On behalf of the board of directors, I want to thank our shareholders, employees, and business partners for their continued support.

CHAN Chun Hoo, Thomas
Chairman of the board
Hong Kong, 10 March 2008

BUSINESS REVIEW
and prospects

Group turnover for the year ended 31 December 2007 was HK$909 million (2006: HK$1,128 million). Operating loss was HK$69 million (2006: operating profit was HK$28 million), and net loss attributable to shareholders was HK$34 million (2006: net profit attributable to shareholders was HK$23 million). Basic loss per share was HK cents 6.78 (2006: earnings per share was HK cents 4.69).

In 2007, the toy industry was affected by several high profile product recalls resulting from concerns over product safety. Despite the fact that Playmates Toys has always been committed to full compliance with industry standard testing and thus maintained an excellent safety record for over four decades, U.S. sales were significantly affected by general market concerns over those widely publicized product recalls. The major impact on Playmates Toys U.S. business was felt in the fourth quarter, the prime holiday season, which normally accounts for approximately 50% of annual sales.

Toy manufacturers and retailers, as well as certain government bodies, have responded in various ways, principally by instigating more stringent and more frequent testing requirements. Accordingly, Playmates Toys has implemented additional testing procedures and is working with its suppliers to meet its continued commitment to provide high quality, safe toys.

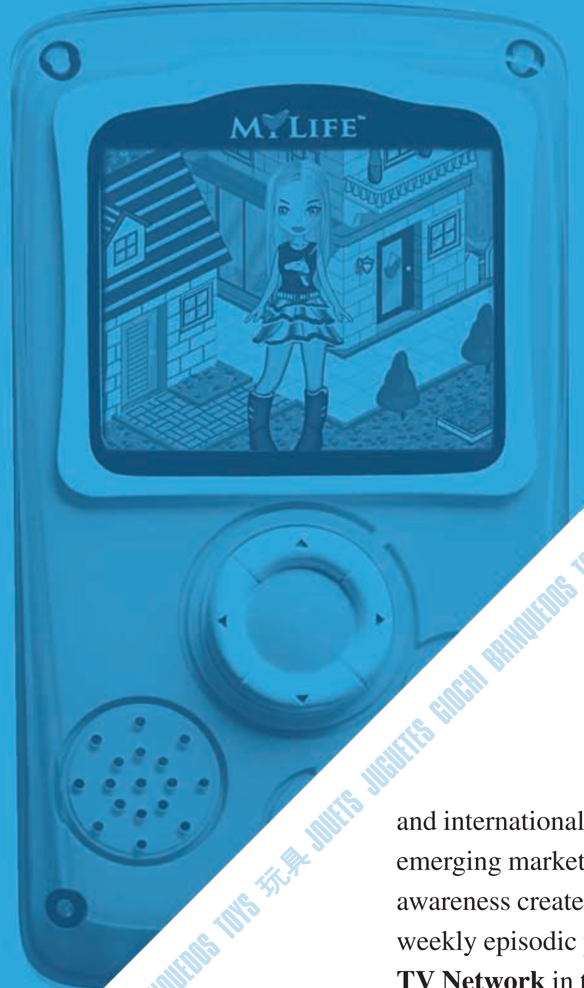
The toy industry experienced another year of negative growth in 2007. U.S. toy retail sales were down by 2% compared to 2006. Global sales for Playmates Toys were down by 19% compared to 2006; due to lower U.S. sales, which were only partially offset by strong growth in the other non-U.S. markets. Although U.S. sales were below anticipated levels, sales in the non-U.S. markets continued to grow, as 2007 was another year of expansion of our extensive distributor network and saw the development of new markets; with emerging markets figuring prominently in the growth of our business outside the U.S. During the fourth quarter of the year, in response to the negative general market concerns in the U.S. over the product recalls, Playmates Toys focused on reducing inventory exposure at the expense of potential incremental sales opportunities. These efforts resulted in our continuing brands experiencing a clean sell through and being well positioned for 2008.

The Group recorded a loss of HK$34 million for the year. Profitability was significantly affected by the decline in U.S. sales and strong cost pressures from China manufacturers. Escalating raw materials, labor and other input costs combined with the introduction of new testing requirements in China resulted in increased product cost, and negatively impacted our gross profit. Margins were also adversely affected by the higher proportion of lower margin sales to international distributors when compared to the reduced level of direct to customer sales, at higher domestic margins in the U.S. This shift in the mix of sales resulted in lower overall gross margins. Increased non-recurring professional expenses associated with our public listing further burdened profitability.

Playmates Toys growth strategy continues to focus on portfolio expansion and category diversification, while simultaneously exploring new strategic opportunities. In 2007, several major new licenses were acquired and two new products lines were developed in the targeted youth electronics category that will contribute to growth in future. Playmates Toys is actively engaged in expanding its presence beyond toy merchandising. Its longer term strategy calls for building on established partnerships in specific emerging regions outside the U.S., including the growing potential in China and Eastern Europe, to more fully exploit growth in toys sales and non toy merchandising opportunities. A further building block will be the creation, acquisition and development of intellectual property to support our merchandising efforts. Supplementing our internal growth strategy, we look to identify and acquire complementary product lines and companies that can contribute to the overall growth of our business.

Boys Toys

Playmates Toys' evergreen core action figure brand **Teenage Mutant Ninja Turtles** delivered impressive growth behind the March 2007 release of "T.M.N.T.: The Movie"; in a year of strong competition from other major male action properties. The movie had a measurable impact on revitalizing and growing the brand in 2007, as we experienced sales growth in the U.S.,



and internationally, in both established and emerging markets. Building on the brand awareness created by the theatrical release, weekly episodic programming on **4Kids Fox TV Network** in the U.S. and major networks outside the U.S., contributed to the brand's resurgence. In 2007, the brand experienced sales growth with a clean retail sell through and is well positioned with broad retail support for 2008. New **TMNT** episodic TV programming is being introduced in 2008.

Eon Kid, an action-packed animated T.V. series airing on **Warner Brothers** Network in the U.S., brings Playmates Toys another opportunity to expand its action figure portfolio in 2008. **Eon Kid** has an empowering young hero, a strong "good vs. evil" storyline, and all the key elements to translate to a broad toyetic action figure line.

Girls Toys

In 2007, Playmates Toys girls' business encountered competitive pressures that impacted our doll sales. Overall the U.S. retail sales for the doll category were down by 8% when compared to 2006. **Disney Princess** and **Strawberry Shortcake** brands performed, but sales fell short of plan due primarily to the difficult fourth quarter retail environment. In the 4th quarter, retailers adopted a conservative inventory posture and focused only a select number of top brands, causing traditional brands, like **Disney Princess** and **Strawberry Shortcake**, to experience compressed sales. In 2008, these brands will be an integral part of Playmates Toys continuing business, with new product introductions and key promotional drivers. **Popples**, a new plush line from **American Greetings** met with limited success in the U.S., but was well received in major European markets. **Popples** will continue as an international brand in 2008. Despite the weakness experienced in the girls business in the U.S., internationally the **Disney Princess, Strawberry Shortcake** and Playmates interactive plush products: **Cold Nose Puppy, Love 'n Licks Puppy** and **Love 'N Blush Puppy**, all experienced strong growth in 2007.

In 2007, Playmates Toys introduced a new line of products based on characters and environments featured in **Disney Fairies**, a new **Disney** Global Brand initiative. With new entertainment and broad promotional efforts planned for fall 2008 and beyond, there are high expectations, and a renewed interest by retailers.

In select markets, other new brands introduced in late 2007 and early 2008 included **Land Before Time**, a line of licensed preschool toys based on the classic animation franchise, and **Struts**, a proprietary brand designed to capture girls' affection for ponies.

New Categories

Category expansion, a strategic growth initiative, is realized in 2008 with the introduction of two new product lines in the youth electronics segment. Playmates Toys will introduce "**Draw and Dream**", a proprietary, extendable platform aimed at creating a fully interactive art studio experience. The product line will be supported by a broad array of popular licensed software titles including **Batman, Scooby Doo, Hello Kitty, Madagascar II, Kung Fu Panda** and **Shrek**. The new platform provides hours of entertainment with a 4-in-1 play function that allows kids to draw it, create it, make it and play it. Each cartridge comes with licensed music and tutorials to help kids draw, create, make and play with their favorite characters and games.

"**My Life**", a portable virtual experience targeted at the female "tween" market, is Playmates Toys' second platform introduction. The base handheld unit offers a large, color LCD screen and comes with a preprogrammed virtual world to explore with your personalized and customized avatar. The goal is to keep your avatar happy and healthy, by playing games, doing chores, working, or going to school to collect points, which then allows you to go shopping, buy and care for a pet, buy a vehicle, travel and experience many other adventures. It's like your second life, on the go, in the palm of your hand.

Playmates Toys is back in the "**Star Trek**" business. Twelve years after a strong 7-year run we are again part of the organization reinventing the franchise for a new generation. The **Star Trek** franchise affords us the opportunity to provide both mass and collector based product to a broader age demographic. With a solid foundation of consumer awareness, and a loyal fan base, (40 years, 10 movies, 6 TV series and extensive merchandising track record) **Star Trek** is positioned for another multi-year run. **Paramount Studios** has Hollywood's most talented at the movie's helm including the writers of **Transformers**, JJ Abrams directing (the creator of **Lost** and **Alias**) and ILM special effects. It's an early summer 2009 release date that offers Playmates a solid three quarters of sales in 2009.

“**Terminator**” is considered a cultural icon and part of our vernacular with a three movie franchise (1984, 1991 and 2003) now spanning 24 years with over US$1 billion in box office revenue worldwide. Playmates Toys has acquired worldwide master toy rights to the latest film. With **Terminator Salvation** having an expected first time PG-13 rating and a **Warner Bros**. summer 2009 film release, we believe that we are well situated to capture substantial toy and collector business.

Playmates Toys is consistently pursuing its long-term growth strategy by investing in entertainment-driven properties, franchise acquisition, the development of proprietary intellectual property and category expansion. In addition to the two highly popular, heritage entertainment franchises that will drive strong business in 2009 and 2010, **Star Trek** and **Terminator**, on the television front we have acquired **Yugioh**!, a brand that has generated over US$5 billion in retail sales over the last five years and which is introducing a new episodic TV series on the **Warner Brothers** TV Network, starting Fall 2008. The Company’s TV roster for boy’s action in 2009 and 2010 also includes **Dinosaur King**, a **Sega** property with a highly-rated TV series currently being broadcast in major markets, including the U.S. and **Huntik**, an animated action-series from **Rainbow Studios** and **Upper Deck**, launching TV programming in spring 2009 on the **Warner Brothers** TV Network. On the girls’ front, continued development of branded broad based proprietary and entertainment driven extendable product lines in dolls and plush remains a strategic priority. We continue our alliance with **Disney**, with expectations that **Disney Fairies** will become a major franchise with worldwide appeal, driven by a slate of exceptional entertainment.

The building of strategic alliances continues as a key initiative for the Company. We have developed partnerships with **Microsoft, Upper Deck, 4Kids, Giochi Preziosi**, and most recently **Sega** and **Konami**, that will provide a strong footing for Playmates Toys to acquire and develop new licenses and continue to build all our businesses.

The Stock Exchange of Hong Kong Limited approved the application of Playmates Holdings Limited, the ultimate holding company, to spin-off the Company in July 2007, and approved the application of the Company for a separate listing in January 2008. Public trading of the shares of the Company commenced on 1 February 2008.

Biographical details of directors and senior management are shown below:

Directors

CHAN Chun Hoo, Thomas

Chairman and Executive director

Mr. Chan, age 57, joined the Group in 1967. He has been the principal driving force behind the growth, global expansion and diversification of the Group's business activities into multiple segments and markets. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHOW Yu Chun, Alexander

Independent non-executive director

Mr. Chow, age 60, was appointed to his current position in July 2007 when he joined the Group. He is a fellow of The Association of Chartered Certified Accountants of the United Kingdom and a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow was formerly an independent non-executive director of Playmates Holdings Limited and resigned from this appointment in December 2007. Mr. Chow is also a director of New World China Land Limited, Top Form International Limited and Yu Ming Investments Limited.

LEE Ching Kwok, Rin

Independent non-executive director

Mr. Lee, age 59, was appointed to his current position in July 2007 when he joined the Group. He has over 30 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is a solicitor admitted to practise in Hong Kong and England and Wales. He also serves as an adviser to a number of private companies and organizations.

Directors (Continued)

NOVAK, Lou Robert

Executive director and President

Mr. Novak, age 60, joined the Group in 2001. Prior to joining the Group, he held a number of senior management positions at major toy companies including Mattel, Hasbro, Galoob and Coleco. As a veteran of the toy industry and with broad senior executive management experience in a number of leading companies, he brings with him a wealth of diverse business experience, outstanding management skills and a comprehensive understanding of the consumer products, and the entertainment and retail industries.

SOONG, Ronnie

Executive director and President of Asian operations

Mr. Soong, age 61, joined the Group in 2000. Prior to joining the Group, he held several Asian based senior management positions with U.S. toy companies including Hasbro, Galoob & Ertl. He has 30 years of experience in the toy industry and brings with him a wide range of business and management experience and expertise. Mr. Soong manages the entire Asia operations in all facets of product development, engineering, sourcing and manufacturing activities in Hong Kong and the PRC.

YANG, Victor

Independent non-executive director

Mr. Yang, age 62, was appointed to his current position in July 2007 when he joined the Group. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, Solicitors, Hong Kong SAR and he is also a qualified lawyer in Canada and the United Kingdom. Mr. Yang has over 30 years experience in legal practice primarily in the areas of corporate finance and commercial law, mergers, acquisitions and taxation. He is presently a governor of the Canadian Chamber of Commerce, a member of the Major Sports Events Committee of the Home Affairs Bureau, Hong Kong SAR and a director of the Hong Kong Foundation for UBC Limited and was a board member of the Canadian International School in Hong Kong. Mr. Yang is also a director of Lei Shing Hong Limited, Ming Pao Enterprise Corporation Limited, China Agri-Industries Holdings Limited and Eupa International Corporation.

Senior management

ROSTEN, Arthur Steven

Mr. Rosten, age 60, Chief Financial Officer, joined the Group in 2006. Prior to joining the Group, he held a number of senior management and ownership positions at both public and private companies in the U.S. and Europe, including AMDL Inc., Group Equus and Nexia International. With 22 years of experience in the accounting profession and over 16 years of commercial experience, he brings a broad array of financial planning and reporting, corporate governance, operations and strategic planning to the Group. He is a CPA and a registered member of the American Institute of Certified Public Accountants.

CHANDA, Ed

Mr. Chanda, age 54, Senior Vice President of Operations, joined the Group in 1991. Prior to joining the Group, he held senior management positions in buying and merchandising with Hills Department Stores. He brings 30 years of supply chain and retail management experience to the Group. Mr. Chanda is responsible for product forecasting, inventory commitment and distribution operations for the U.S. market.

FARBANISH-ROTTER, Lori

Ms. Farbanish-Rotter, age 45, Vice President of Design and Development of Girls Toys, joined the Group in 2000. She holds a degree in illustration and graphic design. Prior to joining the Group, she held senior positions in giftware design for Russ Berrie Company as well as toy design for Mattel where she specialized in Disney licensed products. Her extensive knowledge of the Disney universe of classic characters has been instrumental in the development and expansion of the Group's licensed Disney brands. She has 23 years of experience in toy industry.

GIOIA, Lou

Mr. Gioia, age 62, Senior Vice President of Marketing and Product Development, joined the Group in 2005. He brings over 30 years of experience in senior management, marketing and product development gained during his tenure with major toy companies including Kenner Toys, Mattel and Toy Biz. He oversees the marketing and product development functions of the Group.

JACOBS, Phil

Mr. Jacobs, age 57, Senior Vice President of Sales, joined the Group in 2002. Prior to joining the Group, he held senior sales management positions with leading U.S. toy companies including Mattel and Tiger Electronics. With over 30 years of toy industry sales experience, he has developed strong working relationships with senior merchandising executives at all major U.S. retailers.

Senior management (Continued)

MAYER, André Lake

Ms. Mayer, age 47, Vice President of Strategic Alliances and Business Development, joined the Group in 2006. She brings with her two decades of experience and a wealth of knowledge in the licensing and consumer products arena worldwide, with affiliations such as Lucasfilm, Paramount Pictures and Turner Classic Movies. She has developed and launched thousands of products into the marketplace in conjunction with the promotion, marketing, retail and licensee management and brand development for major entertainment franchises including Star Trek and Star Wars. Ms. Mayer leads the effort to identify and secure strategic growth opportunities for the Group through acquisitions of new licenses for entertainment franchises and new technologies and inventions.

MITSCHELE, Herb

Mr. Mitschele, age 30, Vice President of International Sales and Marketing, joined the Group in 2002. His responsibilities included managing the licensing and international business development, in conjunction with the Chief Operating Officer of the Company. In 2006, he was promoted to Vice President of International Sales and Marketing and is currently responsible for managing all international third party distribution for the Company. Prior to joining the Group, Mr. Mitschele held positions in marketing and international sales with Mattel and ToyQuest.

Company Secretary

NG Ka Yan

Ms. Ng, age 33, Company Secretary, joined the Group in 2000. She graduated from The University of Hong Kong with a Bachelor of Laws degree and was admitted to practise as solicitor in Hong Kong in 1999. Ms. Ng has over 9 years of experience in the legal field. She also holds a Master of Business Administration degree from The Hong Kong University of Science and Technology. She is also the Company Secretary of Playmates Holdings Limited.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2007.

Principal Activities and Geographical Analysis of Operations

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

An analysis of the Group's performance for the year by geographical segments is set out in note 3 to the financial statements.

Major customers and suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	34%
– five largest suppliers in aggregate	80%
Sales	
– the largest customer	23%
– five largest customers in aggregate	57%

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the major suppliers or customers noted above.

Change of Company Name

Pursuant to a shareholders' resolution passed on 12 January 2007, the name of the Company had been changed from Playmates Limited to Playmates Toys Limited to better reflect the nature of the business of the Company.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 36.

The directors do not recommend the payment of a final dividend.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 40. Movements in the reserves of the Company during the year are set out in note 22(b) to the financial statements.

Distributable reserves of the Company at 31 December 2007, calculated under the Companies Act 1981 of Bermuda, amounted to HK$125,998,000 (2006: HK$nil).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 18 to the financial statements.

Liquidity and financial resources

The toy business is inherently seasonal in nature. In general, sales in the second half-year are much higher than those in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling season. As at 31 December 2007, trade receivables were HK$179,272,000 (2006: HK$353,212,000) and inventories were at a seasonal low level of HK$33,274,000 or 3.7% of turnover (2006: HK$49,353,000 or 4.4% of turnover).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2007 was 0.0% compared to 10.4% at 31 December 2006. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.7 at 31 December 2007 compared to 1.6 at 31 December 2006.

The Group maintains a level of cash and available credit that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2007, the Group's cash and bank balances were HK$81,995,000 (2006: HK$90,541,000).

The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range.

Employees

As at 31 December 2007, the Group had a total of 122 employees in Hong Kong, the Mainland China and the United States of America. This compares to 115 employees as at 31 December 2006.

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

Contingent Liabilities

Details of the Group's contingent liabilities are set out in note 24 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2007 are set out in note 18 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,470,000 (2006: HK$802,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 22(a) to the financial statements.

Acquisition of an associated company

The Group acquired a 49% interest in the share capital of Unimax Holdings Limited at a nominal amount of HK$1 from an intermediate holding company. Details of the acquisition are set out in note 14 to the financial statements.

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 76.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

REPORT OF THE DIRECTORS

Directors

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

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)* (appointed on 11 July 2007)
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)* (appointed on 11 July 2007)
Mr. NOVAK, Lou Robert *(Executive Director)* (appointed on 11 July 2007)
Mr. SOONG, Ronnie *(Executive Director)* (appointed on 11 July 2007)
Mr. TO Shu Sing, Sidney *(Deputy Chairman and Executive Director)* (resigned on 17 December 2007)
Mr. YANG, Victor *(Independent Non-executive Director)* (appointed on 11 July 2007)

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Chan Chun Hoo, Thomas and Mr. Soong, Ronnie retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company considers such directors to be independent.

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

A Share Option Scheme ("Scheme") was adopted on 25 January 2008. No option has been granted up to the date of this report. Details of the Scheme are as follows:

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 10 March 2008	:	Not applicable
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.

Share Options (Continued)

The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Scheme	:	Remains in force until 24 January 2018.

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

As at 31 December 2007, the Company had not received any notice of interest to be recorded under section 352 of the Securities and Futures Ordinance ("SFO") as the shares of the Company had not been listed on the Stock Exchange as at that date.

Immediately following the listing of the Company and up to the date of this report, 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 Companies 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 interests held
CHAN Chun Hoo, Thomas	Beneficial owner	1,000,000 ordinary shares	0.20%
	Interest of controlled companies *(Note (a))*	358,983,044 ordinary shares	72.52%
NOVAK, Lou Robert	Beneficial owner	1,303,388 ordinary shares	0.26%
SOONG, Ronnie	Beneficial owner	354,600 ordinary shares	0.07%

Directors' Interests and Short Positions in Shares and Underlying Shares of the Company or Any Associated Corporation (Continued)

Long positions in shares of Playmates Holdings Limited ("PHL")

Name of director	Nature of interest	Number of shares held	Percentage interests held
CHAN Chun Hoo, Thomas	Beneficial owner	1,292,000 ordinary shares	0.58%
	Interest of a controlled company *(Note (b))*	87,708,000 ordinary shares	39.20%
NOVAK, Lou Robert	Beneficial owner	1,303,388 ordinary shares	0.58%
SOONG, Ronnie	Beneficial owner	354,600 ordinary shares	0.16%

Notes:

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

(b) Mr. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of AIL, and is therefore deemed to be interested in the 87,708,000 shares in aggregate which Angers Investments Limited is interested in.

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interests held
NOVAK, Lou Robert	Beneficial owner	3,300,000 share options	3,300,000 shares	1.48%
SOONG, Ronnie	Beneficial owner	219,900 share options	219,900 shares	0.10%

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 up to the date of this report.

As at 31 December 2007, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company Required to be Recorded Under Section 336 of the SFO

As at 31 December 2007, the Company had not received any notice of interest to be recorded under section 336 of the SFO as the shares of the Company had not been listed on the Stock Exchange as at that date.

Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company Required to be Recorded Under Section 336 of the SFO (Continued)

Immediately following the listing of the Company and up to the date of this report, persons (other than the directors of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Nature of interest	Number of shares held	Percentage interests held
AIL	Beneficial owner	87,708,000 ordinary shares	17.72%
	Interest of a controlled company *(Note (a))*	271,275,044 ordinary shares	54.80%
PHL	Interest of a controlled company *(Note (b))*	271,275,044 ordinary shares	54.80%
Playmates International Limited	Interest of a controlled company *(Note (b))*	271,275,044 ordinary shares	54.80%
PIL Investments Limited	Interest of a controlled company *(Note (b))*	271,275,044 ordinary shares	54.80%
PIL Toys Limited	Beneficial owner	271,275,044 ordinary shares	54.80%

Notes:

(a) AIL directly owns approximately 39.20% of the shareholding of PHL, and is therefore deemed to be interested in the 271,275,044 shares in aggregate which PHL is interested in.

(b) Playmates International Limited is a wholly owned subsidiary of PHL; PIL Investments Limited is a wholly owned subsidiary of Playmates International Limited; and PIL Toys Limited is a wholly owned subsidiary of PIL Investments Limited. PHL, Playmates International Limited and PIL Investments Limited are therefore deemed to be interested in the 271,275,044 shares in which PIL Toys Limited is beneficially interested in.

Pre-emptive Rights

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

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted on 17 December 2007.

The primary duties of our audit committee are to assist our board to provide an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, to oversee the audit process, and to perform other duties and responsibilities as assigned by the board.

Our audit committee comprises three independent non-executive directors, namely, Mr. Chow Yu Chun, Alexander, Mr. Lee Ching Kwok, Rin and Mr. Yang, Victor. The chairman of our audit committee is Mr. Chow Yu Chun, Alexander.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules since the Company's listing on 1 February 2008 ("Listing Date").

Auditors

Moores Rowland were appointed as auditors of the Company on 17 December 2007.

The auditors, Moores Rowland, formerly known as Moores Rowland Mazars, changed their name on 1 June 2007 and combined their practice with Grant Thornton. As a result of this change, the directors proposed to appoint Grant Thornton as auditors of the Company at the forthcoming annual general meeting.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 10 March 2008

Corporate Governance Practices

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance.

Since the Group was part of PHL prior to listing, the Group has inherited PHL's good corporate governance practices. Adhering to the inherent corporate values of integrity and diligence and persisting with a sound principle of corporate governance system, the Company will continue its efforts to improve its own corporate governance framework on an ongoing basis.

The Company has applied the principles and complied with all the applicable code provisions ("Code Provisions") of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules since the Listing Date.

The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

Board of Directors

The board of directors of the Company currently comprises:

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. SOONG, Ronnie *(Executive Director)*
Mr. YANG, Victor *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and three non-executive directors. All the non-executive directors are independent representing half of the board. One independent non-executive director possesses appropriate professional accounting qualifications and financial management expertise. Biographies of the members of the board of directors of the Company are shown on pages 7 to 8 of this annual report and are also maintained on the Company's website.

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

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

The role of the Chairman is separate from that of the President of the Group with clear division of responsibilities. Mr. Chan Chun Hoo, Thomas, the Chairman of the Group, focuses on Group strategy and is responsible for chairing and managing the efficient operation of the board and ensuring that all key issues are considered by the board in a timely manner. Mr. Novak, Lou Robert, the President of the Group, supported by the senior management, is responsible for running of the business operations of the Group.

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

All directors will be regularly updated on governance and regulatory matters. Procedure for directors will be established enabling them to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance cover in respect of any potential legal actions that might be taken against its directors.

Board of Directors (Continued)

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

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

The board held one meeting since the Listing Date. Regular board meetings will be held at least four times a year and the board will convene other meetings when necessary. Details of directors' attendance at the board and board committees meeting since the Listing Date and up to the date of this report are set out in the following table.

Directors	No. of meetings attended/held		
	Board	Audit Committee	Compensation Committee
CHAN Chun Hoo, Thomas	1/1	N/A	N/A
CHOW Yu Chun, Alexander	1/1	1/1	0/0
LEE Ching Kwok, Rin	1/1	1/1	0/0
NOVAK, Lou Robert	1/1	N/A	N/A
SOONG, Ronnie	0/1	N/A	N/A
YANG, Victor	1/1	1/1	0/0
Average Attendance Rate	**83%**	**100%**	**N/A**

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007. The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the auditors' report on pages 34 to 35 of this annual report.

Board Committees

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

Audit Committee

The Audit Committee was established in July 2007 and its current members include:

CHOW Yu Chun, Alexander – *Committee Chairman*
LEE Ching Kowk, Rin
YANG, Victor

All of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in December 2007, a copy of which is posted on the Company's website.

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2007.

Since the Listing Date and up to the date of this report, the Audit Committee met once on 10 March 2008 to review this report, the Directors' Report and the financial statements for the year ended 31 December 2007 together with the annual results announcement, with a recommendation to the board of directors for approval.

Board Committees (Continued)

Compensation Committee

The Compensation Committee was established in July 2007 and its current members include:

YANG, Victor – *Committee Chairman*
CHOW Yu Chun, Alexander
LEE Ching Kowk, Rin

All of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall policy and structure for the remuneration of directors and senior management. The terms of reference of the Compensation Committee were adopted in December 2007, a copy of which is posted on the Company's website.

The Compensation Committee will meet to determine the policy for the remuneration of directors and assess the performance of executive directors and members of senior management. Since the Listing Date and up to the date of this report, the Compensation did not hold any meeting.

Remuneration Policy for Non-executive Directors and Executive Directors

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

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 11(a) to the financial statements.

Group Compensation Policy

It is the Company's policy to ensure that compensation is appropriate and aligns with the corporate goals, objectives and performance. The current group compensation policy is illustrated below:

Objectives

- to provide an equitable and competitive compensation package so as to attract and retain the best available human resources to serve corporate needs;
- to provide a package of compensation to the employees that is competitive in the industry and takes account of general market condition;
- to reward employees for good individual and corporate performance; and
- to encourage future employee contributions to achieve overall corporate goals.

Components

The compensation package for each employee is structured in a way to attract and retain the best talents available, and will contain a combination or modification of some or all of the following three main components:

I. Base salary
   - Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for the person filling the position is determined based on the experience and ability of the individual selected for the position.
   - The base salary and wage rate ranges are reviewed periodically with reference to the prevailing market level and similar positions of competitors in the relevant industry. The actual salaries and wage rates of employees are reviewed annually and may be adjusted from time to time based on the cost of living and financial performance of the Company.

Board Committees (Continued)

Compensation Committee (Continued)

Group Compensation Policy (Continued)

- Salaries and wages are base compensation and not intended to reward performance, either individually or corporately. Performance is rewarded through the other components of the compensation plan.

II. Incentive bonus

- Incentive bonus is linked to individual and corporate performance. Every year, profitability and other corporate performance targets are set and incentive bonuses will only be paid for that year if the targets are achieved.

- The incentive bonus for each employee is determined with reference to his position and his individual performance during the year.

III. Stock option

- Options to purchase shares in the Company are granted to employees from time to time at the discretion of the board, in order to retain valuable human resources and to motivate future performance of the employees.

- Stock options granted to individual employees are determined with reference to their positions, their performance and ability to contribute to the overall corporate success.

- The granting of stock options is subject to shareholders' mandates as required and all other applicable laws and regulations of the relevant jurisdictions.

IV. Other benefits

- In addition to the above three main components, the Group offers other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing industry practices in the relevant jurisdictions.

Top Paid Employees

The following table summarizes compensation information for the three most highly compensated executive officers, excluding directors, of the Group for the year ended 31 December 2007:

Name of officer	Salary	Performance bonus	Other benefits	Employer's contribution to provident fund	Share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*
ROSTEN, Arthur Steven	2,015	195	183	92	70	2,555
JACOBS, Phil	1,919	–	202	87	120	2,328
GIOIA, Lou	1,867	–	143	75	–	2,085

Note: Other benefits include car allowance and insurance premium.

Directors' Securities Transactions

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

Directors' Interest

Details of directors' interests in the securities of the Company are set out in page 17 of this annual report.

Internal Controls

The board has overall responsibility for maintaining an adequate system of internal controls of the Company and for reviewing its effectiveness. The board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Company's assets. The board will conduct an annual review of the system of internal controls which covered all relevant financial, operational, compliance controls and risk management functions within an established framework.

Internal Controls (Continued)

The internal control process is accomplished by the board, management and other designated personnel, and designed to provide reasonable assurance regarding the achievement of objectives.

Since the Group was part of PHL before listing, PHL has implemented an internal control system for years for all its operating subsidiaries including the Group and conducted regular review on the system. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations. Relying on the established internal control practices, the Company is committed to continue to adopt and maintain an effective internal control and risk management systems.

Since 2005, independent consultants were hired by PHL to perform reviews on the system of internal controls of the Group. The principal purpose of the review was to obtain sufficient knowledge of the control environment to understand the attitude of management and the governing body, awareness and actions concerning the factors of the control environment. The approach adopted for the assessment is based on those set by the COSO (the Committee of Sponsoring Organisations of the Treadway Commission), a globally recognised framework which categorizes internal controls into the following five components as the basis of reviewing its effectiveness:

1. *Control Environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

2. *Risk Assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed.

3. *Information and Communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

4. *Control Activities* are the policies and procedures that help to ensure management's directives are carried out.

5. *Monitoring* is a process that assesses the quality of internal control performance over time.

After listing, the Company will continue to engage external independent professionals to review its system of internal controls regularly and independently and to further enhance its internal controls as appropriate. The independent consultants will update the board periodically on the progress of their review on the internal controls of the Group.

Control Effectiveness

Pursuant to a testing and monitoring report for the year ended 31 December 2007 submitted by the independent consultants engaged by PHL, the consultants reported that no material control failings, weaknesses or significant areas of concern were identified during their review. The directors are satisfied with the effectiveness of the Group's internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it is more cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Auditors' Remuneration

For the year ended 31 December 2007, the remuneration of the auditors in respect of the audit services and non-audit services rendered for the listing of the Company were HK$1,600,000 and HK$4,060,000 respectively.

In order to maintain their independence, normally the auditors will not be employed for non-audit work unless prior approval is obtained from the Audit Committee.

Investor Relationship and Communication

The Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts will be conducted regularly. The Company is committed to maintain an open and effective investor communication policy and to update investors on relevant information on its business on a timely manner, subject to relevant regulatory requirements.

The Company is aware of its obligations under the Listing Rules that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision. The Company takes extreme

Investor Relationship and Communication (Continued)

precautionary measures in the handling of price-sensitive information and has in place a Memorandum on Disclosure of Price Sensitive Information (which includes the Guide on Disclosure of Price-sensitive Information issued by the Stock Exchange in 2002) for its senior management and other staff member who is in a position to have access to price-sensitive information. Members of the board and other relevant senior management who have access to price-sensitive information are bound by the Model Code for securities transaction of the Company's securities and that of any related companies.

In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the executive directors and designated person according to established practices and procedures of the Company.

The Company will announce its annual and interim results and send relevant financial statements to shareholders in a timely manner before the time limits set out in the Listing Rules. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. In addition, procedures for demanding a poll are included in the circular to shareholders dispatched together with the annual report.

The annual general meeting may provide an opportunity for communication between the board and the shareholders of the Company. The Company regards the annual general meeting as an important event in which the Chairman and all directors will make an effort to attend.

The Company has also maintained a website at http://www.playmatestoys.com which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis. Financial information and all shareholder corporate communications of the Company are made available on the Company's website and will be updated regularly.

Shareholders' Rights

Pursuant to the Bye-laws of the Company, shareholders holding at the date of deposit of the requisition not less than 10% of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the board or the secretary of the Company, to require a special general meeting to be called by the board for the transaction of any business specified in such requisition.

In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at annual general meetings and special general meetings will be passed by poll. The poll results will be published in the website of the Company and that of the Stock Exchange on the same date of the meetings.

Business Ethics

The Company is committed to a high standard of business ethics and integrity.

During the year the Group has developed a new Code of Business Conduct for employees in order to further strengthen its business ethical practices. This Code of Business Conduct sets out specific principles, policies and practices covering key ethics issues and identifies the risk areas that the employees may encounter in performing their duties. The Company expects that its business partners would act ethically and in a manner consistent with this Code.

The Group has also developed a Code of Business Conduct for its manufacturing vendors and suppliers. All the vendors and suppliers of the Group are required to maintain a safe and healthy workplace, fair and ethical employment practice and ensure that proper environmental protection measures are in place. The Group also closely monitors its operations so that the relevant codes of conduct stipulated by our major licensors and customers are strictly followed by our manufacturing vendors and suppliers.

The Company has a worldwide reputation in the toy industry for product quality and safety. Children's health, safety and well being are our primary concern and the Company is committed to observing all relevant safety and product quality rules.

Social Responsibility

The Group has joined other leading companies in the toy industry to develop a common standard of business conduct for the toy manufacturing community to promote a safe and healthy workplace, fair and ethical employment practice, and proper environmental protection measures.

The Group was awarded a Platinum Award by The Community Chest under The Corporate and Employee Contribution Programme 2007/2008. Employees are encouraged to have direct and active involvement in fundraising activities for the needs of the community.

Family Members and Close Personal Relationships

The board recognises that talents, relevant experience and skills are the most important considerations in executive officers and staff selection. It is the Group's policy that job positions are filled by suitably qualified candidates selected through internal promotions or from the open market on the merits of qualification, experience, skills and achievements. No employee is hired on account of family or close personal connection to any board member.

Moores Rowland

Chartered Accountants
Certified Public Accountants

701 Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

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

We have audited the financial statements of Playmates Toys Limited (the "Company") set out on pages 36 to 75, which comprise the consolidated and Company balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong
10 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 US$'000 (Note 29)	2007 HK$'000	2006 HK$'000
Turnover	3	**116,542**	**909,030**	1,127,997
Cost of sales		**(64,483)**	**(502,967)**	(586,826)
Gross profit		**52,059**	**406,063**	541,171
Marketing expenses		**(31,535)**	**(245,976)**	(296,536)
Selling, distribution and administration expenses		**(27,425)**	**(213,919)**	(216,662)
Restructuring expenses	2(a)	**(1,912)**	**(14,913)**	–
Operating (loss)/profit	4	**(8,813)**	**(68,745)**	27,973
Non-operating income/(expenses)				
Interest expense and bank charges	5	**(523)**	**(4,079)**	(5,877)
Other revenue	3	**601**	**4,688**	5,131
(Loss)/profit before taxation		**(8,735)**	**(68,136)**	27,227
Taxation credit/(charge)	6	**4,430**	**34,551**	(4,033)
(Loss)/profit attributable to shareholders	7	**(4,305)**	**(33,585)**	23,194
Dividend	8	**4,700**	**36,660**	–
		US cents	*HK cents*	*HK cents*
(Loss)/earnings per share	9			
Basic		**(0.87)**	**(6.78)**	4.69

The notes on pages 41 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 US$'000 (Note 29)	2007 HK$'000	2006 HK$'000
Non-current assets				
Property, plant and equipment	12	**723**	**5,642**	5,904
Interest in an associated company	14	**3,217**	**25,090**	–
Deferred tax assets	21	**11,762**	**91,747**	80,077
		15,702	**122,479**	85,981
Current assets				
Inventories	15	**4,266**	**33,274**	49,353
Trade receivables	16	**22,983**	**179,272**	353,212
Other receivables, deposits and prepayments		**9,430**	**73,556**	59,759
Amount due from a fellow subsidiary	17	**32**	**246**	244
Amount due from an intermediate holding company	17	**167**	**1,303**	93
Taxation recoverable		**385**	**3,005**	1,043
Cash and bank balances	23(b)	**10,512**	**81,995**	90,541
		47,775	**372,651**	554,245
Current liabilities				
Bank loans	18	**–**	**–**	66,500
Trade payables	19	**9,472**	**73,881**	91,041
Other payables and accrued charges		**11,652**	**90,889**	122,976
Amount due to a fellow subsidiary	17	**1,012**	**7,892**	–
Amount due to the ultimate holding company	17	**346**	**2,702**	19,942
Provisions	20	**4,589**	**35,798**	49,260
Taxation payable		**317**	**2,472**	755
		27,388	**213,634**	350,474
Net current assets		**20,387**	**159,017**	203,771
Total assets less current liabilities		**36,089**	**281,496**	289,752
Non-current liabilities				
Deferred tax liabilities	21	**31**	**240**	181
Net assets		**36,058**	**281,256**	289,571
Capital and Reserve				
Share capital	22(a)	**635**	**4,950**	93
Reserves		**35,423**	**276,306**	289,478
Total equity		**36,058**	**281,256**	289,571

On behalf of the board

CHAN Chun Hoo, Thomas
Director

NOVAK, Lou Robert
Director

The notes on pages 41 to 75 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2007

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

On behalf of the board

CHAN Chun Hoo, Thomas
Director

NOVAK, Lou Robert
Director

The notes on pages 41 to 75 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

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

The notes on pages 41 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital *HK$'000*	Capital reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2006	93	110,540	155,744	266,377
Total recognised income and expense for the year:				
Profit for the year	–	–	23,194	23,194
At 31 December 2006	93	110,540	178,938	289,571

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

The notes on pages 41 to 75 form an integral part of these financial statements.

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal office is 21/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. In the opinion of the directors, the ultimate holding company of the Company is PHL, which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

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

2 Summary of Significant Accounting Policies

(a) Basis of presentation

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

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

2 Summary of Significant Accounting Policies (Continued)

(b) Basis of preparation

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

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

HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 22(c).

HKFRS 7 – Financial Instruments: Disclosures

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

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

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

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

Notes:

1 Effective for annual periods beginning on or after 1 January 2009

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

(c) Basis of preparation of the financial statements

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

The consolidated financial statements have been prepared under the historical cost convention.

(d) Group accounting

(i) Consolidation

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

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

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

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

(ii) Associated companies

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

2 Summary of Significant Accounting Policies (Continued)

(d) Group accounting (Continued)

(ii) Associated companies (Continued)

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

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

(e) Property, plant and equipment

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

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

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

Leasehold improvements	5-10 years
Machinery, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

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

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

(f) Operating leases

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

(g) Inventories

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

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

(h) Trade and other receivables

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

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

(i) Impairment of assets

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

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

(j) Financial liabilities

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

2 Summary of Significant Accounting Policies (Continued)

(k) Current taxation

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

(l) Deferred taxation

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

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

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

(m) Revenue recognition

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

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

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

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

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

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

(o) Employee benefits

(i) Employee leave entitlements

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

(ii) Pension obligations

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

(iii) Share-based compensation

The Group's ultimate holding company operates an equity-settled, share-based compensation plan. Options had been granted to the employees of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding credit to the current account with the ultimate holding company. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the ultimate holding company revises the number of options that are expected to become exercisable. The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to the current account with the ultimate holding company.

(p) Borrowing costs

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

(q) Cash and cash equivalents

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

2 Summary of Significant Accounting Policies (Continued)

(r) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates; and

(c) all resulting exchange differences are recognised as a separate component of equity.

(s) Segment reporting

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

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and operating cash. Segment capital expenditure comprises additions to property, plant and equipment.

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

(t) Provisions

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

(u) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or the Group;
- has an interest in the Company that gives it significant influence over the Company or the Group;
- has joint control over the Company or the Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

3 Turnover, Revenue and Segment Information

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

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sales of toys	909,030	1,127,997
Other revenue		
Bank interest income	4,688	5,131
Total revenue	913,718	1,133,128

Business segments

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

Geographical segments

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

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

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

4 *Operating (Loss)/Profit*

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

	2007 ***HK$'000***	2006 *HK$'000*
Cost of inventories sold	**434,258**	522,981
Product development costs	**24,668**	22,073
Royalties paid	**93,370**	102,488
Provision for customer concession *(Note 16)*	**12,304**	14,823
Unutilised provision for customer concession *(Note 16)*	**(1,301)**	(1,656)
Reversal of provision for doubtful debts *(Note 16)*	**(1,591)**	–
Provision for customer and supplier claims *(Note 20)*	**42,661**	52,288
Unutilised provision for customer and supplier claims *(Note 20)*	**(2,097)**	(3,133)
Depreciation of property, plant and equipment	**2,678**	2,810
Staff costs, including directors' remuneration *(Note 10)*	**85,047**	84,503
Operating leases expense on office and warehouse facilities	**10,289**	12,987
Loss on disposal of property, plant and equipment	**97**	69
Auditors' remuneration	**1,600**	1,380

5 Interest Expense and Bank Charges

	2007 HK$'000	2006 HK$'000
Interest on bank loans and overdrafts, wholly repayable within five years	**118**	1,337
Bank charges	**3,961**	4,540
	4,079	5,877

6 Taxation Credit/(Charge)

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Overseas, mainly the U.S., taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profit. The tax rate for federal tax is 34% (2006: 35%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2006: 8.46%).

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

	2007 HK$'000	2006 HK$'000
Current taxation		
Hong Kong profits tax	**(1,934)**	(2,363)
Overseas taxation	**–**	(62)
Overseas tax refunded *(Note)*	**22,879**	–
Over/(under) provision in prior years – Hong Kong	**106**	(94)
Over provision in prior years – overseas	**1,889**	4,048
	22,940	1,529
Deferred taxation		
Origination and reversal of temporary differences	**11,611**	(5,562)
	34,551	(4,033)

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

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

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

(b) The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the U.S. as follows:

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

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

7 (Loss)/Profit Attributable to Shareholders

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

8 Dividend

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

Directors do not recommend the payment of final dividend.

9 (Loss)/Earnings Per Share

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

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

10 Staff Costs

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

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

11 Emoluments of the Directors and the Five Highest Paid Individuals

(a) Directors' emoluments

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

Name of director	Fee 2007 *HK$'000*	Salary 2007 *HK$'000*	Bonus 2007 *HK$'000*	Share-based compensation 2007 *HK$'000*	Other benefits 2007 *HK$'000* *(Note)*	Employer's contribution to provident fund 2007 *HK$'000*	Toal 2007 *HK$'000*
CHAN Chun Hoo, Thomas	10	–	–	–	–	–	10
CHOW Yu Chun, Alexander	47	–	–	–	46	–	93
LEE Ching Kwok, Rin	47	–	–	–	46	–	93
NOVAK, Lou Robert	5	3,715	–	1,839	202	103	5,864
SOONG, Ronnie	5	2,408	–	153	57	12	2,635
YANG, Victor	47	–	–	–	46	–	93
	161	6,123	–	1,992	397	115	8,788

11 Emoluments of the Directors and the Five Highest Paid Individuals (Continued)

(a) Directors' emoluments (Continued)

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

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

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

(b) Five highest paid individuals' emoluments

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

	2007 *HK$'000*	2006 *HK$'000*
Salaries, other allowances and benefits in kind	6,329	7,153
Share-based compensation	265	305
Performance bonus	195	421
Employer's contribution to provident fund	179	206
	6,968	8,085

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

	Number of individuals	
	2007	2006
HK$		
2,000,001 – 2,500,000	2	1
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	–	1
	3	3

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

12 Property, Plant and Equipment – Group

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

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

13 Investment in Subsidiaries – Company

	2007 *HK$'000*	2006 *HK$'000*
Unlisted shares, at cost	**147,380**	–
Amount due to a subsidiary	**(23)**	–
	147,357	–

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

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Shares held indirectly:				
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	100%	Provision of services and trading, Hong Kong
Playmates Toys China Limited	The People's Republic of China	HK$1,000,000 registered capital	100%	Provision of services, PRC
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	100%	Toy development, marketing and distribution, U.S.A.
Playmates Toys International Limited	Hong Kong	1 ordinary share of US$1	100%	Toy distribution in non-U.S. markets, Hong Kong

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

14 Interest in an Associated Company – Group

	2007 HK$'000	2006 HK$'000
Share of net assets	**25,090**	–

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

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

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

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

Summary financial information of associated company

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit HK$'000
2007					
100 per cent	**78,317**	**27,112**	**51,205**	**139,588**	**7,369**
Group's effective interest	**38,375**	**13,285**	**25,090**	**68,398**	**3,611**

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

15 Inventories – Group

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

16 Trade Receivables – Group

	2007 HK$'000	2006 HK$'000
Trade receivables	**185,494**	363,363
Less: Allowance for customer concession	**(6,222)**	(8,560)
Provision for doubtful debts	**–**	(1,591)
	179,272	353,212

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

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. The following is an aging analysis of trade receivables at the balance sheet date:

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

16 Trade Receivables – Group (Continued)

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

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

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

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**178,693**	343,652
1 – 90 days past due	**535**	7,917
91 – 180 days past due	**12**	1,299
Over 180 days past due	**32**	344
	179,272	353,212

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

17 Amount Due from/to Related Companies – Group and Company

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

18 Bank Loans – Group

	2007 HK$'000	2006 HK$'000
Unsecured bank loan repayable within one year	–	66,500

All bank loans were denominated in HK dollars.

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

19 Trade Payables – Group

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

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

20 Provisions – Group

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

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

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

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

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

21 Deferred Taxation – Group

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

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

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**79,896**	85,458
Credited/(charged) to income statement	**11,611**	(5,562)
At 31 December	**91,507**	79,896

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

Deferred tax liabilities	**Accelerated tax depreciation**	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**(94)**	(270)
(Charged)/credit to income statement	**(49)**	176
At 31 December	**(143)**	(94)

21 Deferred Taxation – Group (Continued)

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

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

	2007	2006
	HK$'000	*HK$'000*
Deferred tax assets	**91,747**	80,077
Deferred tax liabilities	**(240)**	(181)
	91,507	79,896

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

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

22 Capital and Reserves

(a) Share Capital

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

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

Notes:

(i) At 31 December 2006 and 1 January 2007, both the authorised share capital and the issued and fully paid share capital of the Company were US$12,000 represented by 12,000 shares of US$1 each, which were then redenominated and subdivided into 9,360,000 shares of HK$0.01 each in December 2007;

(ii) The authorised share capital was increased from HK$93,600 to HK$30,000,000 by the creation of an additional 2,990,640,000 shares of HK$0.01 each; and

(iii) 485,640,000 shares of HK$0.01 each were issued to PIL Toys Limited, the then immediate sole shareholder of the Company, as payment of dividend.

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

22 Capital and Reserves (Continued)

(b) Reserves

Company

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

Nature and purpose of reserves

Company

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

Group

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

(c) Capital Management

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

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

The debt to equity ratio defined and calculated by the Group as total bank borrowings expressed as a percentage of total equity, at 31 December 2007 was 0% compared to 23% at 31 December 2006.

23 Notes to the Consolidated Cash Flow Statement

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

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

23 Notes to the Consolidated Cash Flow Statement (Continued)

(b) Analysis of cash and cash equivalents

	2007	2006
	HK$'000	*HK$'000*
Cash and bank balances	**81,995**	90,541

(c) Significant non-cash transaction

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

24 Contingent Liabilities

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

25 Commitments

Licensing commitments

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

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

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

26 Operating Lease Arrangements

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

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**6,209**	7,731
In the second to fifth years inclusive	**7,372**	11,548
	13,581	19,279

27 Related-party Transactions

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

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

27 Related-party Transactions (Continued)

Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's executive directors and the highest paid employees as disclosed in note 11, is as follows:

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

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

Corporate guarantees

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

Trademark

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

28 Post Balance Sheet Event

In January 2008, PHL underwent a spin-off of toy business by way of distribution ("Spin-Off by way of Distribution") which involved the spin-off of the Company and its subsidiaries. The Spin-Off by way of Distribution was carried out by way of a distribution in specie of approximately 45% of the entire issued share capital of the Company to the shareholders of PHL. Following the Spin-Off by way of Distribution, the Company obtained a separate listing of its shares on The Stock Exchange of Hong Kong Limited by way of introduction on 1 February 2008. PHL continues to be the ultimate holding company of the Company as it holds the remaining approximately 55% of the entire issued share capital of the Company not being distributed under the Spin-Off by way of Distribution. Details of the listing by introduction are set out in the listing document of the Company dated 31 December 2007.

29 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2007.

30 Financial Risk Management

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	**179,272**	353,212
Other receivables, deposits and prepayments	**73,556**	59,759
Amount due from a fellow subsidiary	**246**	244
Amount due from an intermediate holding company	**1,303**	93
Cash and bank balances	**81,995**	90,541
Financial liabilities		
Bank loans	–	66,500
Trade payables	**73,881**	91,041
Other payables and accrued charges	**90,889**	122,976
Amount due to a fellow subsidiary	**7,892**	–
Amount due to the ultimate holding company	**2,702**	19,942

(b) Financial risk factors

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

(a) Market risk

(i) Currency risk

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

30 Financial Risk Management (Continued)

(b) Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

At 31 December 2007, it is estimated that a sensitivity to a reasonable general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would not have impact on the Group's profit for the year (2006: increase/decrease by HK$332,000).

(b) Credit risk

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

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

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

Concentrations of Credit Risk

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

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

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

(c) Liquidity risk

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

The Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

(c) Fair value estimation

Fair values

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

31 Approval of Financial Statements

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

Financial Summary

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

	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**909,030**	1,127,997	1,277,607	1,282,662
(Loss)/profit before taxation	**(68,136)**	27,227	88,180	156,389
Taxation credit/(charge)	**34,551**	(4,033)	14,674	25,859
(Loss)/profit attributable to shareholders	**(33,585)**	23,194	102,854	182,248
Total assets	**495,130**	640,226	650,200	522,363
Total liabilities	**(213,874)**	(350,655)	(381,373)	(356,483)
Net assets	**281,256**	289,571	268,827	165,880

The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2006, 2005 and 2004 was prepared as if the current group structure had been in existence throughout these financial years according to the basis of presentation as set out in note 2(a) to the financial statements.

CORPORATE
information

Directors
CHAN Chun Hoo, Thomas (Chairman and Executive Director)
CHOW Yu Chun, Alexander (Independent Non-executive Director)
LEE Ching Kwok, Rin (Independent Non-executive Director)
NOVAK, Lou Robert (Executive Director)
SOONG, Ronnie (Executive Director)
YANG, Victor (Independent Non-executive Director)

Company Secretary
NG Ka Yan

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Chartered Accountants
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Legal Advisors
Conyers Dill & Pearman
Deacons

Principal Bankers
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Chong Hing Bank Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

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Branch Share Registrars
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Stock Code
The shares of Playmates Toys Limited are listed for trading on The Stock Exchange of Hong Kong Limited (Stock Code: 869)

Website
www.playmatestoys.com

Playmates Toys Limited
(Incorporated in Bermuda with limited liability)

(Stock code 869)

www.playmatestoys.com