

## ***Report of the Directors***

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The directors submit their report together with the audited accounts for the year ended 31 December 2005.

### ***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; and property investment and management business.

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

### ***RESULTS AND APPROPRIATIONS***

The results of the Group for the year are set out in the consolidated income statement on page 44.

The directors have declared an interim dividend of HK\$0.025 per ordinary share, totalling HK\$46,701,000, which was paid on 28 September 2005.

The directors recommend the payment of a final dividend of HK\$0.025 per ordinary share, totalling HK\$46,692,000.

### ***RESERVES***

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 49. Movements in the reserves of the Company during the year are set out in note 28 to the accounts.

Distributable reserves of the Company at 31 December 2005, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$293,829,000 (2004: HK\$417,625,000).

### ***FINANCIAL ANALYSIS***

#### ***Analysis of bank loans, overdrafts and other borrowings***

Particulars of the Group's utilised banking facilities are set out in note 22 to the accounts.

#### ***Liquidity and financial resources***

The toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are much higher than 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 2005, trade receivables related to toy operation were HK\$371,370,000 (2004: HK\$336,433,000) and inventories were at a seasonal low level of HK\$57,786,000 or 4.5% of turnover (2004: HK\$36,736,000 or 2.9% of turnover).

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### ***FINANCIAL ANALYSIS (Continued)***

#### ***Liquidity and financial resources (Continued)***

The property investment and management business generated a relatively steady income stream throughout the year. Approximately 98% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2005. Accounts receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2005 was 1.0% compared to 3.2% at 31 December 2004. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.1 at 31 December 2005 compared to 2.1 at 31 December 2004.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. The Group's cash on hand is kept mainly in interest-bearing banking accounts and deposits. After considering the operating cash flow and liquidity requirements, a portion of cash on hand may be invested from time to time in various types of financial instruments including fixed income, equity, derivatives and managed funds with a view to enhance overall return. The selection and allocation of such yield enhancement investments are regularly reviewed to ensure that an acceptable risk-and-return profile is maintained and the liquidity requirements of the Group are served. As at 31 December 2005, the Group's cash and bank balances were HK\$443,954,000 (2004: HK\$195,839,000), and the amount invested in various securities was HK\$260,216,000 (2004: HK\$222,020,000).

### ***EMPLOYEES***

As at 31 December 2005, the Group had a total of 138 employees in Hong Kong, the Mainland China and the United States of America. This compares to 121 employees as at 31 December 2004.

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 30 to the accounts.

### ***DONATIONS***

Charitable and other donations made by the Group during the year amounted to HK\$2,214,000 (2004: HK\$1,712,000).

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## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

## **PRINCIPAL PROPERTIES**

Details of the principal properties of the Group held for investment purposes are set out in note 13 to the accounts.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 27 to the accounts.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year, 5,344,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$0.98 to HK\$1.02 per share through The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The particulars of the repurchases are set out in note 27 to the accounts.

## **DIRECTORS**

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

### **Executive Directors**

Mr. Thomas CHAN Chun Hoo *Chairman*

Mr. Sidney TO Shu Sing

Mr. Alain CHENG Bing Kin (appointed on 2 March 2006)

### **Independent Non-executive Directors**

Mr. Allen LEE Peng Fei

Mr. Anthony LO Kai Yiu

Mr. David YU Hon To

Mr. Alexander CHOW Yu Chun (appointed on 2 March 2006)

### **Non-executive Directors**

Mr. TSIM Tak Lung *Deputy Chairman*

Mr. Charles IP Shu Wing

Pursuant to Bye-law 86(2) of the Company’s Bye-laws, Mr. Alain Cheng Bing Kin and Mr. Alexander Chow Yu Chun retire and offer themselves for re-election at the forthcoming annual general meeting.

## **Report of the Directors**

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### **DIRECTORS (Continued)**

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Allen Lee Peng Fei and Mr. Charles Ip Shu Wing 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 or 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 still 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**

Share options are granted to directors, employees and other eligible participants specified under a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") approved by shareholders of the Company at the Special General Meetings held on 4 May 1998 and 28 June 2002 respectively. Details of the Plan and the Scheme are as follows:

Purpose

: **Plan**

To attract, retain and motivate high calibre employees.

**Scheme**

- (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.

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Participants	<p>: <b>Plan</b> Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary).</p> <p><b>Scheme</b></p> <p>(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</p> <p>(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</p> <p>(iii) A company beneficially owned by any person/party mentioned in (i) above.</p>
Total number of ordinary shares available for issue under the Plan/Scheme and the percentage of issued share capital that it represents as at 2 March 2006	<p>: <b>Plan</b> 16,243,900 ordinary shares, representing 0.9% of the issued capital.</p> <p><b>Scheme</b> 65,701,100 ordinary shares, representing 3.5% of the issued capital.</p>
Maximum entitlement of each participant	<p>: <b>Plan</b> Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan.</p> <p><b>Scheme</b> 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.</p>
The period within which the ordinary shares must be taken up under an option	<p>: The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.</p>

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### SHARE OPTIONS (Continued)

The amount payable on acceptance of the option	:	<b>Plan</b> HK\$10.00
		<b>Scheme</b> 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	:	<b>Plan</b> Determined by the directors at their discretion, but will not be less than the higher of: <ul style="list-style-type: none"><li>(i) the nominal value of an ordinary share; and</li><li>(ii) the average (or, in the case of any person who owns ordinary shares possessing more than 10% of the total combined voting power of the ordinary shares of the Company or the shares of its parent or subsidiary corporations, 110% of the average) of the closing prices of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant.</li></ul>
		<b>Scheme</b> Determined by the directors and shall not be less than the highest of: <ul style="list-style-type: none"><li>(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;</li><li>(ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and</li><li>(iii) the nominal value of an ordinary share on the date of grant.</li></ul>
The remaining life of the Plan/Scheme	:	<b>Plan</b> Remains in force until 3 May 2008.
		<b>Scheme</b> Remains in force until 27 June 2012.

The followings show the particulars of the share options of the Company granted to directors of the Company and employees of the Group that were required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules during the year:

Participant	Date of grant	Exercise price HK\$	Balance at 1 January 2005	Granted during the year Note (1)	Number of options		Balance at 31 December 2005
					Exercised during the year Note (2) & Note (3)	Lapsed during the year	
<b>Plan</b>							
Sidney TO Shu Sing <i>Director</i>	26 August 1998	0.532	529,000	–	–	–	529,000
	27 May 1999	0.506	529,000	–	–	–	529,000
	20 October 1999	0.434	660,000	–	–	–	660,000
	22 July 2000	0.626	551,000	–	–	–	551,000
	21 May 2001	0.297	1,024,000	–	–	–	1,024,000
<i>Continuous Contract Employees, excluding Directors</i>	15 May 1998	0.532	1,728,600	–	500,000	–	1,228,600
	27 May 1999	0.506	512,700	–	200	–	512,500
	22 July 2000	0.626	1,395,200	–	137,400	–	1,257,800
	21 May 2001	0.297	2,866,400	–	1,061,900	8,500	1,796,000
	28 August 2001	0.294	8,163,000	–	–	–	8,163,000
<b>Scheme</b>							
Sidney TO Shu Sing <i>Director</i>	9 August 2002	0.199	1,200,000	–	–	–	1,200,000
	10 March 2003	0.550	1,200,000	–	–	–	1,200,000
	7 January 2004	1.360	1,200,000	–	–	–	1,200,000
	22 September 2005	1.206	–	1,500,000	–	–	1,500,000
Charles IP Shu Wing <i>Director</i>	22 September 2005	1.206	–	1,000,000	–	–	1,000,000
Allen LEE Peng Fei <i>Director</i>	9 August 2002	0.199	500,000	–	500,000	–	–
	22 September 2005	1.206	–	1,000,000	–	–	1,000,000
Anthony LO Kai Yiu <i>Director</i>	9 August 2002	0.199	1,000,000	–	750,000	–	250,000
	22 September 2005	1.206	–	1,000,000	–	–	1,000,000
TSIM Tak Lung <i>Director</i>	9 August 2002	0.199	250,000	–	250,000	–	–
	22 September 2005	1.206	–	1,000,000	–	–	1,000,000
David YU Hon To <i>Director</i>	9 August 2002	0.199	500,000	–	500,000	–	–
	22 September 2005	1.206	–	1,000,000	–	–	1,000,000
<i>Continuous Contract Employees, excluding Directors</i>	9 August 2002	0.199	7,424,000	–	3,524,000	24,000	3,876,000
	10 March 2003	0.550	9,548,500	–	2,434,000	454,500	6,660,000
	7 January 2004	1.360	14,079,600	–	386,500	1,803,000	11,890,100
	19 March 2004	1.240	11,000,000	–	–	–	11,000,000
	22 September 2005	1.206	–	21,902,000	–	–	126,000

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### **SHARE OPTIONS (Continued)**

*Notes:*

- (1) The closing price of the ordinary shares of the Company on 21 September 2005, being the trading day immediately before the date on which the share options were granted during the year, was HK\$1.190.
- (2) The weighted average closing prices of the ordinary shares of the Company immediately before the date(s) on which the options were exercised by Mr. Allen Lee Peng Fei, Mr. Anthony Lo Kai Yiu, Mr. David Yu Hon To and Mr. Tsim Tak Lung during the year were HK\$1.475, HK\$1.720, HK\$1.490 and HK\$1.260 respectively.
- (3) The weighted average closing price per ordinary share of the Company immediately before the dates on which the options were exercised by continuous contract employees, excluding directors, during the year was HK\$1.319.

The options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. No options were cancelled during the year.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## ***DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION***

As at 31 December 2005, the interests of each director and chief executive of the Company in the shares and underlying shares of equity derivatives of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

### ***Long position in shares***

<b>Name of director</b>	<b>Name of company</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage interests held</b>
Thomas CHAN Chun Hoo	Playmates Holdings Limited	Corporate <i>(Note (a))</i>	730,600,000 ordinary shares	39.12%
Sidney TO Shu Sing	Playmates Holdings Limited	Personal	9,360,000 ordinary shares	0.50%
Charles IP Shu Wing	Playmates Holdings Limited	Personal	18,400,000 ordinary shares	0.99%
	Nippon Toys Limited	Personal <i>(Note (b))</i>	1 share	50%
Allen LEE Peng Fei	Playmates Holdings Limited	Personal	500,000 ordinary shares	0.03%
Anthony LO Kai Yiu	Playmates Holdings Limited	Personal	2,390,000 ordinary shares	0.13%
TSIM Tak Lung	Playmates Holdings Limited	Personal	1,364,000 ordinary shares	0.07%
David YU Hon To	Playmates Holdings Limited	Personal & Corporate <i>(Note (c))</i>	5,300,000 ordinary shares	0.28%

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### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

#### Long position in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interests held
Thomas CHAN Chun Hoo	Corporate (Note (a))	146,400,000 warrants	146,400,000 shares	7.84%
Sidney TO Shu Sing	Personal	1,752,000 warrants	1,752,000 shares	0.09%
	Personal	8,393,000 share options	8,393,000 shares	0.45%
Charles IP Shu Wing	Personal	3,680,000 warrants	3,680,000 shares	0.20%
	Personal	1,000,000 share options	1,000,000 shares	0.05%
Allen LEE Peng Fei	Personal	50,000 warrants	50,000 shares	0.003%
	Personal	1,000,000 share options	1,000,000 shares	0.05%
Anthony LO Kai Yiu	Personal	478,000 warrants	478,000 shares	0.03%
	Personal	1,250,000 share options	1,250,000 shares	0.07%
TSIM Tak Lung	Personal	222,800 warrants	222,800 shares	0.01%
	Personal	1,000,000 share options	1,000,000 shares	0.05%
David YU Hon To	Personal	1,010,000 warrants	1,010,000 shares	0.05%
	& Corporate (Note (c))			
	Personal	1,000,000 share options	1,000,000 shares	0.05%

#### Notes:

- (a) 730,600,000 ordinary shares and 146,400,000 warrants of the Company were beneficially owned by Angers Investments Limited ("AIL"). All the issued share capital of AIL is beneficially owned by a private company which is in turn wholly-owned by Mr. Thomas Chan Chun Hoo.

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- (b) Mr. Charles Ip Shu Wing has a personal interest of one share in Nippon Toys Limited, an associated company of the Group.
- (c) 4,200,000 ordinary shares and 840,000 warrants of the Company were held by a private company which is 50% owned by Mr. David Yu Hon To and 50% owned by a member of his family.

All the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares as at 31 December 2005.

The warrants are exercisable at any time from 24 May 2005 to 23 May 2006, both dates inclusive, at an initial subscription price of HK\$2.03 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 20 May 2005.

Details of the share options held by the directors and chief executive of the Company are disclosed in the above section headed "Share Options".

As at 31 December 2005, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares and underlying shares of equity derivatives of the Company or any associated corporation.

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### **SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY REQUIRED TO BE RECORDED UNDER SECTION 336 OF THE SFO**

As at 31 December 2005, persons (other than the directors and chief executive 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**

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<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage interests held</b>
TIAA-CREF Investment Management, LLC	Beneficial owner	119,150,000 ordinary shares	6.38%
Sansar Capital Management, LLC	Investment Manager	112,078,000 ordinary shares	6.00%

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### **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 42%
- five largest suppliers combined 83%

#### **Sales**

- the largest customer 30%
- five largest customers combined 78%

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

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### ***PRE-EMPTIVE RIGHTS***

There are no pre-emptive rights provisions in the Bye-laws of the Company nor are there any 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 in 1999 and subsequently amended in 2005.

The Audit Committee provides an important link between the board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises four non-executive directors, namely Mr. Anthony Lo Kai Yiu as chairman, Mr. Allen Lee Peng Fei, Mr. Tsim Tak Lung and Mr. David Yu Hon To as members.

### ***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 during the year.

### ***AUDITORS***

During the year, PricewaterhouseCoopers resigned and Moores Rowland Mazars were appointed as auditors of the Company.

The accounts have been audited by Moores Rowland Mazars who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the board

**Thomas CHAN Chun Hoo**

*Chairman*

Hong Kong, 2 March 2006