

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2006.

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 2 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	50%
– five largest suppliers in aggregate	91%
Sales	
– the largest customer	31%
– five largest customers in aggregate	67%

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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 39.

The directors have declared an interim dividend of HK\$0.02 per ordinary share, totalling HK\$37,398,000, which was paid on 20 September 2006.

The directors recommend the payment of a final dividend of HK\$0.03 per ordinary share and a special dividend of HK\$0.02 per ordinary share, totalling HK\$93,554,000.



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RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 43. Movements in the reserves of the Company during the year are set out in note 26 to the financial statements.

Distributable reserves of the Company at 31 December 2006, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$205,365,000 (2005: HK\$293,829,000).

FINANCIAL ANALYSIS

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 20 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 2006, trade receivables related to toy operation were HK\$353,212,000 (2005: HK\$371,370,000) and inventories were at a seasonal low level of HK\$49,470,000 or 4.4% of turnover (2005: HK\$57,786,000 or 4.5% of turnover).

The property investment and associated business generated a relatively steady income stream throughout the year. Approximately 95% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2006. 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 2006 was 4.5% compared to 1.0% at 31 December 2005. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.3 at 31 December 2006 compared to 3.0 at 31 December 2005.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. 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 2006, the Group's cash and bank balances were HK\$170,015,000 (2005: HK\$443,954,000), and the amount invested in various securities was HK\$331,204,000 (2005: HK\$260,216,000).

EMPLOYEES

As at 31 December 2006, the Group had a total of 154 employees in Hong Kong, the Mainland China and the United States of America. This compares to 138 employees as at 31 December 2005.

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 28 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$7,932,000 (2005: HK\$2,214,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties of the Group held for investment purposes are set out in note 12 to the financial statements.

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SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the financial statements.

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 84.

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.

DIRECTORS

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

Executive Directors

Mr. CHAN Chun Hoo, Thomas – Chairman

Mr. CHENG Bing Kin, Alain

Mr. TO Shu Sing, Sidney

Non-executive Directors

Mr. TSIM Tak Lung – Deputy Chairman

Mr. CHOW Yu Chun, Alexander (Independent)

Mr. IP Shu Wing, Charles

Mr. LEE Peng Fei, Allen (Independent)

Mr. LO Kai Yiu, Anthony (Independent)

Mr. YU Hon To, David (Independent)

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. To Shu Sing, Sidney and Mr. Yu Hon To, David 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

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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SHARE OPTIONS (Continued)

Participants : **Plan**
Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary).

Scheme

- (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.

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Total number of ordinary shares available for issue under the Plan/Scheme and the percentage of issued share capital that it represents as at 12 March 2007 : **Plan**
13,574,700 ordinary shares, representing 0.7% of the issued capital.

Scheme

80,047,300 ordinary shares, representing 4.3% of the issued capital.

Maximum entitlement of each participant	:	<p>Plan</p> <p>Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan.</p> <p>Scheme</p> <p>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>
The amount payable on acceptance of the option	:	<p>Plan</p> <p>HK\$10.00</p> <p>Scheme</p> <p>HK\$10.00 (or such other nominal sum in any currency as the board may determine).</p>
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	<p>Not applicable.</p>

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SHARE OPTIONS (Continued)

The basis for determining :
the exercise price

Plan

Determined by the directors at their discretion, but will not be less than the higher of:

- (i) the nominal value of an ordinary share; and
- (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 of Hong Kong Limited ("Stock Exchange") as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant.

Scheme

Determined by the directors 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 quotation sheets 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 Plan/Scheme

Plan

Remains in force until 3 May 2008.

Scheme

Remains in force until 27 June 2012.

The following shows 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 2006	Number of options			Balance at 31 December 2006
				Granted during the year Note (1)	Exercised during the year Note (2)	Lapsed during the year	
Plan							
TO Shu Sing, Sidney <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	1,228,600	-	947,000	-	281,600
	27 May 1999	0.506	512,500	-	205,000	60,000	247,500
	22 July 2000	0.626	1,257,800	-	22,000	331,000	904,800
	21 May 2001	0.297	1,796,000	-	1,080,200	-	715,800
	28 August 2001	0.294	8,163,000	-	-	-	8,163,000
Scheme							
CHENG Bing Kin, Alain <i>Director</i>	7 January 2004	1.360	590,000	-	-	-	590,000
	22 September 2005	1.206	750,000	-	-	-	750,000
	4 May 2006	0.910	-	750,000	-	-	750,000
TO Shu Sing, Sidney <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
	4 May 2006	0.910	-	750,000	-	-	750,000
TSIM Tak Lung <i>Director</i>	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000
CHOW Yu Chun, Alexander <i>Director</i>	4 May 2006	0.910	-	750,000	-	-	750,000
IP Shu Wing, Charles <i>Director</i>	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000
LEE Peng Fei, Allen <i>Director</i>	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000

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SHARE OPTIONS (Continued)

Participant	Date of grant	Exercise price HK\$	Balance at 1 January 2006	Number of options			Balance at 31 December 2006
				Granted during the year Note (1)	Exercised during the year Note (2)	Lapsed during the year	
LO Kai Yiu, Anthony <i>Director</i>	9 August 2002	0.199	250,000	–	–	–	250,000
	22 September 2005	1.206	1,000,000	–	–	–	1,000,000
	4 May 2006	0.910	–	750,000	–	–	750,000
YU Hon To, David <i>Director</i>	22 September 2005	1.206	1,000,000	–	–	–	1,000,000
	4 May 2006	0.910	–	750,000	–	–	750,000
<i>Continuous Contract Employees, excluding Directors</i>	9 August 2002	0.199	3,876,000	–	758,000	32,000	3,086,000
	10 March 2003	0.550	6,660,000	–	373,800	1,333,000	4,953,200
	7 January 2004	1.360	11,300,100	–	–	1,598,000	9,702,100
	19 March 2004	1.240	11,000,000	–	–	–	11,000,000
	22 September 2005	1.206	21,026,000	–	–	1,702,000	19,324,000
	9 January 2006	1.030	–	500,000	–	–	500,000
	4 May 2006	0.910	–	14,890,000	–	764,000	14,126,000

Notes:

- (1) The closing prices of the ordinary shares of the Company on 6 January 2006 and 3 May 2006, being the trading days immediately before the dates on which the share options were granted during the year, were HK\$1.04 and HK\$0.87 respectively.
- (2) The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees, excluding directors, during the year was HK\$0.9061.

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 SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2006, 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 Companies of the Listing Rules were as follows:

Long position in shares

Name of director	Name of company	Nature of interest	Number of shares held	Percentage interests held
CHAN Chun Hoo, Thomas	Playmates Holdings Limited	Personal & Corporate (Note (a))	738,500,000 ordinary shares	39.47%
CHENG Bing Kin, Alain	Playmates Holdings Limited	Personal	1,200,000 ordinary shares	0.06%
TO Shu Sing, Sidney	Playmates Holdings Limited	Personal	9,360,000 ordinary shares	0.50%
TSIM Tak Lung	Playmates Holdings Limited	Personal	1,364,000 ordinary shares	0.07%
IP Shu Wing, Charles	Playmates Holdings Limited	Personal	18,400,000 ordinary shares	0.98%
	Nippon Toys Limited	Personal (Note (b))	1 share	50%
LEE Peng Fei, Allen	Playmates Holdings Limited	Personal	500,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Playmates Holdings Limited	Personal	2,390,000 ordinary shares	0.13%
YU Hon To, David	Playmates Holdings Limited	Personal & Corporate (Note (c))	5,300,000 ordinary shares	0.28%

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN 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
CHAN Chun Hoo, Thomas	Corporate (<i>Note (a)</i>)	146,180,000 warrants	146,180,000 shares	7.81%
CHENG Bing Kin, Alain	Personal	240,000 warrants	240,000 shares	0.01%
	Personal	2,090,000 share options	2,090,000 shares	0.11%
TO Shu Sing, Sidney	Personal	1,872,000 warrants	1,872,000 shares	0.10%
	Personal	9,143,000 share options	9,143,000 shares	0.49%
TSIM Tak Lung	Personal	272,800 warrants	272,800 shares	0.01%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
CHOW Yu Chun, Alexander	Personal	750,000 share options	750,000 shares	0.04%
IP Shu Wing, Charles	Personal	3,680,000 warrants	3,680,000 shares	0.20%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
LEE Peng Fei, Allen	Personal	100,000 warrants	100,000 shares	0.005%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
LO Kai Yiu, Anthony	Personal	478,000 warrants	478,000 shares	0.03%
	Personal	2,000,000 share options	2,000,000 shares	0.11%
YU Hon To, David	Personal & Corporate (<i>Note (c)</i>)	1,060,000 warrants	1,060,000 shares	0.06%
	Personal	1,750,000 share options	1,750,000 shares	0.09%

Notes:

- (a) 730,900,000 ordinary shares and 146,180,000 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. Chan Chun Hoo, Thomas.
- (b) Mr. Ip Shu Wing, Charles 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. Yu Hon To, David and 50% owned by a member of his family.

All the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares as at 31 December 2006.

The warrants are exercisable at any time from 26 May 2006 to 25 May 2007, both dates inclusive, at an initial subscription price of HK\$1.03 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 24 May 2006.

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 2006, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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 2006, 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

Name	Nature of interest	Number of shares held	Percentage interests held
TIAA-CREF Investment Management, LLC	Beneficial owner	119,150,000 ordinary shares	6.37%
Sansar Capital Management, LLC	Investment Manager	187,302,000 ordinary shares (<i>Note</i>)	10.01%
Sansar Capital Master Fund, LP	Beneficial owner	152,648,000 ordinary shares	8.16%

Note: These interests include the shares held by Sansar Capital Master Fund, LP.

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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 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 five non-executive directors, namely Mr. Lo Kai Yiu, Anthony as chairman, Mr. Chow Yu Chun, Alexander, Mr. Lee Peng Fei, Allen, Mr. Tsim Tak Lung and Mr. Yu Hon To, David 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

Moores Rowland Mazars were appointed as auditors of the Company in 2005 to fill the vacancy created by the resignation of the previous auditors PricewaterhouseCoopers.

The financial statements for the year ended 31 December 2006 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

CHAN Chun Hoo, Thomas

Chairman

Hong Kong, 12 March 2007