Playmates®

Annual Report 2007

CORPORATE *information*

Directors
CHAN Chun Hoo, Thomas
(Chairman and Executive Director)
CHENG Bing Kin, Alain (Executive Director)
IP Shu Wing, Charles (Non-executive Director)
LEE Peng Fei, Allen (Independent Non-executive Director)
LO Kai Yiu, Anthony (Independent Non-executive Director)
TO Shu Sing, Sidney (Executive Director)
TSIM Tak Lung
(Deputy Chairman and Non-executive Director)
YU Hon To, David (Independent Non-executive Director)

Company Secretary
NG Ka Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

Auditors
Moores Rowland
Chartered Accountants
Certified Public Accountants

Legal Advisors
Conyers Dill & Pearman
Deacons

Principal Bankers
The Bank of East Asia, Limited
Citigroup
Credit Suisse
Hang Seng Bank Limited
UBS AG

Principal Share Registrars
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Branch Share Registrars
Tricor Abacus Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Stock Code
The shares of Playmates Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited
(Stock Code: 635)

Website
www.playmates.net

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STATEMENT
from the chairman

2007 was a year of mixed performance for the Group. Our property and other investments benefited from a buoyant local economy and contributed positively to the Group's profit, as rental yield improved alongside appreciating real asset values. Our toy business experienced another challenging year and reported a loss. On top of declining economy in the U.S. in the second half of the year, a number of high profile product recalls affected the entire toy industry and negatively impacted our sales performance in the U.S. Internationally, on the other hand, Playmates Toys continued to achieve growth by developing new markets and expanding its distribution network.

A milestone accomplishment in 2007 was the successful spin-off of our toy business. The Stock Exchange of Hong Kong Limited approved our application to spin-off Playmates Toys Limited in July 2007, and approved the application of Playmates Toys Limited for a separate listing in January 2008. Public trading of the shares of Playmates Toys Limited commenced on 1 February 2008.

As we enter a new period in our corporate history, and with the toy business structured under the new banner of Playmates Toys Limited, I can say with confidence that the Group is well positioned to further enhance shareholder value through the focused pursuits of growth strategies of the separate business units. On behalf of the board of directors, I want to thank our shareholders, employees and business associates for their continued support, dedication and commitment.

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$996 million (2006: HK$1,197 million). Operating profit was HK$282 million (2006: HK$269 million), and net profit attributable to shareholders was HK$316 million (2006: HK$260 million). Basic earnings per share was HK$1.50 (2006: HK$1.39).

Property Investments and Associated Businesses

For the year under review, each of the property investment and associated businesses including (a) leasing business, (b) property management business, and (c) food and beverage business recorded significant growth. Turnover increased by approximately 26% to HK$87 million (2006: HK$69 million). Total segment results including property revaluation surplus increased by approximately 39% to HK$366 million (2006: HK$263 million).

(a) Property Portfolio Investments

The Group's principal property portfolio investments includes (i) The Toy House at 100 Canton Road, Tsimshatsui, (ii) a number of properties at Hillview, 21-23A MacDonnell Road, Hong Kong, and (iii) Playmates Factory Building at 1 Tin Hau Road, Tuen Mun.

(i) The Toy House

Rental income generated by The Toy House before intra-group elimination was HK$38 million (2006: HK$30 million). The increment was mainly attributable to the overall higher rental levels achieved for both new leases and renewals. During the year, a reputable beauty and skin treatment specialist set up its first centre in Kowloon at The Toy House. Further, a leading beauty spa and salon has selected the building to open a branch which is scheduled to open during the second quarter of 2008 which will further expand the spectrum of spa and beauty services provided at The Toy House.

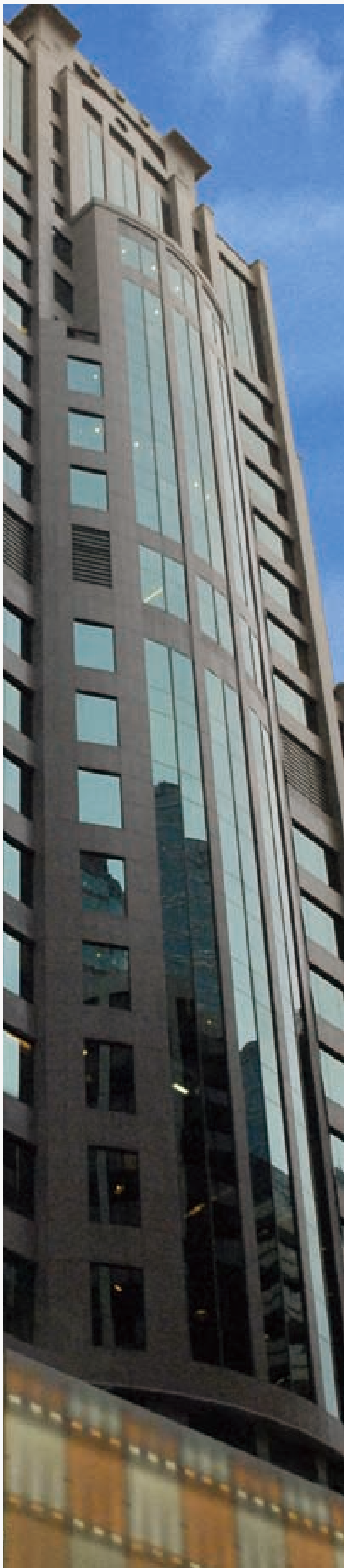
During the year, two major retail tenancies were renewed with favourable rental growth. The management will continue to optimize the tenant mix and maintain a high standard of professional retail management of this principal investment property.

(ii) *Hillview*
Rental income generated by the residential properties at Hillview was HK$11 million (2006: HK$6 million). The significant growth was mainly attributable to higher occupancy, higher rental rate resulting from the ongoing refurbishment and upgrading works carried out to these properties and a strong demand for luxury residential accommodation during the year.

(iii) *Playmates Factory Building*
Rental income generated by Playmates Factory Building was HK$8 million (2006: HK$7 million). The increment was primarily driven by increased rents for new leases and renewals. The commencement of operation of the Hong Kong-Shenzhen Western Corridor on 1 July 2007 will further enhance the value of this property as it is located in the area that will become a vital link in the regional logistic networks.

The Group has adopted the fair value method for its investment properties. As at the year end, the Group's investment properties were revalued by an independent professional surveyor. A valuation surplus of approximately HK$330 million was reported in the consolidated income statement of the Group.

(b) *Property Management Income*
The property management function of the Group is operated through Prestige Property Management Limited, an indirect wholly owned subsidiary of the Company. Prestige Property Management Limited is engaged in managing The Toy House, Playmates Factory Building and Hillview, and provides a full range of services including collecting rental and management fees, attending to repair and maintenance requirements, providing building security control and preparing budgets and accounts.



Income generated from property management business before intra-group elimination for the year was HK$12 million (2006: HK$11 million). Management fees were maintained at a relatively stable level as compared to last year as we had taken effective cost control measures to reduce the effects from escalating operating costs.

(c) Food & Beverage Business

Income from the food and beverage business for the year was HK$24 million (2006: HK$19 million). The increment was mainly attributable to the high quality, good value reputation established among a growing customer base and the favourable location of the restaurants in a major leisure and recreational destination for up-market consumers.

As the local economy continues to grow and consumer confidence remains high, the management is optimistic that 2008 will be another bumper year for its food and beverage business.

Despite the recent volatility in the global financial markets, with the continued growth of the local and regional economy, the management remains optimistic about the Group's performance and the outlook in its property investment and associated businesses for 2008. The Group will continue to actively look for investment opportunities and further enhance the value and income generated from its property investment portfolio.

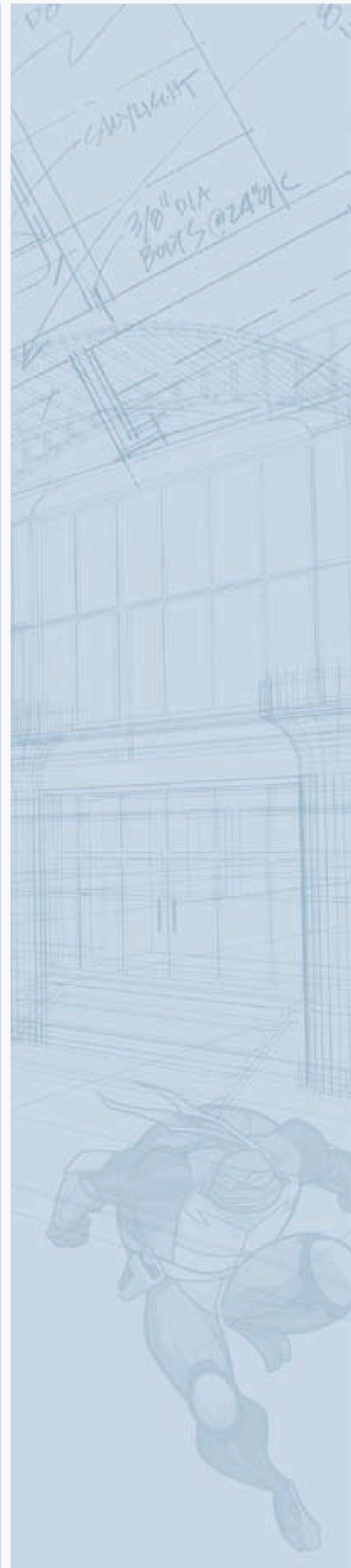
Toy Business

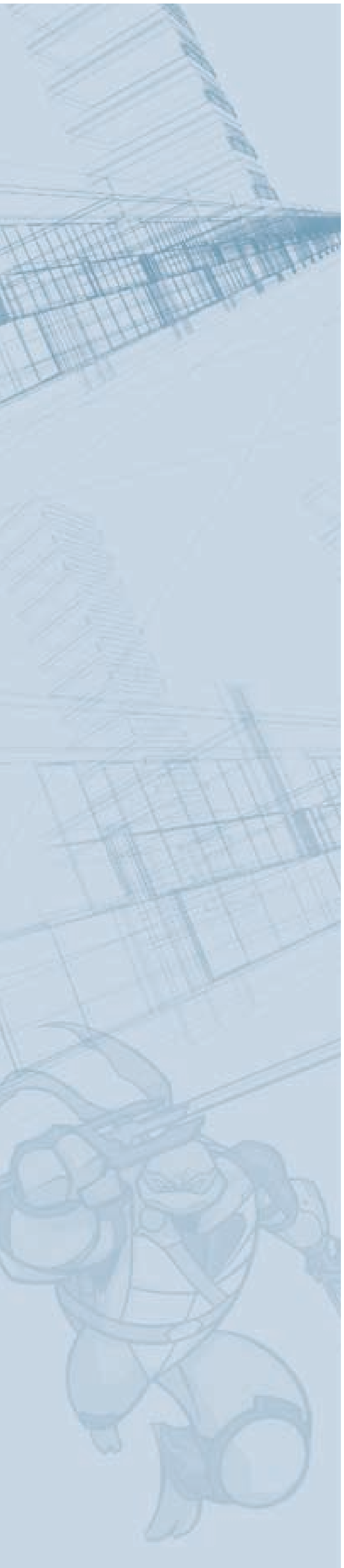
Playmates Toys turnover for the year ended 31 December 2007 was HK$909 million (2006: HK$1,128 million). Operating loss was HK$69 million (2006: operating profit was HK$28 million).

In the second half of 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 forgoing potential incremental sales opportunities. These efforts resulted in our continuing brands experiencing a clean sell through and being well positioned for 2008.

Playmates Toys recorded an operating loss of HK$69 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 the spin-off of Playmates Toys Limited and its 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 merchandising efforts. Supplementing internal growth strategy, Playmates Toys looks to identify and acquire complementary product lines and companies that can contribute to overall growth.

Treasury Investments

The Group carries out portfolio investments as part of its treasury activities which involve investments in different types of securities instruments of various terms. As at 31 December 2007, the aggregate value of the Group's investment portfolio was approximately HK$568 million (2006: HK$331 million). Net contribution from these investments was approximately HK$58 million for 2007 (2006: HK$38 million). Future contribution from treasury investments is uncertain in view of the recent volatility of the global capital markets. However, the management is aware of such volatility and will carefully monitor the market situation.

DIRECTORS AND SENIOR MANAGEMENT

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 spanning consumer products, real properties and other investments. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan was appointed Chairman of the board in 1997. He is also the chairman of the board of Playmates Toys Limited.

CHENG Bing Kin, Alain

Executive director

Mr. Cheng, age 45, was appointed a director of the Company in 2006. He was admitted to practise as solicitor in Hong Kong, England and Wales and has over 13 years of experience in the legal field. He is also a CPA of the Hong Kong Institute of Certified Public Accountants and an ACA of The Institute of Chartered Accountants in England and Wales.

IP Shu Wing, Charles

Non-executive director

Mr. Ip, age 57, was appointed a director of the Company in 1999. Mr. Ip has 34 years of experience in business management and has held a number of key management positions in various multi-national corporations.

LEE Peng Fei, Allen

Independent Non-executive director

Dr. Lee, age 67, was appointed a director of the Company in 1993. He holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He is currently a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

DIRECTORS AND SENIOR MANAGEMENT

Directors (Continued)

LO Kai Yiu, Anthony

Independent Non-executive director

Mr. Lo, age 59, was appointed a director of the Company in 1993. He is qualified as a chartered accountant by the Canadian Institute of Chartered Accountants and is a CPA of the Hong Kong Institute of Certified Public Accountants. In addition to over 9 years of professional accounting experience, he has over 26 years of experience in investment banking and other financial services. Mr. Lo is a founder, chairman and Co-CEO of Shanghai Century Acquisition Corporation, listed on the American Stock Exchange. He also serves as a director of a number of public and private companies.

TO Shu Sing, Sidney

Executive director

Mr. To, age 50, joined the Group in 1986. Prior to joining the Group, he had 9 years of experience with multi-national marketing and manufacturing companies. Over the years, he has served the Group in a number of functional areas including sales and marketing, licensing, strategic business development and corporate communication. He joined the board of directors of the Company in 1997. Mr. To holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. He is a brother-in-law of Mr. Tsim Tak Lung.

TSIM Tak Lung

Deputy Chairman and Non-executive director

Mr. Tsim, age 61, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed a director of the Company in 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

YU Hon To, David

Independent Non-executive director

Mr. Yu, age 59, was appointed a director of the Company in 1995. He is a fellow of The Institute of Chartered Accountants in England and Wales and a CPA of the Hong Kong Institute of Certified Public Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is a founder and director of Management Capital Limited, which specializes in direct investment and financial advisory activities and also on the boards of a number of listed companies and private companies in Hong Kong.

Senior Management

Executives of the Toy Business

NOVAK, Lou Robert

Mr. Novak, age 60, President, 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

Mr. Soong, age 61, President of Asian operations, 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.

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.

Senior Management (Continued)

Executives of the Toy Business (Continued)

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.

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 Toys 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, and in property investments, property management business, securities and other investments.

An analysis of the Group's performance for the year by business and 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.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 41.

The directors have declared an interim dividend of HK$0.20 (restated to reflect the share consolidation as set out in note 31(b)) per ordinary share, totalling HK$44,504,000, which was paid on 19 September 2007.

Results and Appropriations (Continued)

At a meeting held on 17 December 2007, the directors proposed a conditional special dividend in specie of the shares of Playmates Toys Limited ("PTL"), a wholly owned subsidiary of the Company and the holding company of the Group's toy business, to effect the spin-off and separate listing of PTL. The distribution in the amount of approximately HK$128,571,000 which equivalent to approximately 45% of the net asset value of PTL. Pursuant to the ordinary resolution passed on 25 January 2008, the shareholders of the Company approved the spin-off of the toy business by way of distribution in specie.

The directors recommend the payment of a final dividend of HK$0.25 per ordinary share, totalling HK$55,931,000, which is calculated on the basis of 223,724,956 ordinary shares in issue as at the date of board meeting held on 10 March 2008.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 46. Movements in the reserves of the Company during the year are set out in note 25(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$151,332,000 (2006: HK$205,365,000).

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 2007, trade receivables related to toy operation 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 property investment and associated business generated a relatively steady income stream throughout the year. Approximately 86% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2007. 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 2007 was 5.4% compared to 4.5% at 31 December 2006. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.8 at 31 December 2007 compared to 2.3 at 31 December 2006.

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 2007, the Group's cash and bank balances were HK$375,215,000 (2006: HK$170,015,000), and the amount invested in various securities was HK$567,943,000 (2006: HK$331,204,000).

Employees

As at 31 December 2007, the Group had a total of 168 employees in Hong Kong, the Mainland China and the United States of America. This compares to 154 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.

Financial Guarantee

Details of the Company's financial guarantee contracts are set out in note 27 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2007 are set out in note 20 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$3,198,000 (2006: HK$7,932,000).

Fixed Assets

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

Principal Properties

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

REPORT OF THE DIRECTORS

Share Capital

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

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 98.

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:

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHENG Bing Kin, Alain *(Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)* (Resigned on 28 December 2007)
Mr. IP Shu Wing, Charles *(Non-executive Director)*
Mr. LEE Peng Fei, Allen *(Independent Non-executive Director)*
Mr. LO Kai Yiu, Anthony *(Independent Non-executive Director)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)*

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Chan Chun Hoo, Thomas, Mr. Lo Kai Yiu, Anthony and Mr. Tsim Tak Lung 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.

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.
Total number of ordinary shares available for issue under the Plan/Scheme and the percentage of issued share capital that it represents as at 10 March 2008	:	**Plan** 157,700 ordinary shares, representing 0.07% of the issued capital. **Scheme** 6,872,400 ordinary shares, representing 3.07% of the issued capital.
Maximum entitlement of each participant	:	**Plan** Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan. **Scheme** 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.

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	:	**Plan** HK$10.00 **Scheme** 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	:	**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 quotations sheet for the 5 trading days immediately preceding the date of grant.

Share Options (Continued)

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 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 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:

			Number of options *(Note (1))*			
Participant	Date of grant	Exercise price HK$ *(Note (1))*	Balance at 1 January 2007	Exercised during the year *(Note (2) & Note (3))*	Lapsed during the year	Balance at 31 December 2007
Plan						
TO Shu Sing, Sidney	26 August 1998	0.532	529,000	529,000	–	–
Director	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	–	–
Continuous Contract	15 May 1998	0.532	281,600	1,000	–	280,600
Employees, excluding	27 May 1999	0.506	247,500	500	–	247,000
Directors	22 July 2000	0.626	904,800	108,800	–	796,000
	21 May 2001	0.297	715,800	176,400	2,000	537,400
	28 August 2001	0.294	8,163,000	–	–	8,163,000
Scheme						
CHENG Bing Kin, Alain	7 January 2004	1.360	590,000	–	–	590,000
Director	22 September 2005	1.206	750,000	125,000	–	625,000
	4 May 2006	0.910	750,000	375,000	–	375,000
CHOW Yu Chun, Alexander	4 May 2006	0.910	750,000	–	–	750,000
Director (Note (4))						
IP Shu Wing, Charles	22 September 2005	1.206	1,000,000	–	–	1,000,000
Director	4 May 2006	0.910	750,000	374,000	–	376,000
LEE Peng Fei, Allen	22 September 2005	1.206	1,000,000	–	–	1,000,000
Director	4 May 2006	0.910	750,000	–	–	750,000
LO Kai Yiu, Anthony	9 August 2002	0.199	250,000	–	–	250,000
Director	22 September 2005	1.206	1,000,000	–	–	1,000,000
	4 May 2006	0.910	750,000	–	–	750,000
TO Shu Sing, Sidney	9 August 2002	0.199	1,200,000	1,200,000	–	–
Director	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	375,000	–	375,000
TSIM Tak Lung	22 September 2005	1.206	1,000,000	–	–	1,000,000
Director	4 May 2006	0.910	750,000	–	–	750,000
YU Hon To, David	22 September 2005	1.206	1,000,000	–	–	1,000,000
Director	4 May 2006	0.910	750,000	–	–	750,000
Continuous Contract	9 August 2002	0.199	3,086,000	225,000	10,000	2,851,000
Employees, excluding	10 March 2003	0.550	4,953,200	736,500	33,000	4,183,700
Directors	7 January 2004	1.360	9,702,100	–	336,000	9,366,100
	19 March 2004	1.240	11,000,000	–	–	11,000,000
	22 September 2005	1.206	19,324,000	194,800	700,000	18,429,200
	9 January 2006	1.030	500,000	–	–	500,000
	4 May 2006	0.910	14,126,000	619,000	660,000	12,847,000

Share Options (Continued)

Notes:

(1) The exercise price, number of options and weighted average closing price shown herein have not been adjusted to reflect the share consolidation as set out in note 31(b) to the financial statements.

(2) The weighted average closing price of the ordinary shares of the Company immediately before the date(s) on which the options were exercised by Mr. Cheng Bing Kin, Alain, Mr. Ip Shu Wing, Charles and Mr. To Shu Sing, Sidney during the year were HK$1.130, HK$1.120 and HK$1.121 respectively.

(3) 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$1.1865.

(4) Mr. Chow Yu Chun, Alexander has resigned as a director on 28 December 2007.

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 granted or 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 2007, 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 *(Note (a))*	Percentage interests held
CHAN Chun Hoo, Thomas	Playmates Holdings Limited	Personal & Corporate *(Note (b))*	885,682,000 ordinary shares	39.80%
CHENG Bing Kin, Alain	Playmates Holdings Limited	Personal	1,900,000 ordinary shares	0.09%
IP Shu Wing, Charles	Playmates Holdings Limited	Personal	22,454,000 ordinary shares	1.01%
LEE Peng Fei, Allen	Playmates Holdings Limited	Personal	600,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Playmates Holdings Limited	Personal	2,868,000 ordinary shares	0.13%
TO Shu Sing, Sidney	Playmates Holdings Limited	Personal	17,300,000 ordinary shares	0.78%
TSIM Tak Lung	Playmates Holdings Limited	Personal	1,636,800 ordinary shares	0.07%
YU Hon To, David	Playmates Holdings Limited	Personal & Corporate *(Note (c))*	5,660,000 ordinary shares	0.25%

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 *(Note (a))*	Number of underlying shares *(ordinary shares)* *(Note (a))*	Percentage interests held
CHENG Bing Kin, Alain	Personal	1,590,000 share options	1,590,000 shares	0.07%
CHOW Yu Chun, Alexander *(Note (d))*	Personal	750,000 share options	750,000 shares	0.03%
IP Shu Wing, Charles	Personal	1,376,000 share options	1,376,000 shares	0.06%
LEE Peng Fei, Allen	Personal	1,750,000 share options	1,750,000 shares	0.08%
LO Kai Yiu, Anthony	Personal	2,000,000 share options	2,000,000 shares	0.09%
TO Shu Sing, Sidney	Personal	3,075,000 share options	3,075,000 shares	0.14%
TSIM Tak Lung	Personal	1,750,000 share options	1,750,000 shares	0.08%
YU Hon To, David	Personal	1,750,000 share options	1,750,000 shares	0.08%

Notes:

(a) The shares and share options shown herein have not been adjusted to reflect the share consolidation as set out in note 31(b) to the financial statements.

(b) 877,080,000 ordinary shares 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.

(c) 4,560,000 ordinary shares 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.

(d) Mr. Chow Yu Chun, Alexander has resigned as a director on 28 December 2007.

Unless stated otherwise, 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 2007.

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 2007, 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 2007, 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 *(Note (1))*	Percentage interests held
Sansar Capital Management, LLC	Investment Manager	245,359,600 ordinary shares *(Note (2))*	11.03%
Sansar Capital Master Fund, LP	Beneficial owner	201,557,300 ordinary shares	9.06%
State Street Corporation	Custodian corporation/ approved lending agent	111,261,379 ordinary shares *(Note (3))*	5%

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

Notes:

(1) The number of shares shown herein has not been adjusted to reflect the share consolidation as set out in note 31(b) to the financial statements.

(2) These interests include the shares held by Sansar Capital Master Fund, LP.

(3) All the shares held by State Street Corporation are in the lending pool.

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 four non-executive directors, namely Mr. Lo Kai Yiu, Anthony as chairman, 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 auditors, Moores Rowland Mazars have changed their name to Moores Rowland 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.

Continuing Connected Transaction

On 16 August 2007, EN Dining Limited ("EN Dining") as tenant and Belmont Limited, an indirect wholly-owned subsidiary of the Company, as landlord entered into a tenancy agreement ("Tenancy Agreement") relating to the leasing of the premises known as Unit A, Basement Floor, The Toy House, No.100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 16 August 2007 to 15 August 2010 at the rental of HK$190,445.00 per month and management charges of HK$49,772.50 per month (exclusive of rates, Government rent, utilities and other outgoings). EN Dining, being an associate of EN Holdings (HK) Limited, a 30% shareholder of Toya Holdings (FNB) Limited, an indirect non-wholly owned subsidiary of the Company, is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 17 August 2007, was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

The independent non-executive directors, who are not interested in any connected transaction with the Group, have reviewed the continuing connected transaction as set out above and confirmed that the transaction has been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed the transaction and confirmed to the board that the above transaction has been approved by the board of the Company and has been entered into in accordance with the relevant agreement governing the transaction, and that it has not exceeded the relevant annual cap disclosed in the previous announcement.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 10 March 2008

CORPORATE GOVERNANCE REPORT

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. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2007, except for the deviation from provision A.2.1 of the Code in respect of segregation of the roles of chairman and chief executive officer, the reason for the deviation is shown on page 28 of this annual report. 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.

Enhancement on the Company's Corporate Governance in 2007

With a view to further improve the Company's corporate governance practices, the following actions were taken in 2007:

- the Group has developed a new Business Code of Conduct for employees in order to further strengthen its business ethical practices;

- the Company has exceeded the Code Provisions that copies of the Annual Report, Notice of Meeting and the related documents were sent to the shareholders at least 35 days prior to the Annual General Meeting (statutory requirement: 21 days);

- the Company proposed certain amendments to the Bye-Laws of the Company in order to bring the Bye-Laws in line with the laws of Bermuda, the Listing Rules and the Code. Furthermore, certain amendments were proposed to modernize the Bye-Laws in line with current market practice. All the proposed amendments were approved by the shareholders at the Special General Meeting held on 25 January 2008.

Board of Directors

The board of directors of the Company comprises:

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHENG Bing Kin, Alain *(Executive Director)*
Mr. IP Shu Wing, Charles *(Non-executive Director)*
Mr. LEE Peng Fei, Allen *(Independent Non-executive Director)*
Mr. LO Kai Yiu, Anthony *(Independent Non-executive Director)*
Mr. TO Shu Sing, Sidney *(Executive Director)*
Mr. TSIM Tak Lung *(Deputy Chairman and Non-executive Director)*
Mr. YU Hon To, David *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and five non-executive directors. Of the five non-executive directors, three are independent non-executive directors. In addition, two of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. Biographies 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. There is no relationship between members of the board except for the in-law relationship between Mr. To Shu Sing, Sidney and Mr. Tsim Tak Lung.

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 Chairman and chief executive officer of the Company is Mr. Chan Chun Hoo, Thomas. This deviates from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Board of Directors (Continued)

Mr. Chan Chun Hoo, Thomas 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; whereas responsibilities for running of the business operations of the Group are delegated to different designated senior executives. The board considers that this structure will not impair the balance of power and authority between the board and the management of the business of the Group given that there is a strong and independent non-executive directorship element on the board and a clear division of responsibility in running the business of the Group. The board believes that the structure outlined above is beneficial to the Company and its business.

Each of the non-executive 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 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. In additional, the Company obtained shareholders' approval at the special general meeting held in January 2008 to amend the Bye-laws to comply with the requirement that each director, including the chairman of the board and/or the managing director, shall be subject to retirement by rotation at least once every three years.

All directors are regularly updated on governance and regulatory matters. There is an established procedure for directors 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.

The board meets 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 are 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 has been 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 are provided with adequate information in a timely manner; this enables the board to make informed decision on matters placed before it.

The board held seven meetings in 2007 and the overall attendance rate of directors at board meetings was 97%. Details of directors' attendance at the board, board committees and general meetings held in 2007 are set out in the following table.

	No. of meetings attended/held			
Directors	Board	Audit Committee	Compensation Committee	2007 AGM
CHAN Chun Hoo, Thomas	7/7	N/A	N/A	1
CHENG Bing Kin, Alain	7/7	N/A	N/A	1
CHOW Yu Chun, Alexander*	7/7	2/2	N/A	1
IP Shu Wing, Charles	7/7	N/A	N/A	1
LEE Peng Fei, Allen	7/7	1/2	2/2	1
LO Kai Yiu, Anthony	6/7	2/2	1/2	1
TO Shu Sing, Sidney	7/7	N/A	N/A	1
TSIM Tak Lung	6/7	2/2	2/2	1
YU Hon To, David	7/7	2/2	N/A	1
Average Attendance Rate	**97%**	**90%**	**83%**	**100%**

* Mr. Chow Yu Chun, Alexander resigned as a director on 28 December 2007.

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 39 to 40 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 a majority of independent non-executive directors with defined respective written terms of reference.

Audit Committee

The Audit Committee was established in 1999 and its current members include:

LO Kai Yiu, Anthony – *Committee Chairman (Independent)*
LEE Peng Fei, Allen *(Independent)*
TSIM Tak Lung
YU Hon To, David *(Independent)*

The majority 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 composition and members of the Audit Committee exceeds the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and subsequently revised in 2005 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

The Audit Committee meets 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.

At the meeting held on 10 March 2008, the Audit Committee reviewed this report, the Directors' Report and 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.

Compensation Committee

The Compensation Committee was established in early 2004 and its current members include:

TSIM Tak Lung – *Committee Chairman*
LEE Peng Fei, Allen *(Independent)*
LO Kai Yiu, Anthony *(Independent)*

The majority 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 2004 and subsequently revised in 2005 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

The Compensation Committee meets to determine the policy for the remuneration of directors and assess the performance of executive directors and members of senior management.

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 Committee 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 takes 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 ensures 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 12(a) to the financial statements.

Board Committees (Continued)

Compensation Committee (Continued)

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.
   - 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.

Chief Executive Officer and Top Paid Employees

The following table summarizes compensation information for the Chief Executive Officer and the four 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*
CHAN Chun Hoo, Thomas	120	3,000	166	7	–	3,293
NOVAK, Lou Robert	3,715	–	207	103	1,839	5,864
SOONG, Ronnie	2,408	–	62	12	153	2,635
ROSTEN, Arthur Steven	2,015	195	183	92	70	2,555
JACOBS, Phil	1,919	–	202	87	120	2,328

Note: Other benefits include car allowance, insurance premium, club membership and director's fee received from a subsidiary.

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 in 2004. 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 throughout the year ended 31 December 2007. 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 pages 21 to 23 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 has conducted 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.

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.

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure. 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.

Independent consultants were hired since 2005 to perform a review 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.

Control Effectiveness

The consultants update the board periodically on the progress of their review on the internal controls of the Group. The consultants submitted to the board a testing and monitoring report for the year ended 31 December 2007. 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. The Company will continue to engage external independent professionals to review its system of internal controls annually and further enhance its internal controls as appropriate.

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 would be 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 auditors of the Company provided audit services to the Company and the remuneration paid by the Company to the auditors for the performance of audit services was HK$2,150,000. The Group also incurred approximately HK$4,480,000 for the non-audit services provided by the auditors in respect of the spin-off and listing of Playmates Toys Limited and the capital reorganisation of the Company. In order to maintain their independence, 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 continue maintaining a high level of transparency in communicating with shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts are conducted regularly. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors on relevant information in its business in 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 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 has announced its annual and interim results and sent relevant financial statements to shareholders in a timely manner during the year under review, which is well 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.playmates.net 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 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 were passed by poll since 2004. 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 makes regular contributions in terms of financial and other supports to various charitable organizations. 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 Holdings Limited

(incorporated in Bermuda with limited liability)

We have audited the financial statements of Playmates Holdings Limited (the "Company") set out on pages 41 to 97, 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.

Auditors' responsibility (Continued)

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 profit 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$'000 (Note 32)	2007 HK$'000	2006 HK$'000
Turnover	3	127,698	996,049	1,197,083
Cost of sales		(66,652)	(519,888)	(600,608)
Gross profit		61,046	476,161	596,475
Marketing expenses		(31,535)	(245,976)	(296,536)
Selling, distribution and administration expenses		(33,132)	(258,426)	(269,592)
Revaluation surplus on investment properties		42,261	329,637	238,475
Restructuring expenses	31(a)	(2,429)	(18,950)	–
Operating profit	4	36,211	282,446	268,822
Non-operating income/(expenses)				
Interest expense and bank charges	5	(1,338)	(10,440)	(7,755)
Other revenue	3	2,039	15,906	13,079
Net gain on investments	6	7,088	55,288	37,118
		44,000	343,200	311,264
Share of profits less losses of associated companies		439	3,426	3,458
Profit before taxation		44,439	346,626	314,722
Taxation charge	7	(3,890)	(30,340)	(54,353)
Profit for the year		40,549	316,286	260,369
Attributable to:				
Equity holders of the company	8	40,494	315,853	260,369
Minority interest		55	433	–
		40,549	316,286	260,369
Dividends	9	29,360	229,006	130,952
		US$	HK$	HK$
Earnings per share	10			
Basic		0.19	1.50	1.39
Diluted		0.19	1.49	1.38

The notes on pages 47 to 97 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000 (Note 32)	2007 HK$'000	2006 HK$'000
Non-current assets				
Fixed assets				
– Investment properties	13	197,410	1,539,800	1,198,700
– Other property, plant and equipment	13	4,891	38,149	37,117
– Prepaid premium on leasehold land held for own use under an operating lease	13	6,230	48,597	48,102
		208,531	1,626,546	1,283,919
Goodwill	14	766	5,976	5,976
Interest in an associated company	16	3,217	25,090	34,836
Deferred tax assets	24	11,792	91,976	80,152
		224,306	1,749,588	1,404,883
Current assets				
Inventories	17	4,278	33,368	49,470
Trade receivables	18	23,050	179,792	353,999
Other receivables, deposits and prepayments		10,278	80,172	65,492
Taxation recoverable		407	3,177	2,023
Financial assets at fair value through profit or loss	19	72,813	567,943	331,204
Cash and bank balances	26(b)	48,105	375,215	170,015
		158,931	1,239,667	972,203
Current liabilities				
Bank loans	20	20,548	160,275	107,542
Trade payables	21	9,747	76,027	92,585
Other payables and accrued charges		20,566	160,415	163,906
Provisions	22	4,589	35,798	49,260
Taxation payable		751	5,856	1,317
		56,201	438,371	414,610

	Note	2007 US$'000 (Note 32)	2007 HK$'000	2006 HK$'000
Net current assets		102,730	801,296	557,593
Total assets less current liabilities		327,036	2,550,884	1,962,476
Non-current liabilities				
Bank loans	*20*	–	–	276
Deferred tax liabilities	*24*	19,757	154,109	94,090
		19,757	154,109	94,366
Net assets		307,279	2,396,775	1,868,110
Capital and Reserve				
Share capital	*25(a)*	28,529	222,523	187,108
Reserves		254,843	1,987,780	1,587,448
Proposed dividends	*9*	23,654	184,502	93,554
Total equity attributable to equity holders of the Company		307,026	2,394,805	1,868,110
Minority interests		253	1,970	–
Total equity		307,279	2,396,775	1,868,110

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 47 to 97 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000 (Note 32)	2007 HK$'000	2006 HK$'000
Non-current assets				
Investment in subsidiaries	15	188,426	1,469,722	1,157,826
Current assets				
Cash and bank balances		40	310	1,954
		40	310	1,954
Current liabilities				
Other payables and accrued charges		1	4	115
		1	4	115
Net current assets		39	306	1,839
Net assets		188,465	1,470,028	1,159,665
Capital and reserve				
Share capital	25(a)	28,529	222,523	187,108
Reserves	25(b)	144,220	1,124,921	879,003
Proposed dividends	9	15,716	122,584	93,554
Total equity		188,465	1,470,028	1,159,665

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 47 to 97 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 US$'000 (Note 32)	2007 HK$'000	2006 HK$'000
Cash flows from operating activities				
Cash generated from operations	26(a)	13,470	105,068	60,005
Interest paid		(703)	(5,488)	(2,243)
Hong Kong profits tax paid		(405)	(3,163)	(5,110)
Overseas tax paid		–	–	(69,633)
Hong Kong profits tax refunded		80	626	1,314
Overseas tax refunded		3,048	23,777	–
Net cash generated from/(used in) operating activities		15,490	120,820	(15,667)
Cash flows from investing activities				
Purchases of investments		(103,551)	(807,697)	(167,977)
Proceeds from disposal of investments		80,348	626,717	134,381
Purchases of other property, plant and equipment		(888)	(6,927)	(2,123)
Proceeds from disposal of other property, plant and equipment		2	13	4
Purchases of investment properties		(1,842)	(14,369)	(243,690)
Bank interest received		1,672	13,045	12,053
Decrease in loan to an associated company		961	7,499	2,500
Dividend received from an associated company		628	4,900	2,450
Dividends received from investments		307	2,391	752
Net cash used in investing activities		(22,363)	(174,428)	(261,650)
Cash flows from financing activities				
Issue of shares		46,208	360,427	1,365
Share issuing expenses		–	–	(391)
New bank loan		15,385	120,000	87,500
Repayment of bank loans		(8,659)	(67,543)	(954)
Dividends paid		(19,753)	(154,076)	(84,142)
Net cash generated from financing activities		33,181	258,808	3,378
Net increase/(decrease) in cash and cash equivalents		26,308	205,200	(273,939)
Cash and cash equivalents at 1 January		21,797	170,015	443,954
Cash and cash equivalents at 31 December	26(b)	48,105	375,215	170,015

The notes on pages 47 to 97 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Equity Holders of the Company						
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000*	Employee share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total equity *HK$'000*
At 1 January 2006	186,766	742,234	1,116	21,082	16,901	711,994	1,680,093
Total recognised income and expense for the year							
Profit for the year	–	–	–	–	–	260,369	260,369
Issue of shares	3	63	–	–	–	–	66
Share issuing expenses	–	(391)	–	–	–	–	(391)
2005 final dividend paid	–	–	–	–	–	(46,744)	(46,744)
2006 interim dividend paid	–	–	–	–	–	(37,398)	(37,398)
Employees share option scheme							
– value of employee services	–	–	–	–	10,816	–	10,816
– shares issued	339	1,060	–	–	(100)	–	1,299
– options lapsed	–	–	–	–	(1,535)	1,535	–
	342	732	–	–	9,181	(82,607)	(72,352)
At 31 December 2006	187,108	742,966	1,116	21,082	26,082	889,756	1,868,110

	Equity Holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000*	Employee share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interest *HK$'000*	Total equity *HK$'000*
At 1 January 2007	187,108	742,966	1,116	21,082	26,082	889,756	1,868,110	–	1,868,110
Total recognised income and expense for the year									
Profit for the year	–	–	–	–	–	315,853	315,853	433	316,286
Issue of shares	34,515	320,987	–	–	–	–	355,502	–	355,502
2006 final dividend paid	–	–	–	–	–	(65,743)	(65,743)	–	(65,743)
2006 special dividend paid	–	–	–	–	–	(43,829)	(43,829)	–	(43,829)
2007 interim dividend paid	–	–	–	–	–	(44,504)	(44,504)	–	(44,504)
Minority interest arose during the year	–	–	–	–	–	–	–	1,537	1,537
Employees share option scheme									
– value of employee services	–	–	–	–	4,491	–	4,491	–	4,491
– shares issued	900	5,330	–	–	(1,305)	–	4,925	–	4,925
– options lapsed	–	–	–	–	(522)	522	–	–	–
	35,415	326,317	–	–	2,664	(153,554)	210,842	1,537	212,379
At 31 December 2007	222,523	1,069,283	1,116	21,082	28,746	1,052,055	2,394,805	1,970	2,396,775

The notes on pages 47 to 97 form an integral part of these financial statements.

1 General Information

The Company was incorporated in Bermuda on 10 October 1991. 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.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements.

2 Summary of Significant Accounting Policies

(a) 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 Hong Kong Institute of Certified Public Accountants ("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 Listing Rules. 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 25(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.

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

(b) 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 except that, as disclosed in the accounting policies below, investment properties and financial assets at fair value through profit or loss are stated at fair value.

(c) 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.

2 Summary of Significant Accounting Policies (Continued)

(c) Group accounting (Continued)

(ii) Associated companies

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

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

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

(d) Fixed assets

(i) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed at least annually by external surveyors.

Subsequent costs are included in the asset's carrying amount 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.

Changes in fair value are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as other property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of other property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sales or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

(ii) Other property, plant and equipment

All other 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:

Buildings	40 years
Machinery, vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

2 Summary of Significant Accounting Policies (Continued)

(d) Fixed assets (Continued)

(ii) Other property, plant and equipment (Continued)

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.

(iii) Prepaid premium on leasehold land held for own use under an operating lease

Prepaid premium on leasehold land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

(e) 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.

(f) Investments

The Group classifies its investments as financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

A financial asset is classified as financial assets at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

All financial assets are recognised when and only when the Group becomes a contractual party of the instrument. Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, and in the case of financial assets not carried at fair value through profit or loss, plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices.

The fair values of unlisted managed funds are based on the market value of the underlying portfolio of securities reported by the administrators of the funds.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(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 receivable 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 receivables.

(i) *Impairment of assets*

Other property, plant and equipment, prepaid premium on leasehold land and investments 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).

2 Summary of Significant Accounting Policies (Continued)

(i) Impairment of assets (Continued)

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 amortisation, if no impairment loss had been recognised.

(j) Financial liabilities

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

(k) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

(l) 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.

(m) 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.

(n) *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.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight-line basis over the lease term.

Property management income is recognised when services are rendered.

Restaurant income is recognised when services are rendered.

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

Dividend income is recognised when the right to receive payment is established.

(o) *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.

2 Summary of Significant Accounting Policies (Continued)

(p) 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 operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the employee share-based compensation reserve within equity. 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 Group revises the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the employee share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) Borrowing costs

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

(r) 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.

(s) *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.

(t) *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 fixed assets, goodwill, inventories, trade and other receivables and operating cash. Segment liabilities comprise operating liabilities. Segment capital expenditure comprises additions to fixed assets.

2 Summary of Significant Accounting Policies (Continued)

(t) Segment reporting (Continued)

Unallocated items mainly comprise financial and corporate assets, bank loans, tax balances, corporate and inactive subsidiaries' expenses.

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

(u) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associated companies is included in investments in associated companies and is assessed for impairment as part of the investment in associates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business consolidation in which the goodwill arose. An impairment loss on goodwill is recognised as an expense and is not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(v) 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.

(w) 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, property investment and management and restaurant operation. Revenue recognised during the year is as follows:

	2007 HK$'000	2006 HK$'000
Turnover		
Sales of toys	909,030	1,127,997
Rental income from investment properties	52,701	39,425
Property management income	10,092	10,266
Restaurant income	24,226	19,395
	996,049	1,197,083
Other revenue		
Bank interest income	13,045	11,759
Dividend income from investments	2,861	1,320
	15,906	13,079
Total revenue	1,011,955	1,210,162

Business segments

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2007			
	Toy business *HK$'000*	Property investment and associated business *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
Revenue				
Turnover	909,030	87,019	–	996,049
Inter-segment revenue *(Note (iii))*	–	360	(360)	–
	909,030	87,379	(360)	996,049
Results				
Segment results	(68,385)	365,206	–	296,821
Inter-segment transactions *(Note (iii))*	(360)	360	–	–
	(68,745)	365,566	–	296,821
Unallocated costs				(14,375)
Operating profit				282,446

3 Turnover, Revenue and Segment Information (Continued)

Business segments (Continued)

	Year ended 31 December 2007			
	Toy business HK$'000	Property investment and associated business HK$'000	Elimination HK$'000	Group HK$'000
Assets				
Segment assets	373,739	1,641,440	(217)	2,014,962
Unallocated assets				974,293
Total assets				2,989,255
Liabilities				
Segment liabilities	200,568	32,009	(217)	232,360
Unallocated liabilities				360,120
Total liabilities				592,480
Other information				
Capital expenditure	2,526	15,124		
Depreciation	2,678	5,028		

	Year ended 31 December 2006			
	Toy business *HK$'000*	Property investment and associated business *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
Revenue				
Turnover	1,127,997	69,086	–	1,197,083
Inter-segment revenue *(Note (iii))*	–	674	(674)	–
	1,127,997	69,760	(674)	1,197,083
Results				
Segment results	28,647	262,407	–	291,054
Inter-segment transactions *(Note (iii))*	(674)	674	–	–
	27,973	263,081	–	291,054
Unallocated costs				(22,232)
Operating profit				268,822

3 Turnover, Revenue and Segment Information (Continued)

Business segments (Continued)

	Year ended 31 December 2006			
	Toy business	Property investment and associated business	Elimination	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	558,769	1,302,570	(222)	1,861,117
Unallocated assets				515,969
Total assets				2,377,086
Liabilities				
Segment liabilities	263,277	32,776	(222)	295,831
Unallocated liabilities				213,145
Total liabilities				508,976
Other information				
Capital expenditure	463	265,639		
Depreciation	2,810	4,589		

Notes:

(i) **Toy business** refers to the design, development, marketing and distribution of toys and family entertainment activity products.

(ii) **Property investment and associated business** refers to the leasing of commercial, industrial and residential premises to generate rental income, the provision of property management services and the operation of restaurants.

(iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

Geographical segments

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

	Turnover 2007 *HK$'000*	Segment assets 2007 *HK$'000*	Segment Capital expenditure 2007 *HK$'000*
Americas			
– U.S.A.	607,169	327,109	1,024
– Others	62,395	–	–
Europe	203,291	–	–
Asia Pacific	121,454	1,687,853	16,626
Others	1,740	–	–
	996,049	2,014,962	17,650

	Turnover 2006 *HK$'000*	Segment assets 2006 *HK$'000*	Segment Capital expenditure 2006 *HK$'000*
Americas			
– U.S.A.	847,355	490,681	342
– Others	81,408	–	–
Europe	154,278	–	–
Asia Pacific	110,501	1,370,436	265,760
Others	3,541	–	–
	1,197,083	1,861,117	266,102

4 *Operating Profit*

Operating 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
Direct operating expenses arising from investment properties that generate rental income	2,490	2,809
Direct operating expenses arising from investment properties that did not generate rental income	2,193	1,094
Provision for customer concession *(Note 18)*	12,304	14,823
Unutilised provision for customer concession *(Note 18)*	(1,301)	(1,656)
Reversal of provision for doubtful debts *(Note 18)*	(1,591)	–
Provision for customer and supplier claims *(Note 22)*	42,661	52,288
Unutilised provision for customer and supplier claims *(Note 22)*	(2,097)	(3,133)
Depreciation of fixed assets	8,196	7,554
Staff costs, including directors' remuneration *(Note 11)*	106,925	107,421
Operating leases expense on office and warehouse facilities	9,991	12,313
Loss on disposal of fixed assets	97	69
Auditors' remuneration	2,150	1,880

5 *Interest Expense and Bank Charges*

	2007 HK$'000	2006 HK$'000
Interest on bank loans and overdrafts, wholly repayable within five years	5,488	2,243
Bank charges	4,952	5,512
	10,440	7,755

6 Net Gain On Investments

	2007 HK$'000	2006 HK$'000
Net realised gain on investments	28,269	4,555
Net unrealised gain on investments	27,019	32,563
	55,288	37,118

7 Taxation 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 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.

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

	2007 HK$'000	2006 HK$'000
Current taxation		
Hong Kong profits tax	7,135	3,622
Overseas taxation	–	62
Overseas tax refunded *(Note)*	(22,879)	–
Over provision in prior years	(2,111)	(3,735)
	(17,855)	(51)
Deferred taxation		
Origination and reversal of temporary differences	48,195	54,404
	30,340	54,353

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

7 *Taxation Charge (Continued)*

(a) *(Continued)*

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 profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2007 *HK$'000*	2006 *HK$'000*
Profit before taxation	**346,626**	314,722
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**60,660**	55,076
Effect of different taxation rates in other countries	**(10,364)**	6,218
Non-taxable income	**(9,740)**	(9,295)
Non-deductible expenses for tax purposes	**6,546**	7,178
Decrease in unrecognised temporary differences and tax losses	**(4,025)**	(1,451)
Utilisation of previously unrecognised tax losses	**(1,346)**	(77)
Overseas tax refunded	**(22,879)**	–
Tax on gain on disposal of subsidiaries *(Note)*	**13,555**	–
Prior year over provision	**(2,111)**	(3,735)
Current year under provision	**44**	439
Taxation charge	**30,340**	54,353

Note: Tax on gain on disposal 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.

8 Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of HK$99,521,000 (2006: loss of HK$5,857,000) which is dealt with in the financial statements of the Company.

9 Dividends

	2007 *HK$'000*	2006 *HK$'000*
Interim dividend paid of HK$0.20, restated (2006: HK$0.20, restated) per share	44,504	37,398
Final dividend proposed of HK$0.25 (2006: HK$0.30, restated) per share	55,931	56,132
Special dividend in specie proposed of HK$0.57 (2006: HK$nil) per share *(Note)*	128,571	–
Special dividend paid of HK$nil (2006: HK$0.20, restated) per share	–	37,422
	184,502	93,554
	229,006	130,952

Note: At a meeting held on 17 December 2007, the directors proposed a conditional special dividend in specie of the shares of PTL, a wholly owned subsidiary of the Company and the holding company of the Group's toy business, to effect the spin-off and separate listing of PTL. The distribution in the amount of approximately HK$128,571,000 which equivalent to approximately 45% of the net asset value of PTL whereby the Company's investment cost in PTL is about HK$66,653,000. Pursuant to the ordinary resolution passed on 25 January 2008, the shareholders of the Company approved the spin-off of the toy business by way of distribution in specie.

At a meeting held on 10 March 2008, the directors proposed a final dividend of HK$0.25 per share on the basis of 223,724,956 shares in issue as at the date of this meeting. These proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2008.

The interim dividend per share for 2007 and the dividends per share for 2006 were restated to reflect the share consolidation as set out in note 31(b).

10 Earnings Per Share

The calculation of basic and diluted earnings per share is based on the following data:

	2007 HK$'000	2006 HK$'000
Profit attributable to equity holders of the Company for the purpose of calculating basic and diluted earnings per share	315,853	260,369

	Number of shares *(Note)*	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	210,842,400	186,940,700
Number of potential ordinary shares issuable under share options	1,371,900	1,447,500
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	212,214,300	188,388,200

Note: The weighted average number of ordinary shares for the periods presented has been adjusted to reflect the share consolidation as set out in note 31(b).

11 Staff Costs

	2007 HK$'000	2006 HK$'000
Wages, salaries and other benefits	99,808	94,114
Share-based compensation	4,491	10,816
Employer's contributions to provident fund	2,626	2,578
Forfeited contributions	–	(87)
	106,925	107,421

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.

12 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$'000*	Share-based compen-sation 2007 *HK$'000*	Other benefits 2007 *HK$'000* *(Note 1)*	Employer's contribution to provident fund 2007 *HK$'000*	Total 2007 *HK$'000*
CHAN Chun Hoo, Thomas	–	120	3,000	–	166	7	3,293
CHENG Bing Kin, Alain	–	1,580	720	146	343	12	2,801
CHOW Yu Chun, Alexander *(Note 2)*	99	–	–	79	121	–	299
IP Shu Wing, Charles	100	–	–	167	37	–	304
LEE Peng Fei, Allen	100	–	–	167	172	–	439
LO Kai Yiu, Anthony	100	–	–	167	197	–	464
TO Shu Sing, Sidney	–	1,920	850	213	58	12	3,053
TSIM Tak Lung	100	–	–	167	197	–	464
YU Hon To, David	100	–	–	167	122	–	389
	599	3,620	4,570	1,273	1,413	31	11,506

12 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$'000 (Note 1)	Employer's contribution to provident fund 2006 HK$'000	Total 2006 HK$'000
CHAN Chun Hoo, Thomas	–	120	3,000	–	158	7	3,285
CHENG Bing Kin, Alain	–	1,416	600	338	303	12	2,669
CHOW Yu Chun, Alexander *(Note 2)*	84	–	–	154	47	–	285
IP Shu Wing, Charles	100	–	–	353	12	–	465
LEE Peng Fei, Allen	100	–	–	353	99	–	552
LO Kai Yiu, Anthony	100	–	–	353	99	–	552
TO Shu Sing, Sidney	–	1,740	750	528	58	12	3,088
TSIM Tak Lung	100	–	–	353	91	–	544
YU Hon To, David	100	–	–	353	74	–	527
	584	3,276	4,350	2,785	941	31	11,967

Notes:

(1) Other benefits include insurance premium, club membership and housing allowance for executive directors, and committee work and meeting attendance allowance for non-executive directors.

(2) Mr. Chow Yu Chun, Alexander resigned as a director on 28 December 2007.

(b) *Five highest paid individuals' emoluments*

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

	2007 *HK$'000*	2006 *HK$'000*
Salaries, other allowances and benefits in kind	6,392	9,250
Share-based compensation	1,992	3,652
Performance bonus	–	1,110
Employer's contribution to provident fund	115	218
	8,499	14,230

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

	Number of individuals	
	2007	2006
HK$		
2,500,001 – 3,000,000	1	–
3,000,001 – 3,500,000	–	2
5,500,001 – 6,000,000	1	–
7,500,001 – 8,000,000	–	1
	2	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.

13 Fixed Assets – Group

	Buildings HK$'000	Machinery, vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Sub-total HK$'000	Investment properties HK$'000	Prepaid premium on leasehold land held for own use under an operating lease HK$'000	Total HK$'000
Cost or valuation							
At 1 January 2006	26,539	40,317	34,765	101,621	694,700	49,961	846,282
Additions	–	1,575	548	2,123	265,525	–	267,648
Revaluation surplus	–	–	–	–	238,475	–	238,475
Disposals	–	(15,479)	(4,031)	(19,510)	–	–	(19,510)
At 31 December 2006	26,539	26,413	31,282	84,234	1,198,700	49,961	1,332,895
At 1 January 2007	26,539	26,413	31,282	84,234	1,198,700	49,961	1,332,895
Additions	–	5,091	1,836	6,927	14,369	–	21,296
Revaluation surplus	–	–	–	–	329,637	–	329,637
Reclassification	538	–	–	538	(2,906)	1,013	(1,355)
Disposals	–	(153)	(2,385)	(2,538)	–	–	(2,538)
At 31 December 2007	27,077	31,351	30,733	89,161	1,539,800	50,974	1,679,935
Accumulated amortisation and depreciation							
At 1 January 2006	594	30,029	29,509	60,132	–	727	60,859
Charge for the year	927	3,389	2,106	6,422	–	1,132	7,554
Disposals	–	(15,407)	(4,030)	(19,437)	–	–	(19,437)
At 31 December 2006	1,521	18,011	27,585	47,117	–	1,859	48,976
At 1 January 2007	1,521	18,011	27,585	47,117	–	1,859	48,976
Charge for the year	1,040	3,850	2,041	6,931	–	1,265	8,196
Reclassification	(608)	–	–	(608)	–	(747)	(1,355)
Disposals	–	(105)	(2,323)	(2,428)	–	–	(2,428)
At 31 December 2007	1,953	21,756	27,303	51,012	–	2,377	53,389
Net book value							
At 31 December 2007	25,124	9,595	3,430	38,149	1,539,800	48,597	1,626,546
At 31 December 2006	25,018	8,402	3,697	37,117	1,198,700	48,102	1,283,919

The Group's interests in properties at their net book values are analysed as follows:

	2007		2006	
	Land and building *HK$'000*	Investment properties *HK$'000*	Land and building *HK$'000*	Investment properties *HK$'000*
In Hong Kong, held under:				
Leases of over 50 years	–	331,000	–	284,600
Leases of between 10 and 50 years	73,721	1,208,800	73,120	914,100
	73,721	1,539,800	73,120	1,198,700

The investment properties were revalued as at 31 December 2007 on the market value basis. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued.

Other fixed assets are stated at cost less accumulated depreciation.

Details of the principal properties of the Group as at 31 December 2007 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq. ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun	Industrial	2047	317,100 Sq. ft.	100%
A number of residential flats situate at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel	Residential	2895	39,040 Sq. ft.	100%

14 Goodwill – Group

	HK$'000
Cost	
At 1 January 2006, 31 December 2006 and 31 December 2007	5,976

15 Investment in Subsidiaries – Company

	2007 HK$'000	2006 HK$'000
Amounts due from subsidiaries, net of provisions	1,469,722	1,157,826

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK$322,874,000 (2006: HK$341,136,000) which are interest free, are interest bearing at 1% (2006: 1%) per annum.

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:				
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK$10 each	100%	Property investment, Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	Property investment, Hong Kong
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Property investment, Hong Kong
Okura FNB Limited	Hong Kong	1 ordinary share of HK$1	70%	Restaurant operation, Hong Kong

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Investment holding, Hong Kong
PIL Investments Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
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
Playmates Toys Limited	Bermuda	495,000,000 ordinary shares of HK$0.01 each	100%	Investment holding, Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Property management, Hong Kong
Sakurai FNB Limited	Hong Kong	1 ordinary share of HK$1	70%	Restaurant operation, Hong Kong

15 Investment in Subsidiaries – Company (Continued)

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.

16 Interest in an Associated Company – Group

	2007 HK$'000	2006 HK$'000
Share of net assets other than goodwill	25,090	21,789
Share of goodwill	–	5,548
	25,090	27,337
Loan to an associated company	–	7,499
	25,090	34,836

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
2006					
100 per cent	103,812	48,061	55,751	214,275	7,034
Group's effective interest	51,190	23,853	27,337	105,993	3,458

In prior year, the Group held a 50% interest in Nippon Toys Limited ("NTL"), another associated company. During the year, the Group's interest in NTL has been diluted to the effect that such company can no longer be recognised as an associated company of the Group. A loss on deemed disposal of the associated company of HK$772,000 was recognised in the income statement. The investment cost in NTL was reclassified to the financial assets at fair value through profit or loss account.

17 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).

18 Trade Receivables – Group

	2007 HK$'000	2006 HK$'000
Trade receivables	186,014	364,150
Less: Allowance for customer concession	(6,222)	(8,560)
Provision for doubtful debts	–	(1,591)
	179,792	353,999

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.

18 Trade Receivables – Group (Continued)

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. For property investment and management business, and restaurant operations, no credit term is granted to tenants and customers. The following is an aging analysis of trade receivables at the balance sheet date:

	2007 *HK$'000*	2006 *HK$'000*
0 – 30 days	178,256	342,867
31 – 60 days	261	4,291
Over 60 days	1,275	6,841
	179,792	353,999

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

	2007 *HK$'000*	2006 *HK$'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 HK$'000	2006 HK$'000
Neither past due nor impaired	178,846	343,828
1 – 90 days past due	861	8,493
91 – 180 days past due	52	1,299
Over 180 days past due	33	379
	179,792	353,999

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.

19 *Financial Assets at Fair Value Through Profit or Loss – Group*

	2007 HK$'000	2006 HK$'000
As market value		
Listed equity investment in Hong Kong	132,734	–
Listed equity investment outside Hong Kong	125,261	134,214
Unlisted managed funds	309,948	196,990
	567,943	331,204

20 Bank Loans – Group

	2007	2006
	HK$'000	*HK$'000*
Secured bank loans payable:		
Within one year	160,275	41,042
In the second year	–	276
	160,275	41,318
Unsecured bank loan repayable within one year	–	66,500
	160,275	107,818
Current portion included in current liabilities	(160,275)	(107,542)
	–	276

All bank loans were denominated in HK dollar and bear floating interest rates ranging from 4.25% p.a. to 8.75% p.a. (2006: from 4.66% p.a. to 9.00% p.a.).

The carrying amounts of short term bank loans approximate their fair value.

The effective interest rate at the balance sheet date was 4.59% p.a. (2006: 5.00% p.a.).

As at 31 December 2007, the Group has banking facilities amounting to HK$777 million (2006: HK$777 million), of which HK$160 million (2006: HK$108 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and other fixed assets with aggregate net book value of HK$1,260 million (2006: HK$971 million) of the Group at 31 December 2007.

21 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	34,166	54,760
31 – 60 days	41,391	37,380
Over 60 days	470	445
	76,027	92,585

22 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.

22 Provisions – Group (Continued)

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

23 Equity Settled Share-based Transactions

At the special general meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") respectively were approved and adopted. A nominal consideration at HK$10 or US$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. Movements in the number of share options outstanding during the year are as follows:

	2007		2006	
	Weighted average exercise price *HK$*	Number of options *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At the beginning of the year	0.951	93,987	0.942	81,803
Granted	–	–	0.913	21,390
Exercised *(Note (a))*	0.547	(9,004)	0.384	(3,386)
Lapsed	1.104	(1,741)	1.013	(5,820)
At the end of the year *(Note (b))*	0.991	83,242	0.951	93,987

Notes:

(a) These share options were exercised during the year ended 31 December 2007 at exercise prices ranging from HK$0.199 to HK$1.206 (2006: from HK$0.199 to HK$0.626) per share. The weighted average closing price per ordinary share of the Company immediately before the dates on which the options were exercised during the year was HK$1.1363.

(b) The terms of the share options outstanding at the end of the year are as follows:

Expiry date	Exercise price	Number of options		Exercisable and vested number of options	
		2007	2006	2007	2006
	HK$	*'000*	*'000*	*'000*	*'000*
Directors					
25 August 2008	0.532	–	529	–	529
26 May 2009	0.506	–	529	–	529
19 October 2009	0.434	–	660	–	660
21 July 2010	0.626	–	551	–	551
20 May 2011	0.297	–	1,024	–	1,024
8 August 2012	0.199	250	1,450	250	1,450
9 March 2013	0.550	–	1,200	–	1,200
6 January 2014	1.360	1,790	1,790	1,790	1,340
21 September 2015	1.206	7,125	7,250	5,313	3,625
3 May 2016	0.910	4,876	6,000	1,876	1,500
		14,041	20,983	9,229	12,408
Other employees					
14 May 2008	0.532	281	282	281	282
26 May 2009	0.506	247	247	247	247
21 July 2010	0.626	796	905	796	905
20 May 2011	0.297	537	716	537	716
27 August 2011	0.294	8,163	8,163	8,163	8,163
8 August 2012	0.199	2,851	3,086	2,851	3,086
9 March 2013	0.550	4,184	4,953	4,184	4,953
6 January 2014	1.360	9,366	9,702	9,366	7,206
18 March 2014	1.240	11,000	11,000	11,000	8,250
21 September 2015	1.206	18,429	19,324	13,773	9,662
8 January 2016	1.030	500	500	250	125
3 May 2016	0.910	12,847	14,126	6,113	3,532
		69,201	73,004	57,561	47,127
		83,242	93,987	66,790	59,535

No share options were cancelled during the year (2006: nil).

The weighted average exercise price, number of options and exercise price shown herein have not been adjusted to reflect the share consolidation as set out in note 31(b) to the financial statements.

24 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 liabilities/(assets) account is as follows:

	2007 *HK$'000*	2006 *HK$'000*
At 1 January	13,938	(40,466)
Charged to income statement	48,195	54,404
At 31 December	62,133	13,938

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		Revaluation of properties		Total	
	2007 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*
At 1 January	18,806	17,437	76,408	29,567	95,214	47,004
Charged to income statement	2,512	1,369	57,617	46,841	60,129	48,210
At 31 December	21,318	18,806	134,025	76,408	155,343	95,214

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	(73,481)	(82,402)	(7,795)	(5,068)	(81,276)	(87,470)
(Credited)/charged to income statement	(10,815)	8,921	(1,119)	(2,727)	(11,934)	6,194
At 31 December	(84,296)	(73,481)	(8,914)	(7,795)	(93,210)	(81,276)

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	(91,976)	(80,152)
Deferred tax liabilities	154,109	94,090
	62,133	13,938

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.

25 Capital And Reserves

(a) Share Capital

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 31 December 2006 and 2007	**3,000,000,000**	**300,000**

	Issued and fully paid Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 1 January 2006	1,867,660,247	186,766
Exercise of warrants 2006	30,650	3
Exercise of warrants 2007	4,520	–
Exercise of share options	3,386,000	339
At 1 January 2007	**1,871,081,417**	**187,108**
Exercise of warrants 2007 *(Note (i))*	**345,147,152**	**34,515**
Exercise of share options *(Note 23)*	**9,004,000**	**900**
At 31 December 2007	**2,225,232,569**	**222,523**

Notes:

(i) The warrants were exercisable from 26 May 2006 to 25 May 2007 at an initial subscription price of HK$1.03 per share (subject to adjustment). On 25 May 2007, 28,796,407 warrants which had not been exercised, were lapsed.

(b) Reserves

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006	740,378	1,116	16,901	292,713	1,051,108
Loss for the year	–	–	–	(5,857)	(5,857)
2005 final dividend paid	–	–	–	(46,744)	(46,744)
2006 interim dividend paid	–	–	–	(37,398)	(37,398)
Issue of shares	63	–	–	–	63
Share issuing expenses	(391)	–	–	–	(391)
Employees share option scheme					
– value of employee services	–	–	10,816	–	10,816
– shares issued	1,060	–	(100)	–	960
– options lapsed	–	–	(1,535)	1,535	–
At 31 December 2006	741,110	1,116	26,082	204,249	972,557
At 1 January 2007	741,110	1,116	26,082	204,249	972,557
Profit for the year	–	–	–	99,521	99,521
2006 final dividend paid	–	–	–	(65,743)	(65,743)
2006 special dividend paid	–	–	–	(43,829)	(43,829)
2007 interim dividend paid	–	–	–	(44,504)	(44,504)
Issue of shares	320,987	–	–	–	320,987
Employees share option scheme					
– value of employee services	–	–	4,491	–	4,491
– shares issued	5,330	–	(1,305)	–	4,025
– options lapsed	–	–	(522)	522	–
At 31 December 2007	**1,067,427**	**1,116**	**28,746**	**150,216**	**1,247,505**

25 Capital And Reserves (Continued)

(b) Reserves (Continued)

Nature and purpose of reserves

Company

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Companies Act 1981 of Bermuda.

(ii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees recognised in accordance with the accounting policy adopted for share-based compensation in note 2(p)(iii).

Group

(iii) Reserve on consolidation

Reserve on consolidation arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993 which also created an amount of HK$1,856,000 included in the share premium of the Group of HK$1,069,283,000 as at 31 December 2007.

(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 6.7% compared to 5.8% at 31 December 2006.

26 Notes to the Consolidated Cash Flow Statement

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

	2007 HK$'000	2006 HK$'000
Profit before taxation	346,626	314,722
Bank interest income	(13,045)	(11,759)
Interest on bank loans and overdrafts	5,488	2,243
Dividend income from investments	(2,861)	(1,320)
Depreciation	8,196	7,554
Share-based compensation	4,491	10,816
Revaluation surplus on investment properties	(329,637)	(238,475)
Loss on disposal of other property, plant and equipment	97	69
Net gain on investments	(55,288)	(37,118)
Loss on deemed disposal of an associated company	772	–
Share of profits less losses of associated companies	(3,426)	(3,458)
Operating (loss)/profit before working capital changes	(38,587)	43,274
Decrease in inventories	16,102	8,316
Decrease in trade receivables, other receivables, deposits and prepayments	161,064	2,884
(Decrease)/increase in trade payables, other payables and accrued charges and provisions	(33,511)	5,531
Cash generated from operations	105,068	60,005

(b) Analysis of cash and cash equivalents

	2007 HK$'000	2006 HK$'000
Cash and bank balances	375,215	170,015

27 Financial Guarantee Contracts

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to HK$777 million (2006: HK$777 million), of which HK$160 million (2006: HK$108 million) of such banking facilities were utilised as at 31 December 2007. The Company does not consider the fair value of issuing these guarantees can be practically estimated because there is no commercial comparables.

28 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).

29 Operating Lease Arrangements

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

(a) As lessee

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	6,049	8,759
In the second to fifth years inclusive	7,372	15,183
	13,421	23,942

(b) *As lessor*

At 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	47,976	42,579
In the second to fifth years inclusive	36,868	55,683
	84,844	98,262

30 *Related-party Transactions*

The Group did not enter into any material related party transaction during the year except the following:

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 12, is as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	15,149	18,505
Employer's contributions to provident fund	146	249
Share-based compensation	2,351	4,518
	17,646	23,272

Total remuneration is included in "staff cost" (note 11).

31 Post Balance Sheet Event

(a) Corporate reorganisation

Pursuant to the ordinary resolution passed on 25 January 2008, the shareholders of the Company approved the spin-off of the toy business by way of distribution ("Spin-Off by way of Distribution") which involved the spin-off of PTL 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 PTL to the shareholders of the Company. Following the Spin-Off by way of Distribution, PTL obtained a separate listing of its shares on The Stock Exchange of Hong Kong Limited by way of introduction on 1 February 2008. The Company continues to be the ultimate holding company of PTL as it holds the remaining approximately 55% of the entire issued share capital of PTL not being distributed under the Spin-Off by way of Distribution. Details of the Spin-Off by way of Distribution are set out in the circular of the Company dated 31 December 2007. Legal and professional fees incurred for this corporate reorganisation have been expensed in current year.

(b) Capital reorganisation

Pursuant to the special resolution passed on 25 January 2008, the reorganisation of the share capital of the Company was effected which involved capital reduction ("Capital Reduction") and share consolidation ("Share Consolidation"). Pursuant to the Capital Reduction, the nominal value of the issued share capital of the Company was reduced by HK$0.09 per share by cancelling an equivalent amount of the paid up capital per share so that the nominal value of each share in issue was reduced from HK$0.10 to HK$0.01. Immediately following the Capital Reduction, the Share Consolidation was implemented whereby every ten issued shares of HK$0.01 each resulting from the Capital Reduction was consolidated into one consolidated share of HK$0.10.

32 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.

33 Comparative Figures

In accordance with the change in the Group's internal financial reporting, the Group has determined the operation of restaurants to be included in the property investment and associated business segment. As a result, certain comparative figures of turnover and revenue, cost of sales, and selling, distribution and administration expenses have been re-classified to conform to current year's presentation.

34 Financial Risk Management

(a) Categories of financial instruments

	2007 *HK$'000*	2006 *HK$'000*
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	179,792	353,999
Other receivables, deposits and prepayments	80,172	65,492
Financial assets at fair value through profit or loss	567,943	331,204
Cash and bank balances	375,215	170,015
Financial liabilities		
Bank loans	160,275	107,818
Trade payables	76,027	92,585
Other payables and accrued charges	160,415	163,906

(b) Financial risk factors

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

(a) Market risk

(i) Currency risk

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

(ii) Interest rate risk

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

34 Financial Risk Management (Continued)

(b) Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk *(Continued)*

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 decrease/increase the Group's profit for the year by approximately HK$801,000 (2006: HK$539,000).

(iii) Price risk

The Group is exposed to equity securities price risk arising from investments held by the Group which are classified in the consolidated balance sheet as at fair value through profit or loss. To manage its price risk arising from investments in equity securities and managed funds, the Group diversifies its portfolio.

At 31 December 2007, it is estimated that a sensitivity to a reasonable general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and net assets by approximately HK$28,397,000 (2006: HK$16,560,000).

(b) Credit risk

Financial instruments held by the Group that may subject to credit risk include cash equivalents and trade 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 marketable securities 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.

35 Approval of Financial Statements

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

FIVE YEAR FINANCIAL SUMMARY

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

	2007 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2004 *HK$'000* (restated)	2003 *HK$'000* (restated)
Turnover	996,049	1,197,083	1,310,264	1,312,276	977,764
Profit before taxation	346,626	314,722	198,831	246,793	86,201
Taxation (charge)/credit	(30,340)	(54,353)	(2,841)	8,463	(14,961)
Profit for the year	316,286	260,369	195,990	255,256	71,240
Attributable to:					
Equity holders of the Company	315,853	260,369	195,990	255,256	71,240
Minority interest	433	–	–	–	–
	316,286	260,369	195,990	255,256	71,240
Total assets	2,989,255	2,377,086	2,119,664	1,605,539	1,514,343
Total liabilities	(592,480)	(508,976)	(439,571)	(417,444)	(625,794)
Net assets	2,396,775	1,868,110	1,680,093	1,188,095	888,549

Playmates Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code 0635)

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