Playmates®

2008 Annual Report

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 HM 11
Bermuda

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

Auditors
Grant Thornton
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 HM 11
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

2008 will be remembered by many as a year of unprecedented economic and financial turmoil on a global scale. The series of high profile failures of a number of leading financial institutions in the U.S. and Europe and the ensuing credit crisis pushed all major economies and most countries around the world into a deepening recession. There are diverse views on when the economy may start to improve, and things could get worse before the recovery.

In the circumstances, all segments of our operations and investments, although diversified among different industries and geographical regions, are negatively affected. Playmates Toys, our subsidiary business group engaged in the design, marketing and distribution of toy products, suffered as consumer confidence around the world kept sinking to historic low levels in the face of falling asset value, tight credit and rising unemployment. Our property and related investments generated improved income, but operating results were brought down by revaluation deficits. Our treasury investments reported significant realised and unrealised losses, reflecting the depressed state of the global investment markets. As a result, our overall performance for the year 2008 was unsatisfactory and we expect the tough challenges we experienced to continue in 2009.

Although we have been hurt, our businesses have been built on good foundations and we remain financially healthy. In 2009, our focus is on diligent management of operating cash flow and reducing costs. At the same time, we will be vigilant in identifying and pursuing opportunities that may become available in this environment to continue to develop our core businesses.

With the continued support of our shareholders, employees and business partners, I am confident that we will overcome the difficult times and be prosperous again.

CHAN Chun Hoo, Thomas
Chairman of the board
Hong Kong, 13 March 2009

BUSINESS REVIEW AND PROSPECTS

Group Overview

Group turnover for the year ended 31 December 2008 was HK$802 million (2007: HK$996 million). Operating loss was about HK$209 million (2007: operating profit HK$282 million), and net loss attributable to shareholders was HK$455 million (2007: net profit HK$316 million). Basic loss per share was HK$2.04 (2007: basic earnings per share HK$1.50).

Property Investments and Associated Businesses

For the year under review, each of the property investment and associated business segments including (a) leasing, (b) property management and (c) food and beverage recorded growth despite the economic downturn triggered by the unprecedented global financial crisis. Turnover increased by approximately 13% over that of last year to about HK$98 million (2007: about HK$87 million). Operating profit before property revaluation increased by approximately 47% to about HK$53 million (2007: about HK$36 million). The Group's property investments were revalued by an independent professional surveyor as at the end of the year at the fair value of about HK$1.55 billion (2007: about HK$1.65 billion). The deficit arising from the revaluation of the investment properties of approximately HK$118 million (2007: surplus of approximately HK$330 million) was reported in the consolidated income statement of the Group. After accounting for the effect of the property revaluation deficit, the property investments and associated businesses reported an operating loss of approximately HK$64 million for the year under review (2007: operating profit of about HK$366 million after revaluation surplus).

(a) Property Investments

The Group's major investment properties include (i) The Toy House at 100 Canton Road, (ii) a number of properties at Hillview, 21-23A MacDonnell Road, and (iii) Playmates Factory Building at 1 Tin Hau Road.

(i) The Toy House

Rental income generated by The Toy House before intra-group elimination was about HK$45 million, an increase of 18% over that of last year (2007: about HK$38 million). The increment was mainly attributable to the overall higher rental levels for both new leases and lease renewals entered into during the year. Two new tenants, namely an up-market beauty spa and a luxury wine bar club as previously reported, commenced business as scheduled in the third quarter of the year. During the year, a number of major tenancies, including food and beverage, retail and office tenancies were renewed at higher rental rates.

(ii) Hillview

Rental income generated by the residential properties at Hillview was about HK$14 million, an increase of 27% over that of last year (2007: about HK$11 million). The considerable growth was primarily driven by higher rental levels for new leases entered into in the first three quarters of the year when demands for luxury apartments were strong.

(iii) Playmates Factory Building

Rental income generated by Playmates Factory Building was about HK$8.7 million, an increase of 7% over that of last year (2007: about HK$8.1 million). The increment was primarily driven by renewals with rental increases although demand for industrial premises started to show signs of softening from the last quarter of 2008.

(b) Property Management

The property management business of the Group is operated through Prestige Property Management Limited, a wholly-owned subsidiary of the Group. Prestige Property Management Limited is engaged in managing The Toy House, Playmates Factory Building and Hillview, and provides comprehensive property management services which include attending to repair and maintenance, providing building security and general cleaning for common areas, attending to hand-over and take-over of premises and monitoring the reinstatement and refurbishment works.

Income generated from the property management business segment before intra-group elimination for the year was about HK$12.8 million, an increase of 9% over that of last year (2007: about HK$11.7 million).

(c) *Food & Beverage Business*

Income generated from the food and beverage business for the year was about HK$24.6 million, approximately 2% over that of last year (2007: about HK$24.2 million). Despite the negative impact on consumer spending caused by the global economic downturn, our food and beverage business managed to generate a moderate income growth for the whole year which was largely attributable to the high quality reputation the restaurants have established among a growing customer base, and their favourable location on Canton Road, Tsimshatsui, a major leisure and recreational destination for up-market visitors and local consumers.

In 2009, the outlook of the property investments and associated businesses has become uncertain as the global recession worsens and the local economic activities continued to slow down. Nevertheless, barring any further significant deterioration of the operating environment, management expects rental income to remain stable in 2009 on the strength of the quality and composition of the tenants.

Playmates Toys

As anticipated in the management discussion and analysis in the Company's 2008 Interim Report, the negative macroeconomic environment in which Playmates Toys operated, persisted in the second half of 2008 and in fact worsened towards the end of the third quarter, exacerbated by a series of high profile failures of a number of major U.S. and European financial institutions. By the end of the year, the economic slowdown which started in the U.S. had spread to Europe and other regions of the world, deteriorating into a deepening recession on a global scale.

Reacting to the rapid economic downturn in the third quarter, major mass retailers further tightened inventory and purchasing policies in anticipation of weak consumer demands in the 2008 holiday season. Nevertheless the retail sector reported early casualties: a major U.S. national toy specialty retail chain and a century-old U.K. national high street merchant filed for bankruptcy just weeks before Christmas. Industry statistics reported that in 2008 year-on-year U.S. toy retail sales were down about 3% in dollar terms with a corresponding decrease in unit sales of about 5%.

In this challenging environment, Playmates Toys' worldwide turnover for the year ended 31 December 2008 was HK$704 million (2007: HK$909 million). Despite decreased sales, Playmates Toys recorded a clean retail sell through for its major brands and managed its year end inventory to the lowest level in recent years. Playmates Toys reported an operating loss of HK$139 million (2007: HK$69 million).

Year-on-year sales in the U.S. decreased by 24%, and in all other markets decreased by 19%. The sales decreases in developed markets, notably the U.S. and the E.U. countries, reflected the difficult economic environment. On the other hand, Playmates Toys continued to achieve sales growth in 2008 in a number of emerging markets, including Russia and many other Eastern European countries.

Gross profit ratio on toy sales was 38% (2007: 45%). Lower gross profit percentage was attributable to increase in closeout sales, higher development expenses as a percent of sales, lower margins on electronic toy products and reduced pricing on non-continuing brands. On a positive note, gross margins on continuing brands were maintained at 2007 levels as a result of price increases compensating for higher input costs. Input costs in China began to stabilise during the fourth quarter of 2008. The increase in closeout sales was a direct result of the legislation of more stringent safety standards in the U.S. for materials acceptable in the manufacture of toys, and retailers' accelerated adoption of these standards prior to the enforcement date of the new standards. In anticipation of this action by retailers, Playmates Toys moved early to conform to the new standards and disposed of excess inventory. Product development expenses, although lower in 2008 compared to 2007, were higher as a percentage of sales, due to lower sales. Operating expenses were managed to a level below last year, with reductions in advertising expenditures and professional fees.

In 2009, the operating environment for the toy industry is expected to continue to be difficult. As of yet there is no sign of an economic recovery and consumer confidence remains depressed. To prevail in this difficult environment and exploit available new opportunities, Playmates Toys is re-doubling its risk management efforts, while simultaneously pursuing its long term growth strategy with a commitment to its core competency. Expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs. Targeted new property acquisitions are focused on Boy's action and Girl's doll categories, which are Playmates Toys' strong suits. While the economies in the emerging markets will be affected by the global recession in the short run, there remains significant opportunities for long term growth and Playmates Toys will continue to nurture and expand its distribution network in those markets.

In spite of the prevailing difficult macroeconomic environment, Playmates Toys enters 2009 with cautious optimism. While fully cognizant of the economic and financial challenges and uncertainties confronting its suppliers, customers and consumers around the world, Playmates Toys expects to achieve sales growth and improved operating results in 2009 on the strength of its product portfolio and streamlined operating structure. Two major marquee brands supported by worldwide theatrical releases, "**Terminator Salvation**" and "**Star Trek**", will be launched in the first half of the year. Preliminary indications in terms of customer feedback support these expectations.

Portfolio Investments

The Group engages in portfolio investments as part of its treasury activities which involve investing in various types of securities instruments. On 14 November 2008, the Company issued a profit warning statement to announce that the Group had incurred a net loss from investments for the ten-month period ended 31 October 2008 of approximately HK$272 million and forewarned that the adverse condition in the global financial markets might persist through the end of 2008 and accordingly the Group might record further losses from investments during the remaining months of the year. For the year ended 31 December 2008, the Group incurred a net loss from investments of about HK$306 million (including realised losses of about HK$226 million and unrealised losses of about HK$80 million). In comparison, in 2007 net gain from investments was about HK$55 million (including realised gains of about HK$28 million and unrealised gains of HK$27 million). As at 31 December 2008, the aggregate value of securities instruments in the Group's investment portfolio was about HK$185 million (2007: about HK$568 million).

The turmoil in the global financial and investment markets has not abated and significant market volatility may persist throughout the year 2009.

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 58, 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 46, 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 14 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 58, was appointed a director of the Company in 1999. Mr. Ip has 35 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 68, 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 was a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

Directors (Continued)

LO Kai Yiu, Anthony

Independent Non-executive Director

Mr. Lo, age 60, 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 10 years of professional accounting experience, he has over 27 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 51, joined the Group in 1986. Prior to joining the Group, he had 9 years 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 is also an executive director of Playmates Toys Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

TSIM Tak Lung

Deputy Chairman and Non-executive Director

Mr. Tsim, age 62, 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 60, 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 MCL Capital Limited (previously known as Management Capital Limited), a company which is engaged in direct investment and financial advisory services 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 61, 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.

MORRISON, Lynn David

Mr. Morrison, age 65, President of Asian operations, joined the Group in June 2008. Prior to joining the Group, he held several Asian based senior management positions with Galoob and Mostin Limited. Mr. Morrison 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 61, 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 23 years of experience in the accounting profession and over 17 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 55, 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 46, 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 specialised 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 24 years of experience in toy industry.

FISH, Paul

Mr. Fish, age 47, Vice President of Boys Marketing & Product Development and Creative Services, joined the Group in June 2008. He brings a wealth of knowledge with over 20 years of toy industry and advertising experience. During his 17 years at Mattel, Mr. Fish held positions in Marketing, Business Development and General Management. He holds a Masters of Business Administration degree, with a concentration in Marketing and Finance from the University of Southern California.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management (Continued)
Executives of the Toy Business (Continued)

GEIMAN, Raymond

Mr. Geiman, age 47, Vice President of Product Development for Boys Toys, joined the Group in 2003. He holds a degree from The University of Cincinnati in Industrial Design and is a member of IDSA (Industrial Design Society of America). Prior to joining the Group, he owned and operated R. Geiman Industrial Design and worked for major toy companies including Mattel and Hasbro Toys. He has 24 years experience as a professional designer.

JACOBS, Phil

Mr. Jacobs, age 58, 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 31 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 48, 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.

SIRSET, Tor

Mr. Sirset, age 44, Vice President of Marketing and Design Girls Toys, joined the Group in 2007. He holds a degree in Marketing. Prior to joining the Group, he held senior positions at Mattel, Leapfrog and Disguise, managing a portfolio of licensed brands. These positions included management of new categories, such as Electronic Learning Aids, Halloween/Seasonal, New Technology and Textiles. His extensive experience in managing character brands has been instrumental in acquiring new brands from Nickelodeon. He has 16 years of experience in toy industry.

Company Secretary

NG Ka Yan

Ms. Ng, age 34, 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 10 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 2008.

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 suppliers and customers

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	26%
– five largest suppliers in aggregate	73%
Sales	
– the largest customer	22%
– five largest customers in aggregate	55%

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 37.

The directors have declared a first interim dividend of HK$0.10 per ordinary share, totalling HK$22,372,000, which was paid on 24 September 2008.

The directors declared the payment of a second interim dividend of HK$0.02 per ordinary share, totalling HK$4,376,000, which is calculated based on the basis of 218,800,000 ordinary shares in issued at the date of board meeting held on 13 March 2009.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 43. Movements in the reserves of the Company during the year are set out in note 27(b) to the financial statements.

Distributable reserves of the Company at 31 December 2008, calculated under the Companies Act 1981 of Bermuda, amounted to HK$344,483,000 (2007: HK$151,332,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 22 to the 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 2008, trade receivables related to toy operation were HK$77,240,000 (2007: HK$179,272,000) and inventories related to toy operation were at a seasonal low level of HK$19,469,000 or 2.8% of turnover (2007: HK$33,274,000 or 3.7% 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 2008. 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 2008 was 8.7% compared to 5.4% at 31 December 2007. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.7 at 31 December 2008 compared to 2.8 at 31 December 2007.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. As at 31 December 2008, the Group's cash and bank balances were HK$303,316,000 (2007: HK$375,215,000), and the amount invested in various securities was HK$185,012,000 (2007: HK$567,943,000).

Employees

As at 31 December 2008, the Group had a total of 199 employees in Hong Kong, the Mainland China and the United States of America. This compares to 208 employees as at 31 December 2007.

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 29 to the financial statements.

Bank Loans

Details of the Group's bank loans as at 31 December 2008 are set out in note 22 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,319,000 (2007: HK$3,198,000).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

Principal Properties

Details of the principal properties of the Group held for investment purposes are set out in note 14 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 27(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 88.

Purchase, Sale or Redemption of Shares

During the year, 4,924,956 shares of HK$0.10 each were repurchased by the Company at prices ranging from HK$0.74 to HK$0.81 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 27(a)(ii) to the financial statements.

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. 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)*

Directors (Continued)

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Cheng Bing Kin, Alain, Mr. Ip Shu Wing, Charles and Mr. Lee Peng Fei, Allen 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 ("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 of the Company

Share options of the Company 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.

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 13 March 2009	:	**Plan** 142,440 ordinary shares, representing 0.07% of the issued capital. **Scheme** 6,504,900 ordinary shares, representing 2.97% 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.

Share Options (Continued)

Share Options of the Company (Continued)

The basis for determining the exercise price	:	**Plan** Determined by the directors at their discretion, but will not be less than the higher of: (i) the nominal value of an ordinary share; and (ii) the average (or, in the case of any person who owns ordinary shares possessing more than 10% of the total combined voting power of the ordinary shares of the Company or the shares of its parent or subsidiary corporations, 110% of the average) of the closing prices of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant. **Scheme** Determined by the directors and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Plan/Scheme	:	**Plan** Remained 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 2008**	**Exercised during the year** *(Note (2))*	**Lapsed during the year**	**Balance at 31 December 2008**
Plan						
Continuous Contract Employees, excluding Directors	15 May 1998	5.32	28,060	19,100	8,960	–
	27 May 1999	5.06	24,700	–	–	24,700
	22 July 2000	6.26	79,600	–	–	79,600
	21 May 2001	2.97	53,740	9,300	100	44,340
	28 August 2001	2.94	816,300	816,300	–	–
Scheme						
CHENG Bing Kin, Alain *Director*	7 January 2004	13.60	59,000	–	–	59,000
	22 September 2005	12.06	62,500	–	–	62,500
	4 May 2006	9.10	37,500	–	–	37,500
CHOW Yu Chun, Alexander *Director (Note (3))*	4 May 2006	9.10	75,000	–	75,000	–
IP Shu Wing, Charles *Director*	22 September 2005	12.06	100,000	–	–	100,000
	4 May 2006	9.10	37,600	–	–	37,600
LEE Peng Fei, Allen *Director*	22 September 2005	12.06	100,000	–	–	100,000
	4 May 2006	9.10	75,000	–	–	75,000
LO Kai Yiu, Anthony *Director*	9 August 2002	1.99	25,000	–	–	25,000
	22 September 2005	12.06	100,000	–	–	100,000
	4 May 2006	9.10	75,000	–	–	75,000
TO Shu Sing, Sidney *Director*	7 January 2004	13.60	120,000	–	–	120,000
	22 September 2005	12.06	150,000	–	–	150,000
	4 May 2006	9.10	37,500	–	–	37,500
TSIM Tak Lung *Director*	22 September 2005	12.06	100,000	–	–	100,000
	4 May 2006	9.10	75,000	–	–	75,000
YU Hon To, David *Director*	22 September 2005	12.06	100,000	–	–	100,000
	4 May 2006	9.10	75,000	–	–	75,000
Continuous Contract Employees, excluding Directors	9 August 2002	1.99	285,100	150,600	–	134,500
	10 March 2003	5.50	418,370	206,400	150	211,820
	7 January 2004	13.60	936,610	–	43,550	893,060
	19 March 2004	12.40	1,100,000	–	–	1,100,000
	22 September 2005	12.06	1,842,920	–	136,200	1,706,720
	9 January 2006	10.30	50,000	–	–	50,000
	4 May 2006	9.10	1,284,700	–	160,100	1,124,600

Share Options (Continued)

Share Options of the Company (Continued)

Notes:

(1) The exercise price and number of options shown herein have been adjusted to reflect the share consolidation as set out in note 27(a)(i) to the financial statements.

(2) The closing price of the ordinary shares of the Company immediately before the date on which the options were exercised by continuous contract employees, excluding directors, during the year was HK$5.70 (restated to reflect the share consolidation as set out in note 27(a)(i) to the financial statements).

(3) Share options of Mr. Chow Yu Chun, Alexander, who resigned as a director on 28 December 2007, were lapsed on 27 January 2008.

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.

Share Options of Playmates Toys Limited ("PTL")

Share options of PTL, an indirect non-wholly owned subsidiary of the Company, are granted to directors, employees and other eligible participants specified under a Share Option Scheme of PTL ("PTL Scheme") adopted on 25 January 2008. Details of the Scheme are as follows:

Purpose	:	(i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of PTL and its subsidiaries ("PTL 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 PTL Group.
Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the PTL Group or a company in which the PTL 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 PTL Scheme and the percentage of issued share capital of PTL that it represents as at 13 March 2009	:	14,607,000 ordinary shares, representing 2.95% of the issued capital of PTL.

Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of PTL.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/ calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the PTL Scheme	:	Remains in force until 24 January 2018.

Share Options (Continued)

Share Options of Playmates Toys Limited ("PTL") (Continued)

The following shows the particulars of the share options of PTL granted to directors of the Company, directors of PTL, employees of PTL Group and other participants, pursuant to the PTL Scheme, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules:

				Number of share options		
Participant	**Date of grant**	**Exercise price** *HK$*	**Balance at 1 January 2008**	**Granted during the year** *(Note (1))*	**Lapsed during the year**	**Balance at 31 December 2008**
CHENG Bing Kin, Alain *Director of the Company*	31 March 2008	0.35	–	500,000	–	500,000
TO Shu Sing, Sidney *Director of the Company & PTL (Note (2))*	31 March 2008	0.35	–	500,000	–	500,000
Other directors of PTL (Note (3))	31 March 2008	0.35	–	7,650,000	1,125,000	6,525,000
Continuous Contract Employees of PTL Group, excluding directors of PTL	31 March 2008 23 June 2008	0.35 0.29	– –	6,222,000 1,000,000	520,000 –	5,702,000 1,000,000
Other Participants	31 March 2008	0.35	–	450,000	–	450,000

Notes:

(1) The closing prices of the ordinary shares of PTL on 28 March 2008 and 20 June 2008, being the trading days immediately before the dates on which the share options were granted, were HK$0.35 and HK$0.29 respectively.

(2) Mr. To Shu Sing, Sidney was appointed as a director of PTL on 21 May 2008.

(3) These include the share options granted to Mr. Soong, Ronnie, a then director of PTL who passed away on 23 April 2008. Share options of Mr. Soong which were not vested on the date of his decease were lapsed upon his decease and all the share options which were exercisable as at the date of his decease shall lapse on 23 April 2009 if not exercised.

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

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

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

As at 31 December 2008, the interests of each director and chief executive of the Company in the shares and underlying shares of equity derivatives of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules were as follows:

Long positions in shares of the Company

Name of director	**Nature of interest**	**Number of shares held** *(Note (a))*	**Percentage interest held**
CHAN Chun Hoo, Thomas	Personal	2,892,000 ordinary shares	1.32%
	Corporate *(Note (b))*	87,708,000 ordinary shares	40.09%
CHENG Bing Kin, Alain	Personal	190,000 ordinary shares	0.09%
IP Shu Wing, Charles	Personal	245,400 ordinary shares	0.11%
LEE Peng Fei, Allen	Personal	60,000 ordinary shares	0.03%
LO Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.13%
TO Shu Sing, Sidney	Personal	1,860,000 ordinary shares	0.85%
TSIM Tak Lung	Personal	163,680 ordinary shares	0.07%
YU Hon To, David	Personal	110,000 ordinary shares	0.05%
	Corporate *(Note (c))*	456,000 ordinary shares	0.21%

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

Long positions in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)* *(Note (a))*	Percentage interest held
CHENG Bing Kin, Alain	Personal	159,000 share options	159,000 shares	0.07%
IP Shu Wing, Charles	Personal	137,600 share options	137,600 shares	0.06%
LEE Peng Fei, Allen	Personal	175,000 share options	175,000 shares	0.08%
LO Kai Yiu, Anthony	Personal	200,000 share options	200,000 shares	0.09%
TO Shu Sing, Sidney	Personal	307,500 share options	307,500 shares	0.14%
TSIM Tak Lung	Personal	175,000 share options	175,000 shares	0.08%
YU Hon To, David	Personal	175,000 share options	175,000 shares	0.08%

Long positions in shares of PTL

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	6,292,000 ordinary shares	1.27%
	Corporate *(Note (d))*	358,983,044 ordinary shares	72.52%
CHENG Bing Kin, Alain	Personal	474,000 ordinary shares	0.10%
IP Shu Wing, Charles	Personal	245,400 ordinary shares	0.05%
LEE Peng Fei, Allen	Personal	60,000 ordinary shares	0.01%
LO Kai Yiu, Anthony	Personal	286,800 ordinary shares	0.06%
TO Shu Sing, Sidney	Personal	1,730,000 ordinary shares	0.35%
TSIM Tak Lung	Personal	163,680 ordinary shares	0.03%
YU Hon To, David	Personal	110,000 ordinary shares	0.02%
	Corporate *(Note (e))*	456,000 ordinary shares	0.09%

Long positions in underlying shares of PTL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
CHENG Bing Kin, Alain	Personal	500,000 share options	500,000 shares	0.10%
TO Shu Sing, Sidney	Personal	500,000 share options	500,000 shares	0.10%

Notes:

(a) The number of shares and share options shown herein have been adjusted to reflect the share consolidation in note 27(a)(i) to the financial statements.

(b) 87,708,000 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) 456,000 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. Chan Chun Hoo, Thomas is the beneficial owner of all of the issued share capital of AIL and is therefore deemed to be interested in the 87,708,000 shares of PTL in aggregate which AIL is interested in. Since AIL directly owns approximately 40.09% of the shareholding of the Company and is deemed to be interested in the 271,275,044 shares of PTL in aggregate which the Company is interested in, Mr. Chan is also deemed to be interested in the 271,275,044 shares of PTL in aggregate which the Company is interested in.

(e) 456,000 ordinary shares of PTL 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.

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 of the relevant companies as at 31 December 2008.

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 2008, 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' Interest 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 2008, no person (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.

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 and 2009.

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.

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, Grant Thornton were appointed as auditors by the shareholders at the annual general meeting on 5 May 2008.

The financial statements for the year ended 31 December 2008 have been audited by Grant Thornton who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Continuing Connected Transactions

(1) On 16 August 2007, EN Dining Limited ("EN Dining") as tenant and Belmont Limited ("Belmont"), an indirect wholly-owned subsidiary of the Company, as landlord entered into a tenancy agreement ("EN Dining 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 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 EN Dining 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.

(2) On 26 August 2008, Playmates Toys Asia Limited ("PTA"), an indirect wholly-owned subsidiary of PTL, as tenant and Belmont as landlord entered into a tenancy agreement ("PTA Tenancy Agreement") relating to the leasing of the premises known as 22nd Floor, The Toy House, No. 100 Canton Road, Tsimshatsui, Kowloon for a term of 36 months from 1 September 2008 to 31 August 2011 at the rental of HK$119,991 per month and management

charges of HK$19,458 per month (exclusive of rates, Government rent, utilities and other outgoings). Mr. Chan Chun Hoo, Thomas, being a director and the ultimate controlling shareholder (as defined in the Listing Rules) of the Company and hence a connected person of the Company, holds directly and indirectly through AIL an aggregate of approximately 18.99% of PTL, which results in PTL being a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the PTA Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 27 August 2008, 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 all the continuing connected transactions and confirmed that the transactions have been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreements governing them 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 continuing connected transactions and confirmed to the board that the transactions have been approved by the board of the Company and have been entered into in accordance with the relevant agreements governing the transactions, and that they have not exceeded the relevant annual cap disclosed in their respective previous announcements.

On behalf of the board
CHAN Chun Hoo, Thomas
Chairman

Hong Kong, 13 March 2009

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 of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2008, 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 which is shown on page 27 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

With a view to further improving the Company's corporate governance practices, we have appointed an external independent consultant to perform a review on the internal control procedures of the Group in Hong Kong. We have also revised the terms of reference of the audit committee in March 2009 in order to conform to the latest amendments of the Code in respect of the responsibilities of the audit committee.

Board of Directors

The board of directors of the Company comprises:

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)*

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. Tsim Tak Lung and Mr. To Shu Sing, Sidney.

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.

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 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. 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.

Board of Directors (Continued)

The board held four meetings in 2008. Details of directors' attendance at the board meetings and audit committee meetings held in 2008 are set out in the following table.

	No. of meetings attended/held	
Directors	**Board**	**Audit Committee**
CHAN Chun Hoo, Thomas	4/4	N/A
CHENG Bing Kin, Alain	4/4	N/A
IP Shu Wing, Charles	3/4	N/A
LEE Peng Fei, Allen	4/4	2/2
LO Kai Yiu, Anthony	3/4	2/2
TO Shu Sing, Sidney	4/4	N/A
TSIM Tak Lung	4/4	2/2
YU Hon To, David	4/4	2/2

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008. The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the independent auditors' report on page 36 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 and 2009 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 2008.

At the meeting held on 13 March 2009, the Audit Committee reviewed this report, the Directors' Report and the financial statements for the year ended 31 December 2008 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.

During the year, the Compensation Committee had reviewed and considered the service agreements with all the non-executive directors (including independent non-executive directors) and the appointment letters with all the executive directors.

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 shall 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.

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 conditions;
- 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 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.

Emoluments of Directors and Top Paid Employees

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 13(a) to the financial statements.

The following table summarizes compensation information for the four most highly compensated executive officers of the Group, excluding directors of the Company, for the year ended 31 December 2008:

Name of officer	Directors' fee *HK$'000*	Salary *HK$'000*	Other benefits *HK$'000* *(Note)*	Employer's contribution to provident fund *HK$'000*	Share-based payment *HK$'000*	Total *HK$'000*
NOVAK, Lou Robert	10	3,949	538	108	1,109	5,714
ROSTEN, Arthur Steven	–	2,340	191	108	167	2,806
JACOBS, Phil	–	1,958	211	108	115	2,392
CHANDA, Ed	–	1,736	144	106	115	2,101

Note: Other benefits include car allowance and insurance premium.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company 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 2008. 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 22 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 organisation 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.

During the year, the board engaged an independent consultant ("**HK Consultant**") to perform a review on the system of internal controls of the Group's operation in Hong Kong. The review covered all material controls, including financial, operational and compliance controls of the Group's operation in Hong Kong.

During the year, an independent consultant ("**Toy Group Consultant**") was engaged to perform a review on the system of internal controls of the Group's toy operation in the U.S., Hong Kong and Mainland China. 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 recognized 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 organisation, 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.

The Company will continue to engage external independent professionals to review its system of internal controls regularly and independently and to further enhance its internal controls as appropriate.

Control Effectiveness

The HK Consultant has submitted to the board an internal control review report in February 2009. The HK Consultant reported that the Group's operation in Hong Kong has set up adequate control environment at the Group level in compliance with the Code.

The Toy Group Consultant has submitted to the board a testing and monitoring report in 2008. It was reported that no material control failings, weaknesses or significant areas of concern were identified during its review.

The directors are satisfied with the effectiveness of the Group's internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it 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 2008, the auditors of the Company only provided audit services to the Group and the remuneration paid by the Group to the auditors for the performance of audit services was HK$2,150,000. 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 maintaining an open and effective investor communication policy and to update investors on relevant information on 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 senior executives 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.

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

The Code of Business Conduct of the Group 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 Group expects that its business partners would act ethically and in a manner consistent with this Code of Business Conduct.

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 Group 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 Group 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 organisations. 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.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Holdings Limited (the "Company") set out on pages 37 to 87, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the auditors 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

13 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 US$'000 (Note 33)	2008 HK$'000	2007 HK$'000
Turnover	3	**102,787**	**801,739**	996,049
Cost of sales		**(57,784)**	**(450,710)**	(519,888)
Gross profit		**45,003**	**351,029**	476,161
Marketing expenses		**(27,733)**	**(216,319)**	(245,976)
Selling and distribution expenses		**(7,134)**	**(55,647)**	(71,391)
Administration expenses		**(21,865)**	**(170,546)**	(187,035)
Revaluation (deficit)/surplus on investment properties		**(15,088)**	**(117,687)**	329,637
Restructuring expenses		**–**	**–**	(18,950)
Operating (loss)/profit	4	**(26,817)**	**(209,170)**	282,446
Non-operating income/(expenses)				
Interest expense and bank charges	5	**(1,455)**	**(11,350)**	(10,440)
Other income	6	**1,607**	**12,537**	15,906
Net (loss)/gain on financial assets at fair value through profit or loss	7	**(39,206)**	**(305,806)**	55,288
		(65,871)	**(513,789)**	343,200
Share of profit of an associated company		**67**	**523**	3,426
Share of loss of a jointly controlled entity		**(168)**	**(1,313)**	–
(Loss)/profit before taxation		**(65,972)**	**(514,579)**	346,626
Taxation charge	8	**(3,523)**	**(27,480)**	(30,340)
(Loss)/profit for the year		**(69,495)**	**(542,059)**	316,286
Attributable to:				
Equity holders of the Company	9	**(58,304)**	**(454,773)**	315,853
Minority interests		**(11,191)**	**(87,286)**	433
		(69,495)	**(542,059)**	316,286
Dividends	10	**3,429**	**26,748**	229,006
		US$	***HK$***	*HK$*
(Loss)/earnings per share	11			
Basic		**(0.26)**	**(2.04)**	1.50
Diluted		**N/A**	**N/A**	1.49

The notes on pages 44 to 87 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000 (Note 33)	2008 HK$'000	2007 HK$'000
Non-current assets				
Fixed assets				
– Investment properties	14	**182,833**	**1,426,100**	1,539,800
– Other property, plant and equipment	14	**6,263**	**48,848**	38,149
– Prepaid premium on leasehold land held for own use under an operating lease	14	**8,239**	**64,267**	48,597
		197,335	**1,539,215**	1,626,546
Goodwill	15	**766**	**5,976**	5,976
Interest in an associated company	17	**3,284**	**25,613**	25,090
Interest in a jointly controlled entity	18	**1,094**	**8,534**	–
Deferred tax assets	26	**5,924**	**46,202**	91,976
		208,403	**1,625,540**	1,749,588
Current assets				
Inventories	19	**2,519**	**19,647**	33,368
Trade receivables	20	**10,115**	**78,900**	179,792
Other receivables, deposits and prepayments		**13,950**	**108,808**	80,172
Taxation recoverable		**514**	**4,011**	3,177
Financial assets at fair value through profit or loss	21	**23,719**	**185,012**	567,943
Cash and bank balances	28(b)	**38,887**	**303,316**	375,215
		89,704	**699,694**	1,239,667
Current liabilities				
Bank loans	22	**25,861**	**201,721**	160,275
Trade payables	23	**12,527**	**97,709**	76,027
Other payables and accrued charges		**10,812**	**84,331**	160,415
Provisions	24	**3,785**	**29,520**	35,798
Taxation payable		**468**	**3,651**	5,856
		53,453	**416,932**	438,371
Net current assets		**36,251**	**282,762**	801,296
Total assets less current liabilities		**244,654**	**1,908,302**	2,550,884
Non-current liabilities				
Deferred tax liabilities	26	**16,511**	**128,785**	154,109
Net assets		**228,143**	**1,779,517**	2,396,775

	Note	2008 US$'000 (Note 33)	2008 HK$'000	2007 HK$'000
Capital and reserve				
Share capital	*27(a)*	**2,805**	**21,880**	222,523
Reserves		**219,154**	**1,709,400**	1,987,780
Proposed dividends	*10*	**–**	**–**	184,502
Declared dividends	*10*	**561**	**4,376**	–
Equity attributable to the Company's equity holders		**222,520**	**1,735,656**	2,394,805
Minority interests		**5,623**	**43,861**	1,970
Total equity		**228,143**	**1,779,517**	2,396,775

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 44 to 87 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000 (Note 33)	2008 HK$'000	2007 HK$'000
Non-current assets				
Investment in subsidiaries	16	**213,168**	**1,662,714**	1,469,722
Current assets				
Taxation recoverable		**96**	**750**	–
Cash and bank balances		**44**	**347**	310
		140	**1,097**	310
Current liabilities				
Other payables and accrued charges		**18**	**142**	4
		18	**142**	4
Net current assets		**122**	**955**	306
Net assets		**213,290**	**1,663,669**	1,470,028
Capital and reserve				
Share capital	27(a)	**2,805**	**21,880**	222,523
Reserves	27(b)	**209,924**	**1,637,413**	1,124,921
Proposed dividends	10	**–**	**–**	122,584
Declared dividends	10	**561**	**4,376**	–
Total equity		**213,290**	**1,663,669**	1,470,028

On behalf of the board

CHAN Chun Hoo, Thomas
Director

TO Shu Sing, Sidney
Director

The notes on pages 44 to 87 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 US$'000 (Note 33)	2008 HK$'000	2007 HK$'000
Cash flows from operating activities				
Cash (used in)/generated from operations	28(a)	(4,000)	(31,198)	105,068
Interest paid		(909)	(7,093)	(5,488)
Hong Kong profits tax paid		(1,323)	(10,322)	(3,163)
Hong Kong profits tax refunded		–	–	626
Overseas tax refunded		32	253	23,777
Net cash (used in)/generated from operating activities		(6,200)	(48,360)	120,820
Cash flows from investing activities				
Purchases of financial assets at fair value through profit or loss		(93,021)	(725,564)	(807,697)
Proceeds from disposal of financial assets at fair value through profit or loss		99,397	775,302	626,717
Purchases of investment properties		(3,844)	(29,987)	(14,369)
Purchases of other property, plant and equipment		(1,230)	(9,596)	(6,927)
Proceeds from disposal of other property, plant and equipment		123	960	13
Bank interest received		696	5,427	13,045
Investment in a jointly controlled entity		(900)	(7,020)	–
Advances to a jointly controlled entity		(363)	(2,827)	–
Decrease in loan to an associated company		–	–	7,499
Dividend received from an associated company		–	–	4,900
Dividends received from financial assets at fair value through profit or loss		826	6,440	2,391
Net cash generated from/(used in) investing activities		1,684	13,135	(174,428)
Cash flows from financing activities				
Issue of shares		508	3,964	360,427
Repurchase of shares		(485)	(3,781)	–
New bank loans		11,789	91,952	120,000
Repayment of bank loans		(6,475)	(50,506)	(67,543)
Dividends paid		(10,039)	(78,303)	(154,076)
Net cash (used in)/generated from financing activities		(4,702)	(36,674)	258,808
Net (decrease)/increase in cash and cash equivalents		(9,218)	(71,899)	205,200
Cash and cash equivalents at 1 January		48,105	375,215	170,015
Cash and cash equivalents at 31 December	28(b)	38,887	303,316	375,215

The notes on pages 44 to 87 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Equity Holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Reserve on consolidation *HK$'000*	Share-based compensation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'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 interests arose during the year	–	–	–	–	–	–	–	1,537	1,537
Share option scheme									
– value of 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

	Equity Holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Reserve on consolidation HK$'000	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008	**222,523**	**1,069,283**	**1,116**	**21,082**	**28,746**	**1,052,055**	**2,394,805**	**1,970**	**2,396,775**
Total recognised income and expense for the year									
Loss for the year	–	–	–	–	–	(454,773)	(454,773)	(87,286)	(542,059)
Capital reorganisation *(Note 27(a)(i))*	(201,353)	201,353	–	–	–	–	–	–	–
Shares repurchased	(492)	(3,289)	492	–	–	(492)	(3,781)	–	(3,781)
2007 final dividend paid	–	–	–	–	–	(55,931)	(55,931)	–	(55,931)
2007 special dividend in specie	–	–	–	–	–	(128,571)	(128,571)	128,571	–
2008 first interim dividend paid	–	–	–	–	–	(22,372)	(22,372)	–	(22,372)
Share option scheme									
– value of services	–	–	–	–	2,315	–	2,315	606	2,921
– shares issued	1,202	3,021	–	–	(259)	–	3,964	–	3,964
– options lapsed	–	–	–	–	(1,273)	1,273	–	–	–
	(200,643)	201,085	492	–	783	(206,093)	(204,376)	129,177	(75,199)
At 31 December 2008	**21,880**	**1,270,368**	**1,608**	**21,082**	**29,529**	**391,189**	**1,735,656**	**43,861**	**1,779,517**

The notes on pages 44 to 87 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 HM 11, 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 "Stock Exchange").

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 16 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 Rules Governing the Listing of Securities on the Stock Exchange. 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. In current year, the Group has applied for the first time the following amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

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]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost on an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2008[3]

Notes:

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

2 Effective for annual periods beginning on or after 1 July 2009

3 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

(b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

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) *Subsidiaries*

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.

Minority interest represents the portion of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

2 Summary of Significant Accounting Policies (Continued)

(c) Group accounting (Continued)

(i) Subsidiaries (Continued)

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

(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 less any identified impairment loss.

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.

(iii) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic entity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Investments in jointly controlled entities 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 jointly controlled entities' net assets less any identified impairment loss.

The Group's share of its jointly controlled entities' 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 a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

(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 was 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.

2 Summary of Significant Accounting Policies (Continued)

(d) Fixed assets (Continued)

(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.

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement.

Depreciation of other 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

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, which these financial assets are managed according to internal policies and their performance is evaluated periodically on a fair value basis. 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 investment. 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 directly attributable 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.

Unlisted managed funds are carried at the fair value of the managed fund's assets as at balance sheet date.

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 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 the receivables.

Trade and other receivables are derecognised when the right to receive cash flows from the assets expire or, the financial assets (partly or its entirely) are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable is recognised in the income statement.

2 Summary of Significant Accounting Policies (Continued)

(i) Impairment of assets

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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or 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. A 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/credit in the income statement.

(m) Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

(n) Revenue recognition

Revenue from sales of toys 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 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 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

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.

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. Segment assets and capital expenditure are based on where the assets are located.

2 Summary of Significant Accounting Policies (Continued)

(u) Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. 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 combination 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.

The Group continually assesses potential exposures to customer and supplier claims and, where necessary, establishes provisions for any such exposures as described below:

(i) Consumer returns

The Group uses agreed customer allowances based on a percentage of sales and information on actual consumer returns of goods to estimate return percentages. The provision is calculated based on these factors and is adjusted for any fluctuations in the returns expected by management as of each period end.

Most of the Group's retail customers receive a fixed percentage of sales as their allowance. Some of these customers receive a higher percentage rate on certain electronic products. The allowance for each retail customer is agreed and documented in the terms of trade. Certain customers receive an allowance based on their actual consumer return experience.

In evaluating the adequacy of the prior year provision, the Group prepares an analysis to determine the reasons for unclaimed deductions. If the analysis determines that some carry forward provision amounts were no longer appropriate based on actual claims experience, the proper adjustments will be made to release the over-accrued portion.

(ii) Cooperative advertising

The Group participates in customer advertising programmes and allows certain customers to take a percentage of sales deduction, which is negotiated on an individual basis. In addition, the Group contributes toward specific expenses of the customers for in-store sales promotions and advertising circulars.

In the case of fixed percentage, the amounts are negotiated and documented in the terms of trade with the respective customer. In the case of all special programs, the program application, limits and amounts are offered on a case by case basis by the Group. Some of the programs are set for defined periods of time or limited to a maximum number of units sold, and confirming data is provided by the retailer to finalise the actual program cost.

Claims for cooperative advertising may be received up to two years after the relevant balance sheet date and, in certain cases, later. The Group reviews the provisions periodically and any unrequired amount will be reversed when determined.

(iii) Cancellation charges

The provision represents the estimated amounts that would be payable to suppliers to settle the cost incurred by them for production orders which have been or are likely to be cancelled. The Group generally settles these amounts in the year after the year that specific product ceases to be actively sold to customers.

In most cases, the vendor may try to mitigate the Group's exposure by utilising the unused components in its other products. Such arrangement may also reduce the Group's potential cancellation exposure.

At each relevant balance sheet date, the Group will analyse the potential cancellation charge exposure for order cancellations due to commitments for finished goods, work in process items and material authorisations. The Group will also review if any items can be carried over to be produced and sold in the subsequent year. Once any adjustment is made, the remaining exposure is adjusted by a factor representing the historical negotiated discount agreed with the suppliers.

All provisions are established for specific exposures.

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.

Over- or under-provision for the above exposures, arising from subsequent events and the eventual settlement, are adjusted in that subsequent period where appropriate.

2 Summary of Significant Accounting Policies (Continued)

(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 the Group, or of any entity that is a related party of the Company or the 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:

	2008 *HK$'000*	2007 *HK$'000*
Turnover		
Sales of toys	**703,596**	909,030
Rental income from investment properties	**62,465**	52,701
Property management income	**11,052**	10,092
Restaurant income	**24,626**	24,226
Total revenue	**801,739**	996,049

Business segments

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

	Year ended 31 December 2008			
	Toy business *HK$'000*	Property investment and associated business *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
Revenue				
Turnover	703,596	98,143	–	801,739
Inter-segment revenue *(Note (iii))*	–	889	(889)	–
	703,596	99,032	(889)	801,739
Results				
Segment results	(136,533)	(64,545)	–	(201,078)
Inter-segment transactions *(Note (iii))*	(889)	889	–	–
	(137,422)	(63,656)	–	(201,078)
Unallocated costs				(8,092)
Operating loss				(209,170)
Assets				
Segment assets	233,344	1,545,312	(860)	1,777,796
Unallocated assets				547,438
Total assets				2,325,234
Liabilities				
Segment liabilities	180,291	29,586	(860)	209,017
Unallocated liabilities				336,700
Total liabilities				545,717
Other information				
Capital expenditure	7,295	30,187		
Depreciation	2,765	4,773		

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*
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
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		

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 2008 *HK$'000*	**Segment assets 2008** *HK$'000*	**Segment capital expenditure 2008** *HK$'000*
Americas			
– U.S.A.	**458,776**	**185,032**	**3,974**
– Others	**50,021**	**–**	**–**
Europe	**165,603**	**–**	**–**
Asia Pacific	**115,397**	**1,592,764**	**33,508**
Others	**11,942**	**–**	**–**
	801,739	**1,777,796**	**37,482**

	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

4 *Operating (Loss)/Profit*

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

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	**382,747**	434,258
Write-down of inventories	**3,803**	3,288
Product development costs	**15,798**	24,668
Royalties paid	**74,204**	93,370
Direct operating expenses arising from investment properties that generate rental income	**1,944**	2,490
Direct operating expenses arising from investment properties that did not generate rental income	**1,404**	2,193
Provision for customer concession *(Note 20)*	**5,380**	12,304
Unutilised provision for customer concession *(Note 20)*	**(1,761)**	(1,301)
Reversal of provision for doubtful debts *(Note 20)*	**–**	(1,591)
Provision for customer and supplier claims *(Note 24)*	**28,346**	42,661
Unutilised provision for customer and supplier claims *(Note 24)*	**(6,328)**	(2,097)
Depreciation of fixed assets	**8,212**	8,196
Staff costs, including directors' remuneration *(Note 12)*	**107,432**	106,925
Operating leases expense on office and warehouse facilities	**8,562**	9,991
Loss on disposal of other property, plant and equipment	**55**	97
Auditors' remuneration	**2,150**	2,150

5 *Interest Expense and Bank Charges*

	2008	2007
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts, wholly repayable within five years	**7,093**	5,488
Bank charges	**4,257**	4,952
	11,350	10,440

6 *Other Income*

	2008	2007
	HK$'000	*HK$'000*
Bank interest income	**5,427**	13,045
Dividend income from financial assets at fair value through profit or loss	**7,110**	2,861
	12,537	15,906

7 Net (Loss)/Gain on Financial Assets at Fair Value through Profit or Loss

	2008 HK$'000	2007 HK$'000
Net realised (loss)/gain on financial assets at fair value through profit or loss	**(225,889)**	28,269
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	**(79,917)**	27,019
	(305,806)	55,288

8 Taxation Charge

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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:

	2008 HK$'000	2007 HK$'000
Current taxation		
Hong Kong profits tax	**(7,018)**	(7,135)
Overseas tax refunded *(Note)*	**–**	22,879
(Under)/over provision in prior years	**(12)**	2,111
	(7,030)	17,855
Deferred taxation		
Decrease in tax rate	**8,767**	–
Origination and reversal of temporary differences	**(29,217)**	(48,195)
	(20,450)	(48,195)
	(27,480)	(30,340)

Note: This relates to the examination by the U.S. Tax Authority, the California Franchise Tax Board ("FTB") of certain state tax returns of the U.S. subsidiaries of the Group for the tax years 1988 through 1990. The Group settled all the tax liabilities regarding the tax case in 2006. However, the Group pursued refund claim through litigation with the FTB. In 2007, the Group and FTB agreed in principle to an out-of-court settlement which resulted in a refund of approximately HK$22,879,000.

8 Taxation Charge (Continued)

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

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(514,579)**	346,626
Calculated at a taxation rate of 16.5% (2007: 17.5%)	**(84,906)**	60,660
Effect of different taxation rates in other countries	**(36,905)**	(10,364)
Decrease in tax rate	**(8,767)**	–
Non-taxable income	**(3,134)**	(9,740)
Non-deductible expenses	**32,774**	6,546
Unrecognised temporary differences	**(541)**	(4,025)
Utilisation of previously unrecognised tax losses	**(345)**	(1,346)
Reversal of previously recognised tax losses	**46,356**	–
Unrecognised tax losses	**82,899**	–
Overseas tax refund	**–**	(22,879)
Tax on gain on disposal of subsidiaries	**–**	13,555
Prior year under/(over) provision	**12**	(2,111)
Current year over provision	**37**	44
Taxation charge	**27,480**	30,340

9 (Loss)/Profit Attributable to Equity Holders of the Company

The consolidated (loss)/profit attributable to equity holders of the Company includes a profit of HK$336,834,000 (2007: HK$99,521,000) which is dealt with in the financial statements of the Company.

10 Dividends

	2008	2007
	HK$'000	*HK$'000*
First interim dividend paid of HK$0.10 (2007: HK$0.20) per share	**22,372**	44,504
Second interim dividend declared of HK$0.02 (2007: HK$nil) per share	**4,376**	–
	26,748	44,504
Final dividend proposed of HK$nil (2007: HK$0.25) per share	**–**	55,931
Special dividend in specie proposed of HK$nil (2007: HK$0.57) per share *(Note)*	**–**	128,571
	–	184,502
	26,748	229,006

Note: 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 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 13 March 2009, the directors declared a second interim dividend of HK$0.02 per share on the basis of 218,800,000 shares in issue as at the date of the meeting. These declared 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 2009.

11 (Loss)/Earnings Per Share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$454,773,000 (2007: profit of HK$315,853,000) and on the weighted average of 223,239,000 (2007: 210,842,400) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2008 was not presented because the impact of the exercise of the share options was anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 of HK$315,853,000 and the weighted average number of ordinary shares of 212,214,300 shares, adjusted for the effects of 1,371,900 dilutive potential shares.

12 Staff Costs

	2008 ***HK$'000***	2007 *HK$'000*
Wages, salaries and other benefits	**99,403**	99,808
Share-based compensation	**2,921**	4,491
Employer's contributions to provident fund	**2,986**	2,626
Termination benefits	**2,122**	–
	107,432	106,925

13 Emoluments of the Directors and the Five Highest Paid Individuals

(a) Directors' emoluments

The emoluments of each director is set out below:

Name of director	Fee 2008 HK$'000	Salary 2008 HK$'000	Bonus 2008 HK$'000	Share-based compensation 2008 HK$'000	Other benefits 2008 HK$'000 (Note)	Employer's contribution to provident fund 2008 HK$'000	Total 2008 HK$'000
CHAN Chun Hoo, Thomas	15	120	–	–	203	7	345
CHENG Bing Kin, Alain	5	1,644	–	103	398	12	2,162
IP Shu Wing, Charles	110	–	–	65	25	–	200
LEE Peng Fei, Allen	110	–	–	65	173	–	348
LO Kai Yiu, Anthony	110	–	–	65	188	–	363
TO Shu Sing, Sidney	11	2,040	–	126	62	12	2,251
TSIM Tak Lung	110	–	–	65	203	–	378
YU Hon To, David	110	–	–	65	128	–	303
	581	3,804	–	554	1,380	31	6,350

Name of director	Fee 2007 HK$'000	Salary 2007 HK$'000	Bonus 2007 HK$'000	Share-based compensation 2007 HK$'000	Other benefits 2007 HK$'000 (Note)	Employer's contribution to provident fund 2007 HK$'000	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	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

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

(b) *Five highest paid individuals' emoluments*

Two (2007: three) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (2007: two) highest paid individuals are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**9,197**	6,392
Share-based compensation	**1,391**	1,992
Employer's contribution to provident fund	**324**	115
	10,912	8,499

The emoluments of these three (2007: two) individuals are within the following bands:

	Number of individuals	
	2008	2007
HK$		
2,000,001 – 2,500,000	**1**	–
2,500,001 – 3,000,000	**1**	1
5,500,001 – 6,000,000	**1**	1
	3	2

The employees, whose emoluments are disclosed above, include senior executives who were also directors of subsidiaries during the year.

14 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 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
At 1 January 2008	27,077	31,351	30,733	89,161	1,539,800	50,974	**1,679,935**
Additions	–	7,545	2,051	9,596	29,987	–	**39,583**
Revaluation deficit	–	–	–	–	(117,687)	–	**(117,687)**
Reclassification	9,020	–	–	9,020	(26,000)	16,980	**–**
Disposals	–	(1,681)	(64)	(1,745)	–	–	**(1,745)**
At 31 December 2008	**36,097**	**37,215**	**32,720**	**106,032**	**1,426,100**	**67,954**	**1,600,086**
Accumulated amortisation and depreciation							
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
At 1 January 2008	1,953	21,756	27,303	51,012	–	2,377	**53,389**
Charge for the year	1,085	4,024	1,793	6,902	–	1,310	**8,212**
Disposals	–	(667)	(63)	(730)	–	–	**(730)**
At 31 December 2008	**3,038**	**25,113**	**29,033**	**57,184**	**–**	**3,687**	**60,871**
Net book value							
At 31 December 2008	**33,059**	**12,102**	**3,687**	**48,848**	**1,426,100**	**64,267**	**1,539,215**
At 31 December 2007	25,124	9,595	3,430	38,149	1,539,800	48,597	1,626,546

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

	2008		2007	
	Land and buildings *HK$'000*	Investment properties *HK$'000*	Land and buildings *HK$'000*	Investment properties *HK$'000*
In Hong Kong, held under:				
Leases of over 50 years	–	315,000	–	331,000
Leases of between 10 and 50 years	97,326	1,111,100	73,721	1,208,800
	97,326	1,426,100	73,721	1,539,800

The investment properties were revalued as at 31 December 2008 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 2008 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	42,240 Sq. ft.	100%

15 Goodwill – Group

	HK$'000
Cost	
At 1 January 2007, 31 December 2007 and 31 December 2008	**5,976**

16 Investment in Subsidiaries – Company

	2008 HK$'000	2007 HK$'000
Amounts due from subsidiaries, net of provisions	**1,662,714**	1,469,722

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK$821,480,000 (2007: HK$322,874,000) which are interest free, are interest bearing at 0.5% (2007: 1%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2008 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
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	54.8%	Provision of services and trading, Hong Kong

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	54.8%	Toy development, marketing and distribution, U.S.A.
Playmates Toys International Limited	Hong Kong	1 ordinary share of US$1	54.8%	Toy distribution in non-U.S. markets, Hong Kong
Playmates Toys Limited	Bermuda	495,000,000 ordinary shares of HK$0.01 each	54.8%	Investment holding, Hong Kong
Playworld (Shenzhen) Limited (formerly known as Playmates Toys China Limited)	The People's Republic of China	HK$1,000,000 registered capital	54.8%	Provision of services, PRC
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

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.

17 Interest in an Associated Company – Group

	2008 HK$'000	2007 HK$'000
Share of net assets	**25,613**	25,090

As at 31 December 2008, 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 the associated company

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit HK$'000
2008					
100 per cent	**71,593**	**19,321**	**52,272**	**111,296**	**1,067**
Group's effective interest	**35,080**	**9,467**	**25,613**	**54,535**	**523**
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

18 Interest in a Jointly Controlled Entity – Group

	2008	2007
	HK$'000	*HK$'000*
Share of net assets	**5,707**	–
Advances to jointly controlled entity	**2,827**	–
	8,534	–

As at 31 December 2008, the Group held interests in the following jointly controlled entity:

Name of company	**Place of incorporation**	**Percentage of interest held**
Playmates GP, LLC ("LLC")	U.S.A.	45%

The jointly controlled entity is held indirectly by the Company and it operates in U.S.A.

LLC is principally engaged in the business of marketing, sales and distribution of a line of boy's action figure products.

The amount advanced to the jointly controlled entity is unsecured, has no fixed term of repayment and except for the amount of HK$487,000 which is interest free, is interest bearing at LIBOR.

Summary financial information of the jointly controlled entity – Group's effective interest

	2008	2007
	HK$'000	*HK$'000*
Current assets	**17,381**	–
Current liabilities	**(4,654)**	–
Non-current liabilities	**(7,020)**	–
Net assets	**5,707**	–
Income	**1,637**	–
Expenses	**(2,950)**	–
Loss for the year	**(1,313)**	–

19 Inventories – Group

As at 31 December 2008, the carrying amount of inventories that are carried at net realisable value amounted to HK$8,328,000 (2007: HK$12,344,000).

20 Trade Receivables – Group

	2008 HK$'000	2007 HK$'000
Trade receivables	**84,700**	186,014
Less: Provision for doubtful debts and allowance for customer concession	**(5,800)**	(6,222)
	78,900	179,792

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

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. 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:

	2008 HK$'000	2007 HK$'000
0 – 30 days	**71,659**	178,256
31 – 60 days	**1,986**	261
Over 60 days	**5,255**	1,275
	78,900	179,792

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

	2008 HK$'000	2007 HK$'000
At 1 January	**6,222**	10,151
Additional provisions made	**5,380**	12,304
Provisions utilised	**(4,041)**	(13,341)
Reversal of unutilised provisions	**(1,761)**	(2,892)
At 31 December	**5,800**	6,222

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

	2008 *HK$'000*	2007 *HK$'000*
Neither past due nor impaired	**74,085**	178,846
1 – 90 days past due	**3,453**	861
91 – 180 days past due	**772**	52
Over 180 days past due	**590**	33
	78,900	179,792

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.

21 Financial Assets at Fair Value through Profit or Loss – Group

	2008 *HK$'000*	2007 *HK$'000*
Designated upon initial recognition		
Listed equity investment in Hong Kong	**61,930**	132,734
Listed equity investment outside Hong Kong	**89,225**	125,261
Unlisted managed funds	**33,857**	309,948
	185,012	567,943

22 Bank Loans – Group

	2008 HK$'000	2007 HK$'000
Secured bank loans repayable within one year	**160,000**	160,275
Unsecured bank loans repayable within one year	**41,721**	–
	201,721	160,275

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was 1.41% p.a. (2007: 4.59% p.a.).

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

As at 31 December 2008, the Group has banking facilities amounting to HK$615 million (2007: HK$777 million), of which HK$201 million (2007: HK$160 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and land and buildings of the Group with net book value of HK$1,088 million and HK$97 million (2007: HK$1,186 million and HK$74 million) respectively as at 31 December 2008.

23 Trade Payables – Group

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

	2008 HK$'000	2007 HK$'000
0 – 30 days	**74,527**	34,166
31 – 60 days	**20,385**	41,391
Over 60 days	**2,797**	470
	97,709	76,027

24 *Provisions – Group*

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

	Consumer returns *HK$'000*	Cooperative advertising *HK$'000*	Cancellation charges *HK$'000*	Total *HK$'000*
At 1 January 2008	**6,919**	**22,224**	**6,655**	**35,798**
Additional provisions made	**8,704**	**16,719**	**2,923**	**28,346**
Provisions utilised	**(5,738)**	**(18,470)**	**(4,088)**	**(28,296)**
Reversal of unutilised provisions	**(3,509)**	**(1,902)**	**(917)**	**(6,328)**
At 31 December 2008	**6,376**	**18,571**	**4,573**	**29,520**

The Group cannot reliably estimate the amounts that will eventually be settled after more than 12 months from the balance sheet date. Thus, the whole amount was classified as current.

25 *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. The number of options, exercise price and weighted average exercise price shown herein have been adjusted to reflect the share consolidation as set out in note 27(a)(i). The number and weighted average exercise price of share options are as follows:

	2008		2007	
	Weighted average exercise price ***HK$***	**Number of options** ***'000***	Weighted average exercise price *HK$*	Number of options *'000*
At the beginning of the year	**9.91**	**8,324**	9.51	9,398
Exercised *(Note (a))*	**3.30**	**(1,202)**	5.47	(900)
Lapsed	**10.43**	**(424)**	11.04	(174)
At the end of the year *(Note (b))*	**11.07**	**6,698**	9.91	8,324

25 Equity Settled Share-based Transactions (Continued)

Notes:

(a) These share options were exercised during the year ended 31 December 2008 at exercise prices ranging from HK$1.99 to HK$5.50 (2007: from HK$1.99 to HK$12.06) per share. The weighted average closing price per ordinary share of the Company immediately before the date on which the options were exercised during the year was HK$5.70.

(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	
		2008	2007	**2008**	2007
	HK$	*'000*	*'000*	*'000*	*'000*
Directors					
8 August 2012	1.99	**25**	25	**25**	25
6 January 2014	13.60	**179**	179	**179**	179
21 September 2015	12.06	**712**	712	**712**	531
3 May 2016	9.10	**413**	488	**281**	188
		1,329	1,404	**1,197**	923
Other employees					
14 May 2008	5.32	**–**	28	**–**	28
26 May 2009	5.06	**25**	25	**25**	25
21 July 2010	6.26	**80**	80	**80**	80
20 May 2011	2.97	**44**	54	**44**	54
27 August 2011	2.94	**–**	816	**–**	816
8 August 2012	1.99	**135**	285	**135**	285
9 March 2013	5.50	**212**	418	**212**	418
6 January 2014	13.60	**893**	937	**893**	937
18 March 2014	12.40	**1,100**	1,100	**1,100**	1,100
21 September 2015	12.06	**1,706**	1,843	**1,706**	1,377
8 January 2016	10.30	**50**	50	**37**	25
3 May 2016	9.10	**1,124**	1,284	**836**	611
		5,369	6,920	**5,068**	5,756
		6,698	8,324	**6,265**	6,679

Subject to the waiver or variation by the Board from time to time at its sole discretion, 25% of the share options granted shall be vested each year commencing on the date of grant and exercisable until the expiration of the relevant option period.

The share options outstanding at 31 December 2008 had a weighted average remaining contractual life of 6.08 years.

In total, HK$1,580,000 of share-based compensation expense has been included in the consolidated income statement for 2008 (2007: HK$4,491,000) and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

No share options were cancelled during the year (2007: nil).

Equity settled share-based transactions of Playmates Toys Limited ("PTL")

At the special general meeting of the Company held on 25 January 2008, the shareholders of the Company approved the share option scheme of PTL, an indirect non-wholly owned subsidiary of the Company (the "PTL Scheme"). Certain directors, employees and other participants of PTL were granted options at a nominal consideration of HK$10 or US$1.5 on acceptance of the option offered. Details of the PTL Scheme and movements in the number of share options outstanding during the year are set out in the Report of the Directors.

Subject to the waiver or variation by the board of PTL from time to time at its sole discretion, 25% of the share options granted shall be vested each year commencing on the date of grant and exercisable until the expiration of the relevant option period.

The share options outstanding at 31 December 2008 had a weighted average remaining contractual life of 9.26 years.

The fair value of options granted during the year ended 31 December 2008 determined at the date of grant on 31 March 2008 and 23 June 2008 using the Black-Scholes valuation model were approximately HK$2,363,000 and HK$128,000 respectively. The following table lists the inputs for calculating the fair value of the options granted during the year ended 31 December 2008:

Date of grant	31 March 2008	23 June 2008
Share price on date of grant	HK$0.35	HK$0.29
Exercise price	HK$0.35	HK$0.29
Expected volatility *(Note (a))*	47%	46%
Expected life of option *(Note (b))*	5 years	5 years
Risk-free rate *(Note (c))*	2.58%	3.21%
Expected dividend yield	NIL	NIL

Notes:

(a) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past five years immediately before the date of grant, as PTL has only been listed on the Stock Exchange on 1 February 2008.

(b) Expected life of option: being the effective life of options estimated from the expected exercising time frame.

(c) Risk-free rate: being the approximate yields to maturity of the Hong Kong Exchange Fund Note.

In total, HK$1,341,000 of share-based compensation expense has been included in the consolidated income statement of PTL for 2008 and the corresponding amount of which has been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

26 Deferred Taxation – Group

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2007: 17.5%) in Hong Kong, and federal and state tax rates of 34% (2007: 34%) and 8.84% (2007: 8.84%) respectively in the United States of America.

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

	2008 ***HK$'000***	2007 *HK$'000*
At 1 January	**62,133**	13,938
Charged to income statement	**20,450**	48,195
At 31 December	**82,583**	62,133

26 *Deferred Taxation – Group (Continued)*

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**	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**21,318**	18,806	**134,025**	76,408	**155,343**	95,214
Charged/(credited) to income statement	**3,318**	2,512	**(29,548)**	57,617	**(26,230)**	60,129
At 31 December	**24,636**	21,318	**104,477**	134,025	**129,113**	155,343

Deferred tax assets	**Tax losses**		**Employees benefits**		**Total**	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**(84,296)**	(73,481)	**(8,914)**	(7,795)	**(93,210)**	(81,276)
Charged/(credited) to income statement	**47,267**	(10,815)	**(587)**	(1,119)	**46,680**	(11,934)
At 31 December	**(37,029)**	(84,296)	**(9,501)**	(8,914)	**(46,530)**	(93,210)

Notes:

(1) As at 31 December 2008, deferred tax assets of HK$37 million (2007: HK$84 million) in relation to unused tax losses had been recognised in the balance sheet. The recognition of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement in which such a reversal takes place. The management evaluates at each balance sheet date whether the operations of the subsequent fiscal years are expected to produce profitable results or whether losses should be anticipated. The management, having considered the shipments, confirmed orders, orders in negotiation and feedback from customers has established the carrying amount of the deferred tax asset as at the balance sheet date.

(2) Employees benefits are related to the share-based payment transactions for U.S. subsidiaries of the Group. The Group recognised an expense for the consumption of employee services received and did not receive a tax deduction for U.S. subsidiaries until the share options are exercised. As a result, the difference between the tax base of the employee services received to date and the carrying amount is deductible temporary difference that results in a deferred tax asset for U.S. subsidiaries.

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:

	2008 *HK$'000*	2007 *HK$'000*
Deferred tax assets	**(46,202)**	(91,976)
Deferred tax liabilities	**128,785**	154,109
	82,583	62,133

Deferred tax assets shown in the consolidated balance sheet included an amount of HK$36,380,000 (2007: 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.

The Group has unrecognised deferred tax assets of HK$129 million (2007: HK$nil) in respect of tax losses as it is not probable that future taxable profits against which the losses can be utilised. Of the unrecognised deferred tax assets on unused tax losses, HK$108 million expires at various dates up to and including 2028 and the remaining balance has no expiry dates under respective current tax legislation.

27 Capital and Reserves

(a) Share Capital

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 31 December 2007 and 2008	**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 2007	1,871,081,417	187,108
Exercise of warrants 2007	345,147,152	34,515
Exercise of share options	9,004,000	900
At 1 January 2008	**2,225,232,569**	**222,523**
Exercise of share options *(Note 25)*	**12,017,000**	**1,202**
Capital reorganisation *(Note (i))*	**(2,013,524,613)**	**(201,353)**
Repurchase of shares *(Note (ii))*	**(4,924,956)**	**(492)**
At 31 December 2008	**218,800,000**	**21,880**

27 Capital and Reserves (Continued)

(a) Share Capital (Continued)

Notes:

(i) 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.

(ii) During the year, 4,924,956 shares were repurchased by the Company on the Stock Exchange at prices ranging from HK$0.74 to HK$0.81 each as follows:

Month/year	Number of shares repurchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate price paid *HK$'000*
November 2008	4,224,956	0.81	0.74	3,221
December 2008	700,000	0.80	0.80	560

The above shares were cancelled and redeemed upon repurchase and accordingly the issued capital of the Company diminished by the nominal value of those shares. The premium paid on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve (note 27(b)).

(b) Reserves

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
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
Share option scheme					
– value of 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
At 1 January 2008	1,067,427	1,116	28,746	150,216	**1,247,505**
Profit for the year	–	–	–	336,834	**336,834**
2007 final dividend paid	–	–	–	(55,931)	**(55,931)**
2007 special dividend in specie	–	–	–	(66,653)	**(66,653)**
2008 first interim dividend paid	–	–	–	(22,372)	**(22,372)**
Capital reorganisation	201,353	–	–	–	**201,353**
Repurchase of shares	(3,289)	492	–	(492)	**(3,289)**
Share option scheme					
– value of services	–	–	1,580	–	**1,580**
– shares issued	3,021	–	(259)	–	**2,762**
– options lapsed	–	–	(1,273)	1,273	**–**
At 31 December 2008	**1,268,512**	**1,608**	**28,794**	**342,875**	**1,641,789**

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) Share-based compensation reserve

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).

27 Capital and Reserves (Continued)

(b) Reserves (Continued)

Nature and purpose of reserves (Continued)

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$1,270,368,000 as at 31 December 2008.

(c) Capital management

The Group's capital management is primarily to provide a reasonable return for equity holders of the Company 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 the light of changes in economic conditions. The Group may maintain or adjust the capital structure by taking necessary measures including issuing new shares.

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 2008 was 11.3% compared to 6.7% at 31 December 2007.

28 Notes to the Consolidated Cash Flow Statement

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

	2008 ***HK$'000***	2007 *HK$'000*
(Loss)/profit before taxation	**(514,579)**	346,626
Bank interest income	**(5,427)**	(13,045)
Interest on bank loans and overdrafts, wholly repayable within five years	**7,093**	5,488
Dividend income from financial assets at fair value through profit or loss	**(7,110)**	(2,861)
Depreciation of fixed assets	**8,212**	8,196
Share-based compensation	**2,921**	4,491
Revaluation deficit/(surplus) on investment properties	**117,687**	(329,637)
Loss on disposal of other property, plant and equipment	**55**	97
Net loss/(gain) on financial assets at fair value through profit or loss	**305,806**	(55,288)
Loss on deemed disposal of an associated company	**–**	772
Share of profit of an associated company	**(523)**	(3,426)
Share of loss of a jointly controlled entity	**1,313**	–
Operating loss before working capital changes	**(84,552)**	(38,587)
Decrease in inventories	**13,721**	16,102
Decrease in trade receivables, other receivables, deposits and prepayments	**100,396**	161,064
Decrease in trade payables, other payables and accrued charges and provisions	**(60,763)**	(33,511)
Cash (used in)/generated from operations	**(31,198)**	105,068

(b) Analysis of cash and cash equivalents

	2008	2007
	HK$'000	*HK$'000*
Cash and bank balances	**303,316**	375,215

29 Financial Guarantee Contracts – Company

The Company has provided guarantees with respect to banking facilities made available to certain subsidiaries amounting to HK$520 million (2007: HK$777 million), of which HK$160 million (2007: HK$160 million) of such banking facilities were utilised as at 31 December 2008.

30 Commitments – Group

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:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**16,414**	23,335
In the second to fifth years inclusive	**16,731**	33,189
	33,145	56,524

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 2008, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**9,761**	6,049
In the second to fifth years inclusive	**13,748**	7,372
	23,509	13,421

30 Commitments – Group (Continued)

Operating lease arrangements (Continued)

(b) As lessor

At 31 December 2008, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**58,023**	47,976
In the second to fifth years inclusive	**50,939**	36,868
	108,962	84,844

The Company did not have any commitments at 31 December 2008 (2007: HK$nil).

31 Related-party Transactions

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

	2008 HK$'000	2007 HK$'000
Service fee received from a jointly controlled entity, Playmates GP, LLC	**1,014**	–
Interest income received from a jointly controlled entity, Playmates GP, LLC	**6**	–

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 13, is as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	**10,979**	15,149
Employer's contributions to provident fund	**143**	146
Share-based compensation	**1,396**	2,351
	12,518	17,646

Total remuneration is included in "staff cost" (note 12).

32 Post Balance Sheet Event

(a) In order to enable PTL together with its subsidiaries ("PTL Group") to renew the relevant expiring banking facilities given to PTL Group and/or allow PTL Group to continue utilising the relevant subsisting banking facilities given to PTL Group, the Company and PTL entered into a conditional agreement on 4 February 2009 under which the Company agreed to procure its subsidiary to provide to charge on deposit ("Charge on Deposit") to the relevant bankers in connection with the banking facilities of PTL Group. The maximum amount of deposits to be charged pursuant to the Charge on Deposit shall be up to HK$80 million. The Company shall charge PTL a fee equivalent to 1% per annum on the amount of HK$80 million for the provision of the Charge on Deposit. The provision of the Charge on Deposit by the Company has been approved by the shareholders of the Company pursuant to an ordinary resolution passed on 3 March 2009.

(b) As announced on 13 March 2009, the board resolved an issue of bonus warrants on the basis of one bonus warrant for every 5 shares of the Company ("Shares") held by the shareholders. The bonus warrants will entitle holders to subscribe for Shares at the initial subscription price of HK$0.90 per Share in cash (subject to adjustments) during the subscription period from 15 April 2009 to 14 October 2010, both days inclusive. The issue of the bonus warrants is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the bonus warrants, and the new Shares which may fall to be issued upon exercise of the subscription rights attaching to the bonus warrants.

33 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 2008.

34 Comparative Figures

Certain comparative figures of selling, distribution and administration expenses have been re-classified to conform to current year's presentation. Management believes that the reclassification of these operating expenses is a fairer presentation of the Group's activities.

35 Financial Risk Management

(a) Categories of financial instruments

	2008 *HK$'000*	2007 *HK$'000*
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	**78,900**	179,792
Other receivables, deposits and prepayments	**32,836**	13,056
Financial assets at fair value through profit or loss	**185,012**	567,943
Cash and bank balances	**303,316**	375,215
Financial liabilities at amortised cost		
Bank loans	**201,721**	160,275
Trade payables	**97,709**	76,027
Other payables and accrued charges	**84,331**	160,415

35 Financial Risk Management (Continued)

(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.

At 31 December 2008, 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 increase/decrease the Group's loss for the year by approximately HK$1,009,000 (2007: decrease/increase profit by HK$801,000).

(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 2008, 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 decrease/increase the Group's loss for the year and increase/decrease net assets by approximately HK$9,251,000 (2007: increase/decrease profit and net assets by HK$28,397,000).

(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. 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. Direct shipments to customers who are located either in the United States or outside of the United States are secured by letters of credit or fully prepaid.

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	22%
– five largest customers in aggregate	55%

(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

All significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

36 Approval of Financial Statements

The financial statements were approved by the board of directors on 13 March 2009.

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:

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(restated)
Turnover	**801,739**	996,049	1,197,083	1,310,264	1,312,276
(Loss)/profit before taxation	**(514,579)**	346,626	314,722	198,831	246,793
Taxation (charge)/credit	**(27,480)**	(30,340)	(54,353)	(2,841)	8,463
(Loss)/profit for the year	**(542,059)**	316,286	260,369	195,990	255,256
Attributable to:					
Equity holders of the Company	**(454,773)**	315,853	260,369	195,990	255,256
Minority interests	**(87,286)**	433	–	–	–
	(542,059)	316,286	260,369	195,990	255,256
Total assets	**2,325,234**	2,989,255	2,377,086	2,119,664	1,605,539
Total liabilities	**(545,717)**	(592,480)	(508,976)	(439,571)	(417,444)
Net assets	**1,779,517**	2,396,775	1,868,110	1,680,093	1,188,095

Playmates Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock code 635)
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