Playmates TOYS

2008 Annual Report

CORPORATE INFORMATION

Directors
CHAN Chun Hoo, Thomas
(Chairman and Executive Director)
CHOW Yu Chun, Alexander
(Independent Non-executive Director)
LEE Ching Kwok, Rin
(Independent Non-executive Director)
NOVAK, Lou Robert (Executive Director)
TO Shu Sing, Sidney (Executive Director)
YANG, Victor (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
Chong Hing Bank Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

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 Toys Limited are listed for trading on The Stock Exchange of Hong Kong Limited
(Stock Code: 869)

Website
www.playmatestoys.com

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STATEMENT FROM THE CHAIRMAN

The toy industry survived 2007, already bruised by the product recall incidences, and was quickly swept into the turmoil of 2008, a year of unprecedented economic and financial chaos on a global scale. The 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 recover, and things could get worse before they get better.

In the circumstances our sales suffered as consumer confidence kept sinking to historic low levels in the face of falling asset value, tight credit and rising unemployment. Our overall performance in 2008 was unsatisfactory and we expect the tough challenges we experienced to continue in 2009.

In 2009, our focus is on diligent management of operating cash flow and reducing costs. At the same time, we will remain vigilant in identifying and pursuing new licenses, brand concepts and other opportunities that may become available in this environment to continue to develop our core businesses. With cautious optimism, and barring adverse developments under the prevailing challenging environment, we expect to perform better in 2009 in terms of improved sales and operating results on the strength of our product portfolio, including two brands supported by major worldwide theatrical events to be launched in the first half of the year.

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

As anticipated in the management discussion and analysis in the Company's 2008 Interim Report, the negative macroeconomic environment in which the Group 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%.

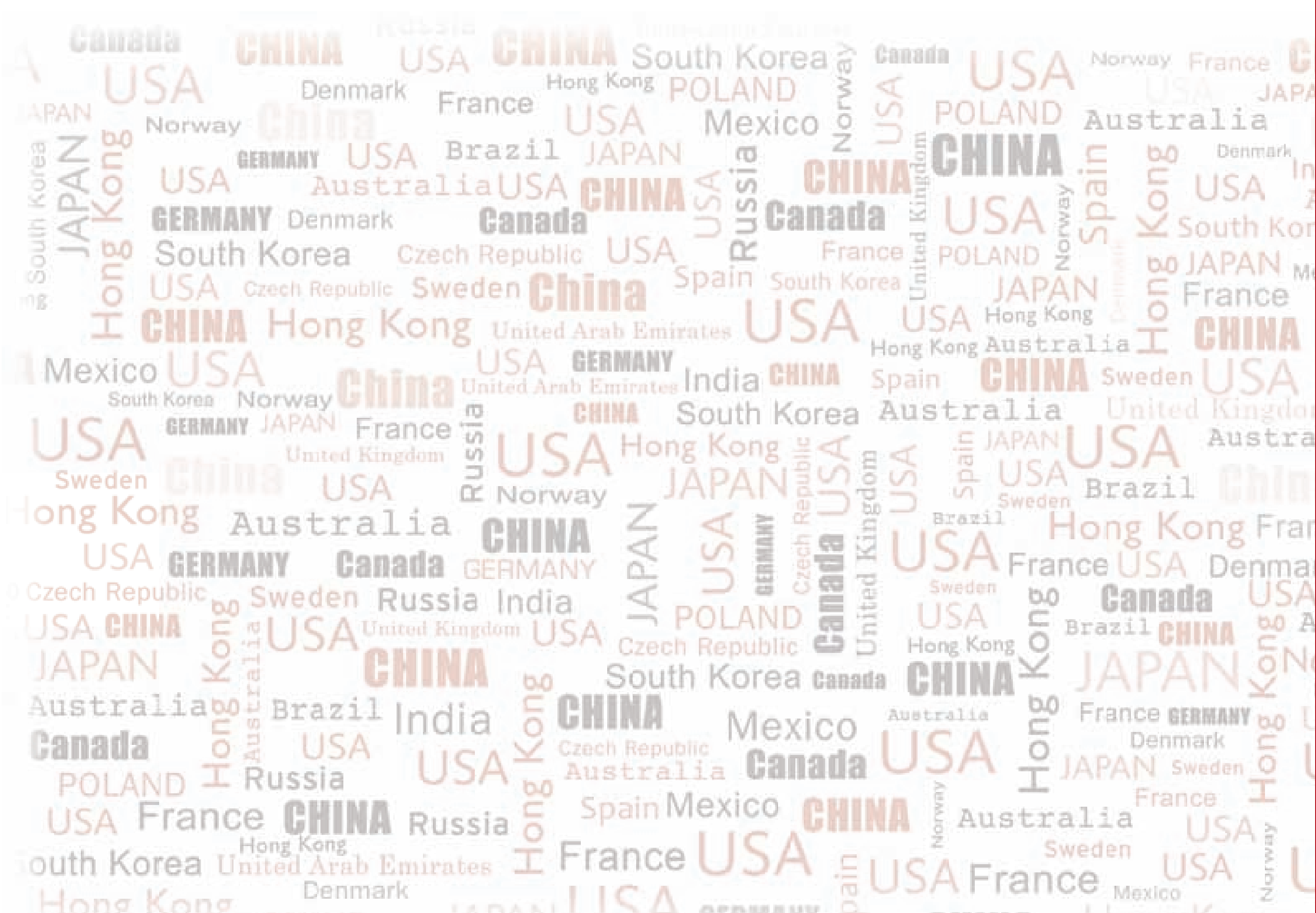
In this challenging environment, Playmates Toys Group worldwide turnover for the year ended 31 December 2008 was HK$704 million, a decrease of 23% over the same period last year. Despite decreased sales, Playmates Toys recorded a clean retail sell through for its major brands and managed its year end inventory to the lowest level in recent years. The Group reported an operating loss of HK$139 million (2007: HK$69 million), and a net loss attributable to shareholders of HK$191 million (2007: HK$34 million). Basic loss per share was HK cents 38.49 (2007: HK cents 6.78).

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 stabilize 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. Group 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, the Group's 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 the Group 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 will be launched in the first half of the year. Preliminary indications in terms of customer feedback support these expectations.



Boy's Toys

Playmates Toys' evergreen Boy's action brand **Teenage Mutant Ninja Turtles** performed well in 2008, but achieved a lower level of sales compared to last year due to the economic downturn coupled with the absence of any major entertainment event in 2008 (sales in 2007 were lifted by "TMNT the Movie"). The new 25th Anniversary **Teenage Mutant Ninja Turtles** product introductions for 2009 have been well received and shipments commenced in December 2008. **EON Kid**, a Boy's action brand supported by episodic TV, and **Land Before Time**, a line of preschool toys based on a classic animation franchise, performed below expectations and will not carry forward into 2009.

Playmates Toys' portfolio of Boy's brands has expanded in 2009 with the addition of several marquee licenses. The Boy's business is expected to grow significantly with the launch of extensive product lines based on two major franchise brands supported by new theatrical releases in May 2009 – "**Terminator Salvation**" and "**Star Trek**". **Terminator Salvation** is being developed as the first in a trilogy of films that further expands the **Terminator** franchise, which generated worldwide box office receipts of over US$1.4 billion for the first 3 films. **Star Trek**, directed by J.J. Abrams, joins the classic franchise with its 40 years plus history supported by 10 previous theatrical releases. **Yu-Gi-Oh! 5D's** and **Dinosaur King**, two new Boy's action brand introductions will be supported by episodic TV broadcast in major markets.

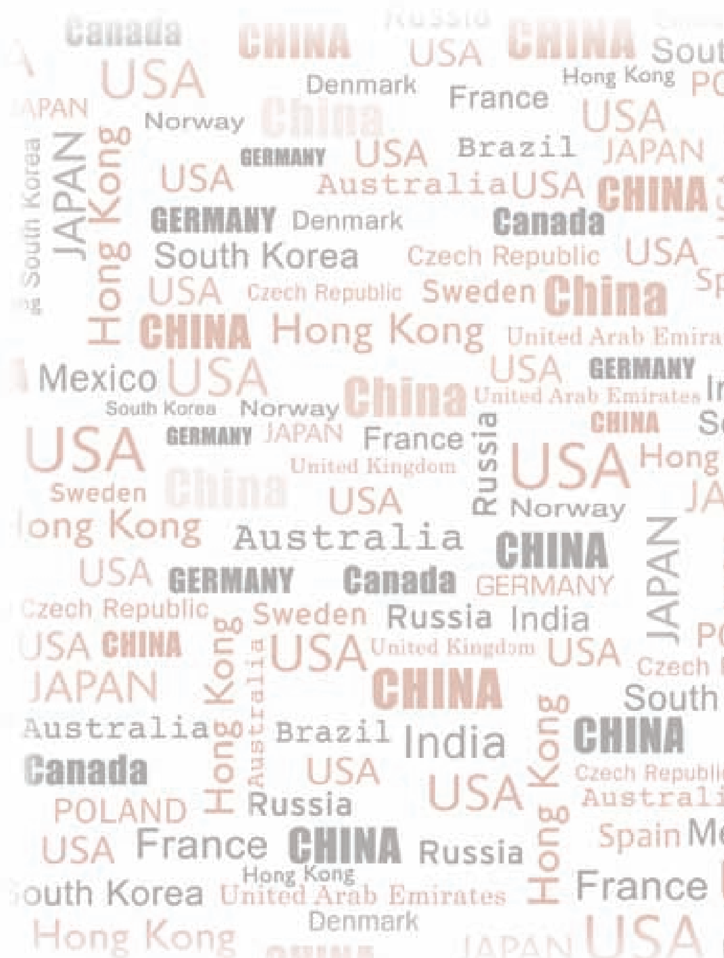
In July 2008, Playmates Toys entered into a joint venture with Giochi Preziosi S.p.A. Group to market, sell and distribute the **Gormiti** product line in the U.S. and Canada. The brand is one of the leading Boy's action brands in Italy, Spain and the Nordic countries and was recently introduced in the U.K. and France. The **Gormiti** product line is being launched in the U.S. in spring 2009.

Girl's Toys

The **Disney Fairies** brand supported by "**Tinker Bell**", an animated film released direct-to-DVD in October 2008, was a major contributor to Girl's sales in 2008. Both **Disney Princess** and **Strawberry Shortcake** brands reported decreases in sales compared to 2007, however, retail sell through for both brands was excellent, due largely to the "value pricing" strategy implemented early in the year. **My Life**, a new handheld platform for tween girls (aged 7-12), did not perform up to expectations. The difficult economic environment was not conducive to the timing of the launch of an electronic product at a relatively high retail price point. Sales were disappointing and the product line will not carry forward into 2009.

The Amazing brand, a line of large feature dolls; **Night Guardian**, a line of interactive plush; **Struts**, a line of fashion ponies; and **Popples**, a line of feature plush based on a classic American Greetings franchise, all met with limited success. In 2009 these brands will continue to be distributed in several emerging markets.

In 2009, Playmates Toys Girl's business segment will be strengthened by the introduction of two Nickelodeon properties, **iCarly** and **H2O**. **iCarly**, Nickelodeon's top rated tween franchise supported by a live-action TV series on the adventures of Carly Shay, a 13 year old girl and her friends who create a homemade show called **iCarly** that airs on the web. Multiple times per week episodic TV broadcast will support Playmates Toys' launch of the complete line of dolls, playsets and electronic based toys in the Fall of 2009. Playmates Toys further extends its partnership with Nickelodeon by launching a line of fashion dolls and playsets based on one of Nickelodeon's new and exciting live-action TV series, **H2O**. **H2O** revolves around three teenage girls facing everyday teen problems with an added twist – they are "mermaids with magical powers over water"! The **H2O** product line will debut in Fall 2009. **Tinker Bell** and her friends return in a second direct-to-DVD release "*Tinker Bell and the Lost Treasure*", which will be brought to life in Playmates Toys' **Disney Fairies**, a continuing line of dolls and playsets based on the adventure.



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. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan is also the chairman of the board of Playmates Holdings Limited.

CHOW Yu Chun, Alexander

Independent Non-executive Director

Mr. Chow, age 61, joined the Group in 2007. He is a fellow of The Association of Chartered Certified Accountants of the United Kingdom and a CPA of the Hong Kong Institute of Certified Public Accountants. He has over 31 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow was formerly a director of New World Mobile Holdings Limited, Playmates Holdings Limited and Yu Ming Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited and he resigned from these appointments on 1 February 2007, 28 December 2007 and 23 May 2008 respectively. Mr. Chow is currently a director of New World China Land Limited and Top Form International Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

LEE Ching Kwok, Rin

Independent Non-executive Director

Mr. Lee, age 60, joined the Group in 2007. He has over 31 years of experience as a legal practitioner in the fields of property and financing, and was a partner and consultant in one of Hong Kong's largest law firms. Mr. Lee is a solicitor admitted to practise in Hong Kong and England and Wales. He also serves as an adviser to a number of private companies and organizations.

NOVAK, Lou Robert

Executive Director and President

Mr. Novak, age 61, 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.

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 was appointed to his current position in May 2008. Mr. To is also an executive director of Playmates Holdings Limited. He holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada.

YANG, Victor

Independent Non-executive Director

Mr. Yang, age 63, joined the Group in 2007. He is a founding partner of Messrs. Boughton Peterson Yang Anderson, Solicitors, Hong Kong SAR and he is also a qualified lawyer in Canada and the United Kingdom. Mr. Yang has over 35 years experience in legal practice primarily in the areas of corporate finance and commercial law, mergers, acquisitions and taxation. He is presently a governor of the Canadian Chamber of Commerce, a member of the Major Sports Events Committee of the Home Affairs Bureau, Hong Kong SAR and a director of the Hong Kong Foundation for UBC Limited and was a board member of the Canadian International School in Hong Kong. Mr. Yang was formerly an independent non-executive director of Eupa International Corporation, a company quoted on NASD (Over-the-Counter Bulletin Board) and he resigned from this appointment on 30 April 2008. Mr. Yang is currently a director of Lei Shing Hong Limited, Media Chinese International Limited (formerly known as "Ming Pao Enterprise Corporation Limited"), China Agri-Industries Holdings Limited and Singamas Container Holdings Limited.

Senior Management

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.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management (Continued)

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 specialized in Disney licensed products. Her extensive knowledge of the Disney universe of classic characters has been instrumental in the development and expansion of the Group's licensed Disney brands. She has 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.

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 Holdings 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 Operation

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

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

Major 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	27%
– five largest suppliers in aggregate	75%
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 34.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 38. Movements in the reserves of the Company during the year are set out in note 24(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$119,195,000 (2007: HK$125,998,000).

Financial Analysis

Analysis of bank loans, overdrafts and other borrowings

Particulars of the Group's utilised banking facilities are set out in note 19 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 were HK$77,240,000 (2007: HK$179,272,000) and inventories 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 Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2008 was 13.2% compared to 0.0% at 31 December 2007. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.0 at 31 December 2008 compared to 1.7 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$48,939,000 (2007: HK$81,995,000).

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

Employees

As at 31 December 2008, the Group had a total of 116 employees in Hong Kong, the Mainland China and the United States of America. This compares to 122 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.

Contingent Liabilities

Details of the Company's contingent liabilities are set out in note 26 to the financial statements.

Financial Guarantee

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

Bank Loans

Details of the Group's bank loans as at 31 December 2008 are set out in note 19 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$370,000 (2007: HK$1,470,000).

Property, Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Company are set out in note 24(a) to the financial statements.

Investment in an Associated Company

The Group acquired a 49% interest in the share capital of Unimax Holdings Limited at a nominal amount of HK$1 from an intermediate holding company in 2007. Details of the investment are set out in note 14 to the financial statements.

Investment in a Jointly Controlled Entity

The Group formed a jointly controlled entity in the U.S. in 2008 with Giochi Preziosi U.S.A. Inc. under which the Group holds 45% interest therein. Details of the investment are set out in note 15 to the financial statements. Please also refer to the circular dated 21 August 2008 for the details of this transaction.

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 76.

Purchase, Sale or Redemption of Shares

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

Directors

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

Mr. CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
Mr. CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
Mr. LEE Ching Kwok, Rin *(Independent Non-executive Director)*
Mr. NOVAK, Lou Robert *(Executive Director)*
Mr. SOONG, Ronnie *(Executive Director)* (passed away on 23 April 2008)
Mr. TO Shu Sing, Sidney *(Executive Director)* (appointed on 21 May 2008)
Mr. YANG, Victor *(Independent Non-executive Director)*

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. To Shu Sing, Sidney retire and offer himself for re-election at the forthcoming annual general meeting.

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Chow Yu Chun, Alexander and Mr. Lee Ching Kwok, Rin retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Share Options

Share options of the Company are granted to directors, employees and other eligible participants specified under a Share Option Scheme ("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 the Group; and
		(ii)	To attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are or will be beneficial to the Group.

Share Options (Continued)

Participants	:	(i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company; or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person/party mentioned in (i) above; or (iii) A company beneficially owned by any person/party mentioned in (i) above.
Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital that it represents as at 13 March 2009	:	14,607,000 ordinary shares, representing 2.95% of the issued capital.
Maximum entitlement of each participant	:	Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK$10.00 (or such other nominal sum in any currency as the board may determine).
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the board and shall not be less than the highest of: (i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Scheme	:	Remains in force until 24 January 2018.

The following shows the particulars of the share options of the Company granted to directors of the Company, employees of the Group and other participants, pursuant to the Share Option Scheme ("Scheme") adopted on 25 January 2008, 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**
CHOW Yu Chun, Alexander *Director*	31 March 2008	0.35	–	400,000	–	400,000
LEE Ching Kwok, Rin *Director*	31 March 2008	0.35	–	400,000	–	400,000
NOVAK, Lou Robert *Director*	31 March 2008	0.35	–	4,950,000	–	4,950,000
SOONG, Ronnie *Director (Note (2))*	31 March 2008	0.35	–	1,500,000	1,125,000	375,000
TO Shu Sing, Sidney *Director (Note (3))*	31 March 2008	0.35	–	500,000	–	500,000
YANG, Victor *Director*	31 March 2008	0.35	–	400,000	–	400,000
Continuous Contract Employees, excluding Directors	31 March 2008	0.35	–	6,222,000	520,000	5,702,000
	23 June 2008	0.29	–	1,000,000	–	1,000,000
Other Participants	31 March 2008	0.35	–	950,000	–	950,000

Notes:

(1) The closing prices of the ordinary shares of the Company 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. Soong, Ronnie 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.

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

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

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

Directors' 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 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 of Hong Kong Limited (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	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	6,292,000 ordinary shares	1.27%
	Corporate *(Note (a))*	358,983,044 ordinary shares	72.52%
NOVAK, Lou Robert	Personal	1,303,388 ordinary shares	0.26%
SOONG, Ronnie *(Note (b))*	Personal	354,600 ordinary shares	0.07%
TO Shu Sing, Sidney *(Note (c))*	Personal	1,730,000 ordinary shares	0.35%

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)*	Percentage interest held
CHOW Yu Chun, Alexander	Personal	400,000 share options	400,000 shares	0.08%
LEE Ching Kwok, Rin	Personal	400,000 share options	400,000 shares	0.08%
NOVAK, Lou Robert	Personal	4,950,000 share options	4,950,000 shares	1.00%
SOONG, Ronnie *(Note (b))*	Personal	375,000 share options	375,000 shares	0.08%
TO Shu Sing, Sidney *(Note (c))*	Personal	500,000 share options	500,000 shares	0.10%
YANG, Victor	Personal	400,000 share options	400,000 shares	0.08%

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

Name of director	Nature of interest	Number of shares held	Percentage interest held
CHAN Chun Hoo, Thomas	Personal	2,892,000 ordinary shares	1.32%
	Corporate *(Note (d))*	87,708,000 ordinary shares	40.09%
NOVAK, Lou Robert	Personal	1,303,388 ordinary shares	0.60%
SOONG, Ronnie *(Note (b))*	Personal	354,600 ordinary shares	0.16%
TO Shu Sing, Sidney *(Note (c))*	Personal	1,860,000 ordinary shares	0.85%

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

Long positions in underlying shares of PHL

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares *(ordinary shares)*	Percentage interest held
NOVAK, Lou Robert	Personal	3,300,000 share options	3,300,000 shares	1.51%
SOONG, Ronnie *(Note (b))*	Personal	164,900 share options	164,900 shares	0.08%
TO Shu Sing, Sidney *(Note (c))*	Personal	307,500 share options	307,500 shares	0.14%

Notes:

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

(b) Mr. Soong, Ronnie passed away on 23 April 2008.

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

(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 PHL in aggregate which AIL is interested in.

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 of the Company are disclosed in the above section headed "Share Options".

As at 31 December 2008, none of the directors of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

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

As at 31 December 2008, persons (other than the directors of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of shares held	Percentage interest held
AIL	Corporate *(Note (i))*	358,983,044 ordinary shares	72.52%
PHL	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.80%
Playmates International Limited	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.80%
PIL Investments Limited	Corporate *(Note (ii))*	271,275,044 ordinary shares	54.80%
PIL Toys Limited	Corporate	271,275,044 ordinary shares	54.80%

Notes:

(i) AIL directly owns approximately 40.09% of the shareholding of PHL and is therefore deemed to be interested in the 271,275,044 shares of the Company in aggregate which PHL is interested in.

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

Pre-emptive Rights

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

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 2007 and subsequently amended in 2009.

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

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

Sufficiency of Public Float

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

Auditors

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

Moores Rowland, formerly known as Moores Rowland Mazars, changed their name on 1 June 2007 and combined their practice with Grant Thornton. As a result of this change, 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 Transaction

On 26 August 2008, Playmates Toys Asia Limited, an indirect wholly-owned subsidiary of the Company, as tenant and Belmont Limited, an indirect wholly-owned subsidiary of PHL, as landlord entered into a tenancy agreement ("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). PHL indirectly owns and controls approximately 54.8% of the Company. Consequently, PHL is a connected person of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the Tenancy Agreement constitutes a continuing connected transaction. This continuing connected transaction, which details were contained in the announcement dated 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 agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed the 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 transaction, and that it has not exceeded the relevant annual cap disclosed in the previous announcement.

Save and except the transactions disclosed above and in note 29 to the financial statements, there is no contract of significance between the Group and our controlling shareholder or any of its subsidiaries.

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

Board of Directors

The board of directors of the Company comprises:

CHAN Chun Hoo, Thomas *(Chairman and Executive Director)*
CHOW Yu Chun, Alexander *(Independent Non-executive Director)*
LEE Ching Kwok, Rin *(Independent Non-executive Director)*
NOVAK, Lou Robert *(Executive Director)*
TO Shu Sing, Sidney *(Executive Director)*
YANG, Victor *(Independent Non-executive Director)*

The board comprises three executive directors (one of whom is the Chairman) and three non-executive directors. All the non-executive directors are independent representing half of the board. One independent non-executive director possesses appropriate professional accounting qualifications and financial management expertise. During the year, the board unanimously resolved to appoint Mr. To Shu Sing, Sidney as executive director of the Company. The board considered that Mr. To's appointment is beneficial to the Company, given his past management and industry experience and his commitment and contribution to the toy business of the Group prior to the Company's spin-off from Playmates Holdings Limited. Biographies of the board of directors of the Company are shown on pages 6 and 7 of this annual report and are also maintained on the Company's website.

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

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

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

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

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

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

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

The board held 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
CHOW Yu Chun, Alexander	4/4	2/2
LEE Ching Kwok, Rin	3/4	1/2
NOVAK, Lou Robert	3/4	N/A
TO Shu Sing, Sidney *	2/2	N/A
YANG, Victor	4/4	2/2

* Mr. To was appointed as a director on 21 May 2008. Two board meetings were held after his appointment.

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 33 of this annual report.

Board Committees

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

Audit Committee

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

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

All of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in December 2007 and subsequently revised in 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 July 2007 and its current members include:

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

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

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

The Compensation Committee held one meeting during the year to discuss the remuneration-related matters and was attended by all the current members.

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.

Board Committees (Continued)

Compensation Committee (Continued)

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 11(a) to the financial statements.

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

Name of officer	**Salary** *HK$'000*	**Other benefits** *HK$'000* *(Note)*	**Employer's contribution to provident fund** *HK$'000*	**Share-based payment** *HK$'000*	**Total** *HK$'000*
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
SIRSET, Tor	1,669	190	–	46	1,905

Note: Other benefits include car allowance and insurance premium.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code 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 16 to 17 of this annual report.

Internal Controls

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

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

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

Independent consultants were hired since 2005 to perform review on the system of internal controls of the Group. The principal purpose of the review was to obtain sufficient knowledge of the control environment to understand the attitude of management and the governing body, awareness and actions concerning the factors of the control environment. The approach adopted for the assessment is based on those set by the COSO (the Committee of Sponsoring Organisations of the Treadway Commission), a globally 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 organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

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

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

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

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

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.

Internal Controls (Continued)

Control Effectiveness

Pursuant to a testing and monitoring report during the year submitted by the independent consultant in 2008, it was reported that no material control failings, weaknesses or significant areas of concern were identified during their review. The directors are satisfied with the effectiveness of the Group's internal controls and consider that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it 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$1,600,000. 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.playmatestoys.com which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis. Financial information and all shareholder corporate communications of the Company are made available on the Company's website and 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 general meetings were passed by poll. The poll results will be published in the website of the Company and that of the Stock Exchange on the same date of the meetings.

Business Ethics

The 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 organizations. Employees are encouraged to have direct and active involvement in fundraising activities for the needs of the community.

Family Members and Close Personal Relationships

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

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Playmates Toys Limited (the "Company") set out on pages 34 to 75, 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$'000 (Note 31)	2008 HK$'000	2007 HK$'000
Turnover	3	90,205	703,596	909,030
Cost of sales		(55,657)	(434,123)	(502,967)
Gross profit		34,548	269,473	406,063
Marketing expenses		(27,733)	(216,319)	(245,976)
Selling and distribution expenses		(7,134)	(55,647)	(71,391)
Administration expenses		(17,462)	(136,201)	(142,528)
Restructuring expenses		–	–	(14,913)
Operating loss	4	(17,781)	(138,694)	(68,745)
Non-operating income/(expenses)				
Interest expense and bank charges	5	(649)	(5,058)	(4,079)
Other income		108	844	4,688
		(18,322)	(142,908)	(68,136)
Share of profit of an associated company		67	523	–
Share of loss of a jointly controlled entity		(168)	(1,313)	–
Loss before taxation		(18,423)	(143,698)	(68,136)
Taxation (charge)/credit	6	(6,002)	(46,818)	34,551
Loss attributable to equity holders of the Company	7	(24,425)	(190,516)	(33,585)
Dividends	8	–	–	36,660
		US cents	HK cents	HK cents
Loss per share	9			
Basic		(4.93)	(38.49)	(6.78)
Diluted		N/A	N/A	N/A

The notes on pages 39 to 75 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000 (Note 31)	2008 HK$'000	2007 HK$'000
Non-current assets				
Property, plant and equipment	12	1,296	10,111	5,642
Interest in an associated company	14	3,284	25,613	25,090
Interest in a jointly controlled entity	15	1,094	8,534	–
Deferred tax assets	23	5,879	45,856	91,747
		11,553	90,114	122,479
Current assets				
Inventories	16	2,496	19,469	33,274
Trade receivables	17	9,903	77,240	179,272
Other receivables, deposits and prepayments		9,947	77,585	73,556
Amount due from a fellow subsidiary	18	–	–	246
Amount due from an intermediate holding company	18	–	–	1,303
Taxation recoverable		289	2,255	3,005
Cash and bank balances	25(b)	6,274	48,939	81,995
		28,909	225,488	372,651
Current liabilities				
Bank loans	19	5,349	41,721	–
Trade payables	20	12,288	95,842	73,881
Other payables and accrued charges		7,042	54,929	90,889
Amount due to a fellow subsidiary	18	141	1,103	7,892
Amount due to the ultimate holding company	18	–	–	2,702
Provisions	21	3,785	29,520	35,798
Taxation payable		52	406	2,472
		28,657	223,521	213,634
Net current assets		252	1,967	159,017
Total assets less current liabilities		11,805	92,081	281,496
Non-current liabilities				
Deferred tax liabilities	23	–	–	240
Net assets		11,805	92,081	281,256
Capital and reserve				
Share capital	24(a)	635	4,950	4,950
Reserves		11,170	87,131	276,306
Total equity		11,805	92,081	281,256

On behalf of the board

CHAN Chun Hoo, Thomas
Director

NOVAK, Lou Robert
Director

The notes on pages 39 to 75 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000 (Note 31)	2008 HK$'000	2007 HK$'000
Non-current assets				
Investment in subsidiaries	*13*	**18,895**	**147,380**	147,380
Current assets				
Other receivables, deposits and prepayments		**23**	**177**	51
Amounts due from subsidiaries	*18*	**292**	**2,282**	–
Amount due from an intermediate holding company	*18*	**–**	**–**	93
		315	**2,459**	144
Current liabilities				
Other payables and accrued charges		**285**	**2,223**	8,693
Amounts due to subsidiaries	*18*	**2,681**	**20,913**	23
Amount due to a fellow subsidiary	*18*	**156**	**1,217**	7,860
		3,122	**24,353**	16,576
Net current liabilities		**(2,807)**	**(21,894)**	(16,432)
Net assets		**16,088**	**125,486**	130,948
Capital and reserve				
Share capital	*24(a)*	**635**	**4,950**	4,950
Reserves	*24(b)*	**15,453**	**120,536**	125,998
Total equity		**16,088**	**125,486**	130,948

On behalf of the board

CHAN Chun Hoo, Thomas
Director

NOVAK, Lou Robert
Director

The notes on pages 39 to 75 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 US$'000 (Note 31)	2008 HK$'000	2007 HK$'000
Cash flows from operating activities				
Cash (used in)/generated from operations	25(a)	(6,923)	(53,997)	33,022
Interest paid		(256)	(1,999)	(118)
Hong Kong profits tax paid		(350)	(2,736)	(1,580)
Hong Kong profits tax refunded		–	–	498
Overseas tax refunded		32	253	23,777
Net cash (used in)/generated from operating activities		(7,497)	(58,479)	55,599
Cash flows from investing activities				
Purchases of property, plant and equipment		(935)	(7,295)	(2,526)
Proceeds from disposal of property, plant and equipment		–	–	13
Bank interest received		108	844	4,688
Investment in a jointly controlled entity		(900)	(7,020)	–
Advances to a jointly controlled entity		(363)	(2,827)	–
Net cash (used in)/generated from investing activities		(2,090)	(16,298)	2,175
Cash flows from financing activities				
New bank loans		11,789	91,952	–
Repayment of bank loans		(6,440)	(50,231)	(66,500)
Contribution by the intermediate holding company as a result of the Reorganisation		–	–	36,840
Dividend paid		–	–	(36,660)
Net cash generated from/(used in) financing activities		5,349	41,721	(66,320)
Net decrease in cash and cash equivalents		(4,238)	(33,056)	(8,546)
Cash and cash equivalents at 1 January		10,512	81,995	90,541
Cash and cash equivalents at 31 December	25(b)	6,274	48,939	81,995

The notes on pages 39 to 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

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

	Share capital *HK$'000*	**Capital reserve** *HK$'000*	**Share-based compensation reserve** *HK$'000*	**Retained profits/ accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2008	**4,950**	**167,613**	**–**	**108,693**	**281,256**
Total recognised income and expense for the year:					
Loss for the year	**–**	**–**	**–**	**(190,516)**	**(190,516)**
Share option scheme – value of services	**–**	**–**	**1,341**	**–**	**1,341**
At 31 December 2008	**4,950**	**167,613**	**1,341**	**(81,823)**	**92,081**

The notes on pages 39 to 75 form an integral part of these financial statements.

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton 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"). In the opinion of the directors, the ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

PHL underwent a reorganisation in May 2007 to effectively consolidate the toy business under the Company (the "Reorganisation"). Pursuant to the Reorganisation, all the interests in the companies operating the toy business were transferred to the Company and the Company became the holding company of the subsidiaries now comprising the Group. The associated company was then acquired from an intermediate holding company as part of the Reorganisation in December 2007. Further details of the Reorganisation are set out in the Company's 2007 annual report. The comparative figures in respect of the year ended 31 December 2007 have been prepared on the basis as if the current structure had been in existence throughout the period presented.

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

2 Summary of Significant Accounting Policies

(a) Basis of 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.

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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.

(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.

(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.

2 Summary of Significant Accounting Policies (Continued)

(d) Property, plant and equipment

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

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

Gains or losses arising from the retirement or disposal of an item of 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 property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

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

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

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

(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) Inventories

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

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

(g) *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.

(h) *Impairment of assets*

Property, plant and equipment, and investment 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.

(i) *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.

(j) *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.

(k) *Current taxation*

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

2 *Summary of Significant Accounting Policies (Continued)*

(l) 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 taxable temporary differences arising on investment 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.

(m) Revenue recognition

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

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

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

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

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

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

(o) Employee benefits

(i) Employee leave entitlements

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

(ii) Pension obligations

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

(iii) Share-based compensation

The Group 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.

(p) Borrowing costs

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

(q) 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.

2 *Summary of Significant Accounting Policies (Continued)*

(r) *Foreign currency translation*

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(iii) *Group companies*

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

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

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

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

(s) *Segment reporting*

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

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

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

(t) Provisions

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

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.

2 Summary of Significant Accounting Policies (Continued)

(t) Provisions (Continued)

(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.

(u) Related parties

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

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

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

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

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

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

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

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or 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. Revenue recognised during the year is as follows:

	2008	2007
	HK$'000	*HK$'000*
Turnover		
Sales of toys	**703,596**	909,030

Business segments

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

Geographical segments

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

	Turnover 2008	**Segment assets 2008**	**Capital expenditure 2008**
	HK$'000	***HK$'000***	***HK$'000***
Americas			
– U.S.A.	**458,776**	**185,032**	**3,974**
– Others	**50,021**	**–**	**–**
Europe	**165,603**	**–**	**–**
Asia Pacific	**17,254**	**48,312**	**3,321**
Others	**11,942**	**–**	**–**
	703,596	**233,344**	**7,295**

3 Turnover, Revenue and Segment Information (Continued)

Geographical segments (Continued)

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

4 Operating Loss

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

	2008 ***HK$'000***	2007 *HK$'000*
Cost of inventories sold	**374,659**	434,258
Write-down of inventories	**3,803**	3,288
Product development costs	**15,798**	24,668
Royalties paid	**74,204**	93,370
Provision for customer concession *(Note 17)*	**5,380**	12,304
Unutilised provision for customer concession *(Note 17)*	**(1,761)**	(1,301)
Reversal of provision for doubtful debts *(Note 17)*	**–**	(1,591)
Provision for customer and supplier claims *(Note 21)*	**28,346**	42,661
Unutilised provision for customer and supplier claims *(Note 21)*	**(6,328)**	(2,097)
Depreciation of property, plant and equipment	**2,765**	2,678
Staff costs, including directors' remuneration *(Note 10)*	**87,699**	85,047
Operating leases expense on office and warehouse facilities	**9,301**	10,289
Loss on disposal of property, plant and equipment	**61**	97
Auditors' remuneration	**1,600**	1,600

5 Interest Expense and Bank Charges

	2008	2007
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts, wholly repayable within five years	**1,999**	118
Bank charges	**3,059**	3,961
	5,058	4,079

6 Taxation (Charge)/Credit

(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, mainly the U.S., taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate. Subsidiaries operating in the U.S. are subject to U.S. federal and state tax on its assessable profit. The tax rate for federal tax is 34% (2007: 34%) whilst the tax rate for state tax of California, the principal place of business of the Company's major subsidiary is 8.84% (2007: 8.84%).

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

	2008	2007
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**(1,446)**	(1,934)
Overseas tax refunded *(Note)*	**–**	22,879
Over provision in prior years – Hong Kong	**71**	106
Over provision in prior years – overseas	**208**	1,889
	(1,167)	22,940
Deferred taxation		
Decrease in tax rate	**8**	–
Origination and reversal of temporary differences	**(45,659)**	11,611
	(45,651)	11,611
	(46,818)	34,551

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.

6 *Taxation (Charge)/Credit (Continued)*

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

	2008 *HK$'000*	2007 *HK$'000*
Loss before taxation	**(143,698)**	(68,136)
Applicable U.S. taxation rate of 42.84% (2007: 42.84%)	**61,560**	29,189
Effect of different taxation rates in other countries	**(1,096)**	(5,879)
Decrease in tax rate	**8**	–
Non-taxable income	**1,551**	279
Non-deductible expenses	**(799)**	(4,499)
Unrecognised temporary differences	**763**	4,039
Unrecognised tax losses	**(63,174)**	–
Reversal of previously recognised tax losses	**(46,356)**	–
Overseas tax refunded	**–**	22,879
Tax on gain of transfer of subsidiaries in the U.S. arising from the Reorganisation	**–**	(13,555)
Prior year over provision	**279**	1,995
Others	**446**	103
Taxation (charge)/credit	**(46,818)**	34,551

7 *Loss Attributable to Equity Holders of the Company*

The consolidated loss attributable to equity holders of the Company includes a loss of HK$6,803,000 (2007: HK$16,451,000) which is dealt with in the financial statements of the Company.

8 *Dividends*

No dividend was paid or proposed during the year ended 31 December 2008.

During the year ended 31 December 2007, a subsidiary of the Group, solely for the purpose of effecting the Reorganisation, paid a dividend of HK$36,660,000 to an intermediate holding company.

9 Loss Per Share

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of HK$190,516,000 (2007: HK$33,585,000) and on the 495,000,000 (2007: 495,000,000 pursuant to the Reorganisation as if the shares had been in issue on 1 January 2007) 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. No diluted loss per share was presented for the year ended 31 December 2007 as there were no dilutive potential shares.

10 Staff Costs

	2008	2007
	HK$'000	*HK$'000*
Wages, salaries and other benefits	**81,818**	79,686
Share-based compensation	**1,341**	3,127
Employer's contributions to provident fund	**2,418**	2,234
Termination benefits	**2,122**	–
	87,699	85,047

11 *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*	Share-based compen-sation 2008 *HK$'000*	Other benefits 2008 *HK$'000* *(Note(1))*	Employer's contribution to provident fund 2008 *HK$'000*	Total 2008 *HK$'000*
CHAN Chun Hoo, Thomas	10	–	–	–	–	10
CHOW Yu Chun, Alexander	120	–	37	200	–	357
LEE Ching Kwok, Rin	120	–	37	165	–	322
NOVAK, Lou Robert	10	3,949	454	866	108	5,387
SOONG, Ronnie *(Note (2))*	3	926	58	37	4	1,028
TO Shu Sing, Sidney *(Note (3))*	6	–	46	–	–	52
YANG, Victor	120	–	37	195	–	352
	389	4,875	669	1,463	112	7,508

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

Notes:

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

(2) Mr. Soong, Ronnie passed away on 23 April 2008.

(3) Mr. To Shu Sing, Sidney was appointed as a director of the Company on 21 May 2008.

(b) Five highest paid individuals' emoluments

One (2007: two) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2007: three) highest paid individuals are as follows:

	2008 *HK$'000*	2007 *HK$'000*
Salaries, other allowances and benefits in kind	**8,439**	6,329
Share-based compensation	**443**	265
Performance bonus	**–**	195
Employer's contribution to provident fund	**322**	179
	9,204	6,968

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

	Number of individuals	
	2008	2007
HK$		
1,500,001 – 2,000,000	**1**	–
2,000,001 – 2,500,000	**2**	2
2,500,001 – 3,000,000	**1**	1
	4	3

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

12 Property, Plant and Equipment – Group

	Leasehold improvements *HK$'000*	Machinery, equipment, furniture and fixtures *HK$'000*	Computers *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2007	3,650	9,631	27,493	40,774
Additions	558	258	1,710	2,526
Disposals	(32)	(153)	(2,385)	(2,570)
At 31 December 2007	4,176	9,736	26,818	40,730
At 1 January 2008	4,176	9,736	26,818	**40,730**
Additions	2,790	2,477	2,028	**7,295**
Disposals	(68)	(67)	(64)	**(199)**
At 31 December 2008	**6,898**	**12,146**	**28,782**	**47,826**
Accumulated depreciation				
At 1 January 2007	2,993	7,800	24,077	34,870
Charge for the year	455	321	1,902	2,678
Disposals	(32)	(105)	(2,323)	(2,460)
At 31 December 2007	3,416	8,016	23,656	35,088
At 1 January 2008	3,416	8,016	23,656	**35,088**
Charge for the year	603	496	1,666	**2,765**
Disposals	(14)	(61)	(63)	**(138)**
At 31 December 2008	**4,005**	**8,451**	**25,259**	**37,715**
Net book value				
At 31 December 2008	**2,893**	**3,695**	**3,523**	**10,111**
At 31 December 2007	760	1,720	3,162	5,642

13 *Investment in Subsidiaries – Company*

	2008 *HK$'000*	2007 *HK$'000*
Unlisted shares, at cost	**147,380**	147,380

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:				
Playmates Toys Asia Limited	Hong Kong	1 ordinary share of HK$1	100%	Provision of services and trading, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US$30 each	100%	Toy development, marketing and distribution, U.S.A.
Playmates Toys International Limited	Hong Kong	1 ordinary share of US$1	100%	Toy distribution in non-U.S. markets, Hong Kong
Playworld (Shenzhen) Limited (formerly known as Playmates Toys China Limited)	The People's Republic of China	HK$1,000,000 registered capital	100%	Provision of services, PRC

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

14 Interest in an Associated Company – Group

	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

As part of the Reorganisation, the acquisition of Unimax was completed on 27 December 2007 and no share of the profit of the associated company was recorded for the year ended 31 December 2007.

15 *Interest in a Jointly Controlled Entity – Group*

	2008 *HK$'000*	2007 *HK$'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 boys' 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 *HK$'000*	2007 *HK$'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)**	–

16 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).

17 Trade Receivables – Group

	2008 HK$'000	2007 HK$'000
Trade receivables	**83,040**	185,494
Less: Provision for doubtful debts and allowance for customer concession	**(5,800)**	(6,222)
	77,240	179,272

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

	2008 HK$'000	2007 HK$'000
0 – 30 days	**70,257**	177,805
31 – 60 days	**1,738**	240
Over 60 days	**5,245**	1,227
	77,240	179,272

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	**73,912**	178,693
1 – 90 days past due	**1,975**	535
91 – 180 days past due	**771**	12
Over 180 days past due	**582**	32
	77,240	179,272

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.

18 *Amount due from/to Related Companies – Group and Company*

The amounts due from/to related companies are unsecured, interest free and have no fixed term of repayment. The carrying amounts of amount due from/to related companies approximate their fair value.

19 *Bank Loans – Group*

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

All bank loans were denominated in HK dollars and the effective interest rate at the balance sheet date was 2.64% p.a. (2007:nil).

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$95 million (2007: HK$225 million), of which HK$41 million (2007: HK$nil) were utilised.

20 *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	**73,051**	32,672
31 – 60 days	**19,994**	40,739
Over 60 days	**2,797**	470
	95,842	73,881

21 Provisions – Group

The 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.

22 Equity Settled Share-based Transactions

A Share Option Scheme of the Company ("Scheme") was adopted on 25 January 2008. 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 Scheme within ten years after the date of grant. The number and weighted average exercise price of share options are as follows:

	2008	
	Weighted average exercise price *HK$*	Number of options *'000*
Granted *(Note (a))*	**0.346**	**16,322**
Lapsed	**0.350**	**(1,645)**
At the end of the year *(Note (b))*	**0.346**	**14,677**

22 Equity Settled Share-based Transactions (Continued)

Notes:

(a) Share options were granted to directors, employees and other participants on 31 March 2008 and 23 June 2008 at the exercise price of HK$0.35 and HK$0.29 per share respectively and expiring on 30 March 2018 and 22 June 2018 respectively. The closing prices of the ordinary shares of the Company 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. Consideration received was HK$601 in respect of the share options granted during the year.

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

Expiry date	Exercise price *HK$*	Number of options 2008 *'000*	Exercisable and vested number of options 2008 *'000*
Directors			
30 March 2018	0.35	**7,025**	**2,038**
		7,025	**2,038**
Employees			
30 March 2018	0.35	**5,702**	**1,425**
22 June 2018	0.29	**1,000**	**250**
		6,702	**1,675**
Other participants			
30 March 2018	0.35	**950**	**238**
		950	**238**
		14,677	**3,951**

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 9.26 years.

The share options for the directors set out above include share options to Mr. Soong, Ronnie which were exercisable at the end of the year. Mr. Soong was a then director of the Company who passed away on 23 April 2008.

No share options were cancelled during the year.

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 PHL in the past five years immediately before the date of grant, as the Company has only been listed on the Main Board of 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 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.

23 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 in the deferred tax assets/(liabilities) account is as follows:

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**91,507**	79,896
(Charged)/credited to income statement	**(45,651)**	11,611
At 31 December	**45,856**	91,507

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**	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**(143)**	(94)
Credited/(charged) to income statement	**118**	(49)
At 31 December	**(25)**	(143)

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	**82,736**	72,195	**8,914**	7,795	**91,650**	79,990
(Charged)/credited to income statement	**(46,356)**	10,541	**587**	1,119	**(45,769)**	11,660
At 31 December	**36,380**	82,736	**9,501**	8,914	**45,881**	91,650

Notes:

(1) As at 31 December 2008, deferred tax assets of HK$36 million (2007: HK$83 million) in relation to unused tax losses has 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	2007
	HK$'000	*HK$'000*
Deferred tax assets	**45,856**	91,747
Deferred tax liabilities	**–**	(240)
	45,856	91,507

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.

The Group has unrecognised deferred tax assets of HK$110 million (2007: HK$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 date under respective current tax legislation.

24 Capital and Reserves

(a) Share Capital

	Authorised Ordinary shares of HK$0.01 each No. of shares	HK$'000
Redenominated and subdivided shares	9,360,000	93
Additions	2,990,640,000	29,907
At 31 December 2007 and 2008	**3,000,000,000**	**30,000**

	Issued and fully paid Ordinary shares of HK$0.01 each No. of shares	HK$'000
Redenominated and subdivided shares	9,360,000	93
Issue of shares	485,640,000	4,857
At 31 December 2007 and 2008	**495,000,000**	**4,950**

(b) Reserves

Company

	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	–	–	(74)	(74)
Loss for the year	–	–	(16,451)	(16,451)
Arising from the Reorganisation	147,380	–	–	147,380
Issue of shares	(4,857)	–	–	(4,857)
At 31 December 2007	142,523	–	(16,525)	125,998
At 1 January 2008	142,523	–	(16,525)	**125,998**
Loss for the year	–	–	(6,803)	**(6,803)**
Share option scheme -value of services	–	1,341	–	**1,341**
At 31 December 2008	**142,523**	**1,341**	**(23,328)**	**120,536**

Nature and purpose of reserves

Company

(i) Contributed surplus

The contributed surplus represents the book value of assets contributed by an intermediate holding company pursuant to the Reorganisation in 2007. The application of the contributed surplus 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, employees and other participants recognised in accordance with the accounting policy adopted for share-based compensation in note 2(o)(iii).

Group

(iii) Reserve on consolidation

The capital reserve includes (i) an amount of HK$105,683,000 representing the aggregate amount of the share capital and share premium of the companies comprising the Group; (ii) a contribution of HK$36,840,000 made by an intermediate holding company pursuant to the Reorganisation in 2007; and (iii) a reserve on consolidation in the amount of HK$25,090,000 arose from the acquisition of an associated company from an intermediate holding company as part of the Reorganisation in 2007.

(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 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 45.3% compared to 0.0% at 31 December 2007.

25 Notes to the Consolidated Cash Flow Statement

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

	2008 HK$'000	2007 HK$'000
Loss before taxation	**(143,698)**	(68,136)
Bank interest income	**(844)**	(4,688)
Interest on bank loans and overdrafts, wholly repayable within five years	**1,999**	118
Depreciation of property, plant and equipment	**2,765**	2,678
Share-based compensation	**1,341**	–
Loss on disposal of property, plant and equipment	**61**	97
Share of profit of an associated company	**(523)**	–
Share of loss of a jointly controlled entity	**1,313**	–
Operating loss before working capital changes	**(137,586)**	(69,931)
Decrease in inventories	**13,805**	16,079
Decrease in trade receivables, other receivables, deposits and prepayments	**98,003**	160,143
Decrease in trade payables, other payables and accrued charges and provisions	**(20,277)**	(62,709)
Decrease in amounts due from/to related companies	**(7,942)**	(10,560)
Cash (used in)/generated from operations	**(53,997)**	33,022

(b) Analysis of cash and cash equivalents

	2008 HK$'000	2007 HK$'000
Cash and bank balances	**48,939**	81,995

26 Contingent Liabilities – Company

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

27 Financial Guarantee Contracts – Company

The Company has provided guarantees with respect to banking facilities made available to certain subsidiaries amounting to HK$95 million (2007: HK$nil), of which HK$41 million (2007: HK$nil) of such banking facilities were utilised as at 31 December 2008.

28 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 *HK$'000*	2007 *HK$'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 under operating leases for its office and warehouse locations. 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 *HK$'000*	2007 *HK$'000*
Within one year	**11,201**	6,209
In the second to fifth years inclusive	**16,148**	7,372
	27,349	13,581

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

29 *Related-party Transactions*

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

	2008	2007
	HK$'000	*HK$'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**	–
Rent and management fee paid to fellow subsidiaries, Belmont Limited and Bagnols Limited	**889**	360
Compliance services fee and licence fee paid to a fellow subsidiary, PIL Finance Limited	**1,272**	–
Share-based compensation in respect of share options granted by the ultimate holding company	**–**	3,127

Key management compensation

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

	2008	2007
	HK$'000	*HK$'000*
Director's fee	**29**	20
Salaries and other short-term employee benefits	**11,571**	12,906
Employer's contributions to provident fund	**328**	294
Share-based compensation	**828**	2,257
	12,756	15,477

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

Trademark

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

30 Post Balance Sheet Event

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

31 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.

32 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.

33 Financial Risk Management

(a) Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Receivables (include cash and cash equivalents)		
Trade receivables	**77,240**	179,272
Other receivables, deposits and prepayments	**4,023**	10,885
Amount due from a fellow subsidiary	**–**	246
Amount due from an intermediate holding company	**–**	1,303
Cash and bank balances	**48,939**	81,995
Financial liabilities at amortised cost		
Bank loans	**41,721**	–
Trade payables	**95,842**	73,881
Other payables and accrued charges	**54,929**	90,889
Amount due to a fellow subsidiary	**1,103**	7,892
Amount due to the ultimate holding company	**–**	2,702

33 Financial Risk Management (Continued)

(b) Financial risk factors

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

(i) Market risk

(a) 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.

(b) 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 year by approximately HK$209,000 (2007: no impact).

(ii) Credit risk

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

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and receivables agencies. 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%

(iii) *Liquidity risk*

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available. The Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

Pursuant to agreement with the Group's majority shareholder, PHL has committed to provide guarantees to certain Hong Kong bankers of the Group (note 30). In addition, the Group has advance collection arrangements with its U.S. factor. These arrangements are expected to provide the Group with adequate capital and cash flow resources to meet its operating needs.

(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.

34 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*
Turnover	**703,596**	909,030	1,127,997	1,277,607	1,282,662
(Loss)/profit before taxation	**(143,698)**	(68,136)	27,227	88,180	156,389
Taxation (charge)/credit	**(46,818)**	34,551	(4,033)	14,674	25,859
(Loss)/profit attributable to equity holders of the Company	**(190,516)**	(33,585)	23,194	102,854	182,248
Total assets	**315,602**	495,130	640,226	650,200	522,363
Total liabilities	**(223,521)**	(213,874)	(350,655)	(381,373)	(356,483)
Net assets	**92,081**	281,256	289,571	268,827	165,880

The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2006, 2005 and 2004 was prepared as if the current group structure had been in existence throughout these financial years and are presented on the basis as set out in note 1 to the financial statements.

Playmates Toys Limited
(Incorporated in Bermuda with limited liability)
(Stock code 869)
www.playmatestoys.com