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PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 0635)

CHANGE OF AUDITORS

The Board announces a change in its auditors as a result of the resignation of PricewaterhouseCoopers and the appointment of Moores Rowland Mazars with effect from 1 December 2005.

The board of directors (the **Board**) of Playmates Holdings Limited (the **Company**) announces that PricewaterhouseCoopers (**PwC**) has tendered its resignation from the office of auditors of the Company and its subsidiaries with effect from 30 November 2005. Pursuant to the bye-laws of the Company, the Board has appointed Moores Rowland Mazars to fill the casual vacancy in the office of auditors with effect from 1 December 2005.

On 1 December 2005 the Company's audit committee and the Board received a letter of resignation from PwC issued pursuant to Professional Ethics Statement 1.207A on "Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong" issued by the Hong Kong Institute of Certified Public Accountants (the **Letter of Resignation**). In its Letter of Resignation, PwC states that during discussions between its staff and a senior officer of Playmates Toys Inc. (**PTI**), a principal subsidiary of the Company incorporated in California, the senior officer "admitted misconduct in respect of certain accounting matters at PTI".

The Company understands from PwC that the admission referred to in its Letter of Resignation related to deliberate: (1) over provisioning for potential customer claims of mark down allowances due to unsold goods owned by customers at the end of the 2004 financial year; and (2) incorrect recognition of revenue on sales of goods on freight prepaid terms at the time when they leave the Company's warehouse.

Following notification of these matters by PwC, the Company's audit committee appointed an independent legal counsel in the United States of America to conduct an investigation (the **Independent Investigation**) and to provide the Company's audit committee with independent advice in the collection and analysis of facts and data relevant to the Independent Investigation. The Company's audit committee conducted a thorough review of the findings of the Independent Investigation and took further steps to investigate and quantify the impact of issues (1) and (2).

In relation to issue (1), based on the findings of the Independent Investigation and its own investigation, the Company's audit committee is of the view, and the Board concurs, that all provisions are specific, supported by appropriate documentation and were reasonable when made and that there is no evidence to substantiate any deliberate over provisioning on the part of Company's management. The unutilised amount of the provision for potential customer claims of mark down allowances for the 2004 financial year was approximately US\$1.67 million. This amount was credited to the profit and loss account of the Company during the first half of the 2005 financial year. In relation to issue (2), based on the findings of the Independent Investigation and its own investigation, the Company's audit committee is of the view, and the Board concurs, that the issue was an accounting oversight which had not been raised in previous audits but which had an insignificant effect on the accounts of the Company. The net impact on revenue in the 2004 financial year arising from this oversight was a decrease of approximately US\$411,000.

In addition, the Company's audit committee made a number of recommendations for reviewing and strengthening, where necessary, the internal controls of the Company. All of these recommendations have been, or are in the process of being, implemented.

The findings of the Independent Investigation and the views of the Company's audit committee and the Board were discussed with PwC whereupon PwC made a request to conduct a more in depth review of the Independent Investigation. PwC has stated in its Letter of Resignation that at this point there was "resistance of management" to providing it with the access to the Independent Investigation that it considered necessary. The Company's position is that once PwC made it clear that such review was necessary to enable it to discharge its professional responsibilities as auditors, the Company was willing and took steps to provide PwC with such access and the Company's audit committee communicated this fact to PwC and the legal counsel appointed to conduct the Independent Investigation. However, PwC was unable to give a commitment as to the time, the costs and further scope involved in carrying out the review. Furthermore, PwC indicated that it would not be in a position to commence the 2005 annual audit whilst any such review was ongoing.

In light of its own thorough review of the Independent Investigation findings, the Board considered that a further review by PwC would cause unnecessary delay to the 2005 annual audit. As a result, it was agreed that PwC would resign as auditors of the Company.

In its Letter of Resignation PwC has confirmed that, apart from the matter referred to above, there are no circumstances connected with the cessation of its audit appointment that it considers should be brought to the attention of the shareholders of the Company. In accordance with Section 140A(2)(a) of the Hong Kong Companies Ordinance, PwC has also confirmed that for the subsidiaries of the Company incorporated in Hong Kong, there are no circumstances connected with the cessation of its audit appointment that it considers should be brought to the notice of the shareholders or creditors of those companies.

The Board also considers that, apart from the matter referred to above, there are no circumstances connected with the change of auditors that need to be brought to the notice of the shareholders or creditors of the Company.

By Order of the Board
Playmates Holdings Limited
Tracy Fong
Company Secretary

Hong Kong, 9 December 2005

As at the date hereof, the board of directors of the Company comprises the following directors:

Executive Directors: Mr. Chan Chun Hoo, Thomas (*Chairman*); Mr. To Shu Sing, Sidney

Independent Non-executive Directors: Mr. Lee Peng Fei, Allen; Mr. Lo Kai Yiu, Anthony; Mr. Yu Hon To, David

Non-executive Directors: Mr. Tsim Tak Lung (*Deputy Chairman*); Mr. Ip Shu Wing, Charles

* *For identification purpose only*

Please also refer to the published version of this announcement in South China Morning Post and Hong Kong Economic Journal.