DIRECTORS AND ADVISERS

Directors	R King K P Shah J J P Kissane J J Diver I S Fenn Lord Birdwood
Secretary	K P Shah FCCA
Company Registration Number	3033333
Registered Office	80 Fleet Street London EC4Y 1EL
Solicitors	Gold Mann & Co 80 Fleet Street London EC4Y 1EL
Auditors	Kidsons Impey Chartered Accountants and Registered Auditors Carlton House 31-34 Railway Street Chelmsford Essex CM1 1NJ
Stockbrokers	Peel, Hunt & Company Limited 62 Threadneedle Street London EC2R 8HP
Bankers	MashreqBank psc PO Box 97 Bavaria House 13-14 Appold Street London EC2A 2BD
	Barclays Bank plc Richmond and Twickenham Business Centre PO Box 13 St George Street Richmond Surrey TW9 1JU
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3BR

CHAIRMAN'S STATEMENT

Dear Shareholder

I am delighted to report that in the Group's first full year as a public company it has achieved another record year in terms of sales and profitability.

Profits before tax for the year ended 31st August 1996 were £3.66 million compared with £1.69 million for the previous year, an increase of 117%. Sales were £30.3 million compared with £22.6 million for the previous period, a 34% increase. Earnings per share were 12.33 pence compared with 7.16 pence, an increase of 72%.

In order to reflect the Group's continuing growth, the Board has recommended the payment of a final dividend of 2.5 pence net per share, making a total dividend for the year of 3.5 pence net per share, an increase of 35% over the notional dividend for the previous financial year.

Subject to approval at the Annual General Meeting to be held on 14th January 1997, the dividend will be paid on 31st January 1997 to shareholders on the register at 8th January 1997.

The Board has been, and remains, committed to the highest standards of corporate responsibility and intends to continue following the best practices as set out in the Cadbury guidelines and the Greenbury recommendations in so far as they are appropriate to a company of our size.

The continued growth of the Group could not have been achieved without the outstanding effort and dedication of all the employees and I would like to take this opportunity of thanking them on behalf of the Board.

The Group operates two share incentive schemes at present in which 57% of the employees currently participate. The Board continues to believe that it is vital to the Group's success that employees are incentivised in this manner and, given recent legislative restrictions placed upon the use of the current Revenue-approved executive share option scheme, the Board is putting forward proposals for approval at the Extraordinary General Meeting to be held on 14th January 1997 to adopt a further unapproved scheme. It is intended that the additional capacity, which it is proposed will limit the overall level of options granted since 9th May 1995 to 5% of the shares in issue, will be used as and when deemed appropriate by the Remuneration Committee of the Board.

Since the majority of consumer sales take place in the six weeks leading up to Christmas, it is too early for us to project the final level of Christmas sales. I am pleased to report, however, that sales are ahead of the corresponding period for last year and we see no reason why we should not enjoy a further successful Christmas.

The Group has, during the year, increased and improved its portfolio of products, and at the same time further developed both the breadth and depth of its distribution base. The Board believes that the planned introduction of new product ranges from the Spring of 1997, such as Pound Puppies and Super Soaker, plus the continued distribution of successful ranges such as Sky Dancers, Dragonflyz and, in particular, Micro Machines (which will benefit greatly from the re-release of all three of the Star Wars films to celebrate its 20th Anniversary) will provide the basis for further growth in the core toy distribution business through 1997 and beyond.

The Directors have for some time been considering how to broaden the base of the Group's operations whilst taking advantage of its knowledge of and expertise in the toy industry, and without competing with its current toy suppliers.

Toy Options commenced distribution of World Wide Licenses' ("WWL") range of children's watches in 1995 and, during the course of the year, has successfully achieved good distribution of the products and built a successful working relationship with WWL. The Group announced in October that it had signed heads of agreement for the purchase of WWL and the Company anticipates entering into a conditional purchase agreement on 30th November 1996, the terms of which will be detailed in a circular which it expects to publish on 2nd December 1996.

The Board believes that the successful acquisition of WWL will provide the Group with the following advantages: the Group will be enhanced by the addition of a rapidly expanding and profitable business; the additional revenues will not compete with or replace existing Group sales; the management of WWL has proven skills in design, development and production of near-toy products which are suitable for sale on an international scale; with the benefit of an active international distribution network covering 44 countries, the enlarged Group will have the capacity and the experience in the areas of licensed products to expand into the near-toy product areas; the Group will be able to avoid the expense and uncertainty associated with developing a similar capacity for international trading by organic growth alone.

Your Board believes that the successful completion of the acquisition of WWL will give the Group the basis for exciting international growth, which, when added to the continued further development of the core business, should greatly enhance future prospects.

Richard King
CHAIRMAN

29 November 1996

REPORT OF THE DIRECTORS

The directors present their report together with accounts for the year ended 31 August 1996.

Principal activity

The Group is principally engaged in the marketing, importation, distribution and sale of branded and character-licensed toys and games in the UK and Republic of Ireland.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2 and 3 and the results are detailed in the consolidated profit and loss account on page 13 and the cash flow statement on page 16. In both these statements, the most informative comparison is between the results for this year and those for the twelve months to 31 August 1995, shown as proforma figures. The columns headed '17 weeks to 31 August 1995' are required to be included and cover the period from incorporation of the Company in preparation for last year's flotation, but do not provide any meaningful comparison.

There was a profit for the period after taxation amounting to £2,467,000 and the directors propose payment on 31 January 1997 of a final dividend of 2.5 pence per share to all shareholders registered as at the close of business on 8 January 1997.

An interim dividend of 1.0 pence per share was paid on 26 July 1996.

Directors and their interests in shares

The directors and their beneficial interests (including family interests) in the shares of Toy Options Group plc are:

	31 August 1996		1 September 1995
Directors	**Number of ordinary shares**	**Ordinary shares under option**	**Number of ordinary shares**
R King	4,800,000	-	4,800,000
K P Shah	3,600,000	-	3,600,000
J J P Kissane	1,200,000	100,000	1,200,000
J J Diver	1,200,000	100,000	1,200,000
I S Fenn	-	-	-
Lord Birdwood (Appointed 14 September 1995)	-	-	-

Included in the interests of R King are his interests in 2,240,000 ordinary shares held by Worthy Trust Company Limited as trustee of a family trust and 160,000 ordinary shares beneficially owned by Mrs M H King (the spouse of R King). Included in the interests of K P Shah are the interests of Sarissa Holdings Limited in 3,600,000 ordinary shares.

In addition to the above, the Company's pension scheme, in which R King, K P Shah and J J Diver are interested, held 150,000 ordinary shares at 31st August 1996.

There have been no changes to the above share interests between 31 August 1996 and 25 November 1996.

Pursuant to the requirements of their appointment letters, Lord Birdwood and Mr I S Fenn retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

Lord Birdwood (aged 58) was appointed to the Board as a non-executive director on 14 September 1995. He has considerable experience as a director of quoted and private companies. He has particular interest in executive placement and recruitment.

Mr Fenn (aged 53) is also a non-executive director and has had extensive experience in corporate finance, gained in stockbroking and merchant banking in the City of London.

Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. Company staff at every level are encouraged to make their fullest possible contribution to our success.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, marital status, race, age or disability. All decisions are based on merit.

Employees are encouraged to become involved in the financial performance of the Group through the share option schemes.

REPORT OF THE DIRECTORS

Statement of directors' responsibilities

We are required under company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company, and of the Group profit or loss for that year.

In preparing these accounts we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless in our view the Group and the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the Group's assets
- taking reasonable steps for the prevention and detection of fraud.

Share capital

On 27 March 1996, 7,200 ordinary shares were allotted for cash following the exercise of an option. Further details are given in note 16 to the accounts.

On 15 October 1996, 1,000,000 ordinary shares were allotted for cash at a price of 105 pence per share.

Share option schemes

Details of the share option schemes are given in note 16 to the accounts.

Substantial shareholders other than directors

At 31 October 1996 the following persons, other than the directors and their family interests, had notified the Company of an interest in 3% or more of the Company's ordinary shares.

Name	Number of ordinary shares	Shareholding %
Sweet Briar Investments Limited	3,000,000	14.3%

Close company status

In the opinion of the directors the Company is a close company under the provisions of the Income and Corporation Taxes Act 1988.

Special Business at the Annual General Meeting

Approval will be sought at the forthcoming Annual General Meeting of the Company to renew certain of the authorities previously granted to the directors to allot unissued shares in the capital of the Company and, in certain circumstances, to allot shares for cash otherwise than to existing shareholders pro rata to their holdings. These authorities are in line with current institutional guidelines.

Auditors

A resolution to re-appoint Kidsons Impey as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

K P Shah FCCA K. Shah
SECRETARY

Registered Office:
80 Fleet Street
London EC4Y 1EL

29 November 1996

CORPORATE GOVERNANCE

The directors have considered the report of the Cadbury Committee on the financial aspects of Corporate Governance and the Code of Best Practice therein.

The Board recognises the importance of the provisions of the Code but considers that full compliance by the Company is not appropriate for a company of its size. The Company now has two non-executive directors, where the Code recommends a minimum of three, but the Board considers that its composition is now appropriate for the size and complexity of the Group's business.

The Board has also established an Audit Committee and a Remuneration Committee with duties and responsibilities formally delegated to them.

Audit Committee	**Remuneration Committee**
I S Fenn (Chairman)	Lord Birdwood (Chairman)
Lord Birdwood	I S Fenn
R King	

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to Group accounts and the Group's internal control systems. The Remuneration Committee is responsible for setting the remuneration of the executive Directors and the senior management and for the operation of the Toy Options' Share Schemes. All non-executive directors of the Company are entitled to seek, at the Company's expense, independent professional advice in connection with their roles on these committees.

Internal Financial Control

The Board of directors is responsible for ensuring that an adequate system of internal financial control is operated within the Group.

No system of internal financial control can provide absolute assurance against material mis-statement or loss, but any system of controls implemented by the Board should be appropriate to the business, in order to provide reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors or irregularities would be either prevented or detected within a timely period.

The key elements of the internal financial control system put in place by the directors are:

- the setting of appropriate levels of authorisation which must be adhered to as the Group conducts its business;

- the definition of a recognised organisational and management reporting structure within which individual executive directors have responsibility for the day-to-day running of the business;

- established and detailed procedures for the setting of annual budgets and monthly forecasts and the ongoing monitoring of actual financial performance against these targets, on a monthly basis, both at operational and Board level; and

- a clearly defined and well-established set of accounting policies which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

The directors have duly undertaken a review of the key internal financial controls which have been in place within the Group during the year ended 31 August 1996.

Going Concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and therefore has adopted the going concern basis in preparing the accounts.

The Board is committed to proper standards of Corporate Governance and will keep procedures under review as the Code develops.

Report by the auditors to the directors of Toy Options Group plc on Corporate Governance matters

In addition to our audit of the accounts, we have reviewed the directors' statements above concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of Opinion

We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to Corporate Governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's Corporate Governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, the directors' statements on going concern and on internal financial control set out above have provided the disclosures required under paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are not inconsistent with the information which came to our attention as a result of our audit work on the accounts.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, the directors' statements above appropriately reflect the Group's compliance with the other paragraphs of the Code specified for our review.

Kidsons Impey
Registered Auditors
Chartered Accountants
Chelmsford

29 November 1996

REPORT OF THE REMUNERATION COMMITTEE

This report is provided in accordance with the recommendations of the Code of Best Practice contained in the "Greenbury Report" on Directors' Remuneration, issued in July 1995.

The Remuneration Committee consists of two non-executive directors, Lord Birdwood and Mr I S Fenn. The policy of the Remuneration Committee is framed to give full consideration to the provisions as to best practice set out in the Greenbury Report.

Directors' Emoluments

Each executive director is paid a basic salary and is entitled to have pension contributions paid to a suitable scheme of his choice, and to benefits, being the use of a company car, fuel and participation in a private health care scheme. Full details for the year ended 31 August 1996 are shown in note 4 to the accounts.

Each of the executive directors is also entitled under the terms of his service contract to a bonus equal to up to one half of his basic salary in the event that specified performance targets are met or exceeded. In the cases of Mr King and Mr Shah these targets require earnings per Ordinary Share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items, to increase by not less than 15%. In the cases of Mr Kissane and Mr Diver these targets are geared to their individual spheres of responsibility and are designed to reward growth in Group profits over calendar yearly periods commencing 1 January 1996.

The basic salaries referred to above will be reviewed annually on 1 June in every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months, expiring on or after 9 May 1998.

These arrangements were agreed by the then Board of Directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers. In doing so, they took account of other listed companies of comparable size and business complexity, and in particular of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefits ("final salary") schemes.

It is intended that similar policy considerations will guide the Remuneration Committee in future, and the Committee will give full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules.

Executive directors holding less than 10% of the Company's issued share capital are eligible to participate in the Company's Inland Revenue approved executive share option scheme, details of which can be found in note 16 to the accounts.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. They are each entitled to fees, currently at the rate of £12,500 per annum, plus expenses, without any right to compensation on early termination.

The Remuneration Committee is of the opinion that the Company is complying with the Code of Best Practice included in the Greenbury Report in all material respects.

Lord Birdwood
CHAIRMAN - REMUNERATION COMMITTEE

29 November 1996

REPORT OF THE AUDITORS TO THE MEMBERS OF TOY OPTIONS GROUP PLC

We have audited the accounts on pages 13 to 27 which have been prepared under the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

As described on page 6 the directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 August 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Kidsons Impey
Registered Auditors
Chartered Accountants
Chelmsford

29 November 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	12 months to 31st August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
Turnover - continuing operations	2	30,343	22,632	6,861
Cost of sales		(18,039)	(13,228)	(4,620)
Gross profit		12,304	9,404	2,241
Net operating expenses				
Selling and distribution costs		(4,467)	(2,790)	(618)
Administrative expenses		(3,957)	(4,585)	(995)
Other operating income		65	85	18
Operating profit				
Continuing operations	3	3,945	2,114	646
Interest receivable		18	1	-
Interest payable	5	(301)	(424)	(122)
Profit on ordinary activities before taxation		3,662	1,691	524
Taxation	6	(1,195)	(548)	(141)
Profit for the financial period		2,467	1,143	383
Dividends	7	(725)	(346)	(346)
Profit retained	17	1,742	797	37
Earnings per share	8	12.33p	7.16p	2.14p

There were no material recognised gains or losses other than items dealt with in the profit and loss account above. For exchange rate movements taken to reserves see note 15 to the accounts.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 August 1996 £000's	As at 31 August 1995 £000's
Fixed assets			
Tangible assets	9	248	209
Current assets			
Stocks	11	5,544	4,861
Trade debtors subject to factoring arrangements		7,273	3,819
Factor advances		(4,057)	(3,243)
		3,216	576
Debtors due after more than one year	12	-	100
Trade and other debtors	12	759	951
Cash at bank and in hand		2,007	953
		11,526	7,441
Creditors: amounts falling due within one year	13	(6,149)	(3,790)
Net current assets		5,377	3,651
Total assets less current liabilities		5,625	3,860
Creditors: amounts falling due after more than one year	14	(31)	(8)
Net assets		5,594	3,852
Capital and reserves			
Called up share capital	16	1,000	1,000
Share premium	17	2,519	2,519
Merger reserve	17	651	651
Goodwill write off reserve	17	(353)	(353)
Profit and loss account	17	1,777	35
Equity shareholders' funds	15	5,594	3,852

The accounts on pages 13 to 27 were approved by the Board of Directors on 29 November 1996.

R King Director
K P Shah Director

PARENT COMPANY BALANCE SHEET

	Note	As at 31 August 1996 £000's	As at 31 August 1996 £000's	As at 31 August 1995 £000's	As at 31 August 1995 £000's
Fixed assets					
Investments	10		7,600		7,600
Current assets					
Debtors	12	3,023		3,069	
Cash at bank and in hand		400		100	
		3,423		3,169	
Creditors: amounts falling due within one year	13	(7,375)		(7,196)	
Net current liabilities			(3,952)		(4,027)
Total assets less current liabilities			3,648		3,573
Net assets			3,648		3,573
Capital and reserves					
Called up share capital	16		1,000		1,000
Share premium	17		2,519		2,519
Profit and loss account	17		129		54
Equity shareholders' funds	15		3,648		3,573

The accounts on pages 13 to 27 were approved by the Board of Directors on 29 November 1996.

R King Director
K P Shah Director

TOY OPTIONS GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT

	Note	12 months to 31 August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
Net cash inflow/(outflow) from operating activities	19	2,474	(544)	(1,570)
Returns on investment and servicing of finance				
Interest received		18	1	-
Interest paid		(297)	(419)	(121)
Interest element of finance lease rental payments		(4)	(5)	(1)
Dividends paid		(546)	-	-
Net cash outflow from returns on investments and servicing of finance		(829)	(423)	(122)
Corporation tax paid		(472)	(238)	(210)
Investing activities				
Payments to acquire tangible fixed assets		(82)	(95)	(32)
Receipts from sales of tangible fixed assets		16	19	-
Bank balances acquired on purchase of subsidiary undertakings		-	-	47
Net cash (outflow)/inflow from investing activities		(66)	(76)	15
Net cash inflow/(outflow) before financing		1,107	(1,281)	(1,887)
Financing				
Issue of shares		-	2,769	2,769
Capital element of finance lease rentals		(53)	(46)	(26)
Loans		-	(90)	50
Net cash (outflow)/inflow from financing	21	(53)	2,633	2,793
Increase in cash and cash equivalents	20	1,054	1,352	906

NOTES TO THE ACCOUNTS

1 Principal accounting policies

Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The principal accounting policies of the Group are set out below:

Basis of consolidation

The Group accounts for the year ended 31 August 1996 comprise the accounts of the Company and its subsidiaries all of which are made up to the end of the Company's financial year.

The principles of merger accounting have been applied for the result for the period ended 31 August 1995. Toy Options Group plc was incorporated on 15 March 1995. It acquired its subsidiary undertakings on 3 May 1995 by way of an issue of shares to the members of the previous parent undertaking. Accordingly the comparative statutory profit and loss account includes the results of the Group from 3 May 1995. It was necessary to prepare proforma accounts for the year ended 31 August 1995 as if the present Group structure existed for that period in order to compare actual results with those in the current year and with the forecast in the Prospectus prior to the Company's admittance to the Official List of the United Kingdom Stock Exchange. The profit and loss account for the parent company has not been included, as permitted by Section 230 of the Companies Act 1985.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life. The following principle rates per annum are used:

Fixtures and fittings	20%
Motor vehicles	20%

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account, except those arising on consolidation of foreign susidiaries, which are taken direct to reserves.

Leasing and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

Factoring arrangements

Toy Options Limited has entered a factoring agreement. Debts approved by the Factor Company are assigned to it without recourse to the Company. Non-refundable advances are made to Toy Options Limited by the Factor Company. A linked presentation of the relevant balances is therefore shown on the face of the balance sheet in accordance with the requirements of Financial Reporting Standard Number 5.

1 Principal accounting policies (continued)

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Product warranties

Provision is made in the balance sheet where specific product faults have been identified and the associated costs are material. All other product warranty costs are charged to the profit and loss account as incurred.

2 Turnover

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax.

An analysis of turnover by geographical market is given below:

	12 months to 31 August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
United Kingdom	28,108	21,671	6,470
Rest of Europe	2,235	961	391
	30,343	22,632	6,861

All the Group's activities during the period are classed as continuing.

The directors consider that the disclosure of further dis-aggregated information would be seriously prejudicial to the interests of the Group.

3 Operating profit

	12 months to 31 August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
Operating profit is stated after charging:			
Staff costs (note 4)	1,496	2,376	476
Auditors' remuneration - Audit services	19	23	7
- Non audit services	13	32	10
Operating leases - rent	110	58	37
Depreciation of tangible fixed assets			
- owned assets	73	53	15
- assets held under finance leases and HP contracts	26	18	5
	99	71	20

4 Directors and employees

Staff costs including directors' emoluments

	12 months to 31 August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
Wages and salaries	1,279	1,805	404
Social security costs	120	179	35
Other pension costs	97	392	37
	1,496	2,376	476

The average number of employees during the year was:

	Number	Number	Number
Management and administration	24	16	17
Selling and distribution	22	23	25
	46	39	42

4 Directors and employees (continued)

	12 months to 31 August 1996 £000's	Proforma 12 months to 31 August 1995 £000's	17 weeks to 31 August 1995 £000's
Directors			
Emoluments including pension contribution	776	1,664	185
Emoluments, excluding pension contributions			
Chairman	200	397	43
Highest paid director	Chairman	482	Chairman
Other directors	**Number**	**Number**	**Number**
£0 - £5,000	-	1	1
£10,001 - £15,000	2	-	-
£30,001 - £35,000	-	-	2
£40,001 - £45,000	-	-	1
£135,001 - £140,000	2	-	-
£185,001 - £190,000	1	-	-
£195,001 - £200,000	-	2	-

Details of directors' emoluments were as follows:

Year ended 31 August 1996

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	125,000	62,500	12,359	31,250	231,109
K P Shah	120,000	60,000	6,969	24,000	210,969
J J P Kissane	100,000	33,333	5,374	15,720	154,427
J J Diver	100,000	33,333	3,835	17,500	154,668
I S Fenn (non-executive)	12,500	-	-	-	12,500
Lord Birdwood (non-executive)	12,500	-	-	-	12,500
	470,000	189,166	28,537	88,470	776,173

Year ended 31 August 1995

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	125,000	265,651	6,384	239,817	636,852
K P Shah	120,000	357,094	5,018	129,900	612,012
J J P Kissane	100,000	91,538	5,153	12,667	209,358
J J Diver	100,000	91,538	5,833	5,833	203,204
I S Fenn (non-executive)	3,000	-	-	-	3,000
	448,000	805,821	22,388	388,217	1,664,426

4 Directors and employees (continued)

On 28 March 1996, each of J J P Kissane and J J Diver was granted options over 100,000 ordinary shares in the Company at an exercise price of 107p per share, exercisable between 28 March 1999 and 30 May 2006.

At 31 August 1996 the mid-market price of a Toy Options Group plc ordinary share was 97.5 pence, and during the year the price ranged from 70 pence to 119 pence.

5 Interest payable	**12 months to 31 August 1996 £000's**	**Proforma 12 months to 31 August 1995 £000's**	**17 weeks to 31 August 1995 £000's**
On bank overdraft and similar charges	60	217	78
Finance leases and hire purchase contracts	4	5	1
Factor advances	237	202	43
	301	424	122

6 Taxation	**£000's**	**£000's**	**£000's**
Hong Kong profits tax at 16.5% (1995: 16.5%)	67	58	32
Corporation tax on profit on ordinary activities at 33% (1995: 33%)	1,134	475	109
(Over)underprovision in previous years	(6)	15	-
	1,195	548	141

No charge has been made for deferred tax as there are no material timing differences.

7 Dividends

	£000's	**£000's**	**£000's**
Equity dividends paid	200	-	-
Equity dividends proposed	525	346	346
	725	346	346

8 Earnings per share

The calculation of earnings per share is derived as follows:

Group profit after taxation	£2,467,000	£1,143,000	£383,000
Weighted average number of ordinary shares	20,003,077	15,958,904	17,941,176

The dilution of earnings per share which would arise from the exercise of share options is not material.

9 Tangible fixed assets
The Group

Cost	**Fixtures fittings and equipment £000's**	**Motor vehicles £000's**	**Total £000's**
1 September 1995	184	184	368
Additions	33	128	161
Disposals	-	(38)	(38)
31 August 1996	217	274	491
Depreciation			
1 September 1995	104	55	159
Charge for year	42	57	99
Disposals	-	(15)	(15)
31 August 1996	146	97	243
Net book value			
31 August 1996	71	177	248
31 August 1995	80	129	209

The net book value of motor vehicles includes £93,000 (1995: £62,000) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

10 Fixed asset investments

The Company

	Shares in subsidiary undertakings £000's
At 31 August 1996 and 1995	7,600

At 31 August 1996 the Group held more than 10% of the equity of the following undertakings:

	Country of incorporation and operation	**Class of share capital held**	**Proportion held by the parent undertaking**	**Nature of business**
Toy Options Limited	United Kingdom	Ordinary	100%	Toy importer and distributor
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Toy exporter
T Options Investments Limited	Hong Kong	Ordinary	100%	Non trading
Megashire Limited	United Kingdom	Ordinary	25%	Property investment

10 Fixed asset investments (continued)

All of the subsidiary undertakings have been included in these consolidated accounts.

The interest in the associated undertaking Megashire Limited was acquired on 9 May 1995 for £1 consideration. Its previous financial year end was 31 March 1995 and on this basis the results for that year are not consolidated into these accounts. At 31 March 1996 the aggregate of Megashire Limited's capital and reserves was £1,180 (1995 - £946) and its profit for the year then ended was £233 (1995 - £33,728). The results have not been consolidated into the 1996 Group accounts as the effect would not be material.

11 Stocks

	The Group 1996 £000's	The Group 1995 £000's
Finished goods for resale	5,544	4,861

12 Debtors

	The Group 1996 £000's	The Group 1995 £000's	The Company 1996 £000's	The Company 1995 £000's
Due from subsidiary undertakings	-	-	3,023	3,032
Trade debtors (non financing)	288	669	-	-
Other debtors	79	129	-	37
Prepayments and accrued income	192	153	-	-
Advance corporation tax due after less than one year	200	-	-	-
Advance corporation tax due after one year	-	100	-	-
	759	1,051	3,023	3,069

13 Creditors: amounts falling due within one year

	The Group 1996 £000's	The Group 1995 £000's	The Company 1996 £000's	The Company 1995 £000's
Trade creditors	3,308	2,194	-	-
Due to subsidiary undertakings	-	-	6,850	6,850
Corporation tax	1,354	531	-	-
Other taxation and social security	758	501	-	-
Accruals and deferred income	171	188	-	-
Finance leases and hire purchase contracts	33	30	-	-
Proposed dividend	525	346	525	346
	6,149	3,790	7,375	7,196

A bank and a major trade creditor which offer trade finance are secured by debentures over the assets and undertakings of a subsidiary company.

14 Creditors: amounts falling due after more than one year

	The Group 1996 £000's	The Group 1995 £000's
Finance leases and hire purchase contracts repayable in less than five years	31	8

15 Reconciliation of shareholders' funds

	The Group 12 months to 31 August 1996 £000's	The Group Proforma 12 months to 31 August 1995 £000's	The Group 17 weeks to 31 August 1995 £000's	The Company 12 months to 31 August 1996 £000's	The Company 17 weeks to 31 August 1995 £000's
Profit for the financial period	2,467	1,143	383	800	400
Dividends	(725)	(346)	(346)	(725)	(346)
Merger and goodwill reserve	-	(593)	298	-	-
Exchange differences taken to reserves	-	(2)	(2)	-	-
Issue of shares	-	3,363	3,519	-	3,519
Net addition to shareholders' funds	1,742	3,565	3,852	75	3,573
Opening shareholders' funds	3,852	287	-	3,573	-
Closing shareholders' funds	5,594	3,852	3,852	3,648	3,573

16 Called up share capital

	1996 £000's	1995 £000's
Authorised		
26,000,000 ordinary shares of 5 pence each	1,300	1,300
Allotted called up and fully paid		
20,007,200 ordinary shares of 5 pence each	1,000	1,000

On 27 March 1996, 7,200 ordinary shares were issued for cash at a price of 6 pence per ordinary share following the exercise by a former employee of a share option granted on 5 May 1995.

16 Called up share capital (continued)

Share options

The Company adopted the rules of an Inland Revenue approved executive scheme on 3 May 1995, and on 31 May 1995, options were granted to 36 employees to acquire in aggregate up to 197,800 ordinary shares in the Company at 65 pence per share, subject to the rules of this scheme. At 31 August 1996, options to acquire up to 165,600 shares remain outstanding.

During the year, options were granted to two directors and two employees to acquire in aggregate up to 248,000 ordinary shares at 107 pence per share.

On 5 May 1995, options were granted free of charge to 36 employees to acquire in aggregate up to 192,700 ordinary shares in the Company at 6 pence per share under an option scheme which is not approved by the Inland Revenue. Options to acquire 163,700 ordinary shares remained outstanding at 31 August 1996.

17 Share premium and reserves

The Group	Share premium account £000's	Merger reserve £000's	Goodwill write off reserve £000's	Profit and loss account £000's
At 1 September 1995	2,519	651	(353)	35
Retained profit for the year to 31 August 1996	-	-	-	1,742
At 31 August 1996	2,519	651	(353)	1,777

The Company

	Share premium account £000's	Profit and loss account £000's
At 1 September 1995	2,519	54
Retained profit for the year to 31 August 1996	-	75
At 31 August 1996	2,519	129

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the second Annual General Meeting of Toy Options Group plc will be held at the offices of Peel Hunt and Company Limited, 5th Floor, 62 Threadneedle Street, London, EC2R 8HP on Tuesday 14 January 1997 at 10am to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and the accounts of the Company for the year ended 31 August 1996 and the report of the auditors thereon.

2. To declare a final dividend.

3. To re-elect Mr I.S. Fenn, who retires in accordance with the terms of his appointment letter with the Company, as director of the Company.

4. To re-elect Lord Birdwood, who retires in accordance with the terms of his appointment letter with the Company, as director of the Company.

5. To re-appoint Kidsons Impey as auditors of the Company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions which in the cases of resolutions numbered 6 and 7 shall be proposed as ordinary resolutions of the Company and in the case of resolution numbered 8 shall be proposed as a special resolution of the Company:

6. That for the purposes of Section 80 of the Companies Act 1985 the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £249,640 such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the Company next following the date upon which this resolution was passed unless renewed, varied or revoked by the Company in general meeting provided that the Company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require relevant securities to be allotted after the expiry, variation or revocation of such authority and the directors may allot relevant securities pursuant to such offer or agreement as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of relevant securities to the extent that the same have not previously been utilised.

7. That the directors be and are hereby authorised for the purposes of Article 147 of the Articles of Association of the Company, to offer to members of the Company, in accordance with the provisions of the said article, the right to elect to receive ordinary shares, credited as fully paid, in whole or in part instead of cash in respect of all or any dividends declared or paid by the Company or the directors pursuant to the Articles of Association of the Company at any time after the date of the passing of this resolution and prior to the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the

Company next following the date upon which this resolution was passed and that the directors be and are hereby authorised to make any such offer on such terms and conditions to such members of the Company, subject always to the provisions of the Articles of Association of the Company, as they shall in their absolute discretion determine.

8. That:

(a) the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred on them for the purposes of Section 80 of the Act by an ordinary resolution of the Company of even date herewith as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

(i) to the allotment of equity securities in connection with any offer by way of rights to holders of ordinary shares in the capital of the Company notwithstanding that, by reason of such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or other problems arising in any overseas territory, in connection with fractional entitlements, record dates or otherwise howsoever, the equity securities to be allotted are not offered to all such holders in proportion to the respective number of ordinary shares held by them;

(ii) to the allotment of equity securities pursuant to Article 147 of the Articles of Association of the Company in favour of holders of ordinary shares in the capital of the Company where the equity securities respectively attributable to the interests of such holders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or practical problems under the laws, or the requirements, of any regulatory authority in any territory or otherwise howsoever in relation to fractional entitlements;

(iii) the allotment (otherwise than pursuant to paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal value equal to £25,000 (being 2.5% of the nominal value of the issued ordinary share capital of the Company as at 31 August 1996);

(b) the power hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution is passed or fifteen months following the date upon which this resolution is passed;

(c) the power hereby conferred shall enable the Company to make an offer or agreement that would or might require equity securities to be allotted after such power expires and the directors may allot equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (a) above as if the power hereby conferred had not expired; and

(d) this power shall replace all existing powers granted to the directors to allot equity securities as if the said Section 89(1) of the Act did not apply to the extent that the same have not been previously utilised.

OTHER BUSINESS

9. To transact any other business which may lawfully be transacted at the Annual General Meeting.

By order of the Board	Registered Office
K.P. Shah	80 Fleet Street
Secretary	London
2 December 1996	EC4Y 1EL

Notes:

(1) Any member of the Company entitled to vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is set out on page 31.

(2) The register of directors' interests and copies of the directors' service agreements will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and on that day they will be available for inspection at the place of the meeting from 9 am until the conclusion of the meeting.

Form of Proxy

Toy Options Group plc

For use at the Annual General Meeting of the Company on Tuesday 14 January, 1997

I/We ____
(Use Block Capitals)

of____ (being (a)

holder(s) of ordinary shares) hereby appoint the chairman of the meeting ______________

____ (note 1)

as my/our proxy to vote on my/our behalf at the Annual General Meeting to be held at the offices of Peel Hunt and Company Limited, 5th Floor, 62 Threadneedle Street, London, EC2R 8HP at 10 am on Tuesday 14 January 1997 and at any adjournment thereof.

Please indicate with a ✔ in the spaces below in either the for or against column how you wish your vote to be cast (note 4).

	FOR	AGAINST
1. Ordinary Resolution - adoption of accounts for year to 31 August 1996		
2. Ordinary Resolution - declaration of a final dividend		
3. Ordinary Resolution - re-election of Mr I.S. Fenn as a director		
4. Ordinary Resolution - re-election of Lord Birdwood as a director		
5. Ordinary Resolution - reappointment of Kidsons Impey as auditors		
6. Ordinary Resolution - authority to allot shares		
7. Ordinary Resolution - authority to allot shares in lieu of cash dividends		
8. Special Resolution - disapplication of pre-emption rights		

Dated ______________________ Signature ______________________

Notes:

(1) A member may appoint a proxy of his or her own choice, who need not be a member of the Company. If such an appointment is made, delete the words 'the chairman of the meeting' and insert the name of the person appointed as proxy in the space provided.

(2) If the appointor is a corporation this proxy form must be executed under its seal or under the hand of some officer, attorney or other person authorised to sign the same in that behalf. If the appointor is not a corporation, this proxy form must be executed under the hand of the appointor or of his attorney duly authorised in that behalf.

(3) In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.

(4) If this proxy form is returned without any indication as to how the person appointed proxy shall vote, he or she will exercise their discretion as to how he or she votes or whether to abstain from voting.

(5) To be effective this proxy must be lodged with Neville Registrars Limited by post to Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR not less than 48 hours before the time appointed for the meeting or adjourned meeting and must be accompanied by any power of attorney or other authority under which it is signed or by a notarially certified copy of such power or authority.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No: BM3865

1

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3BR

FIRST FOLD

THIRD FOLD, THEN TUCK IN FLAP