Business review and prospects

For the first half of 2002, the Group recorded a turnover of HK$122,289,000, compared to HK$136,550,000 a year ago. The turnover from toy sales was HK$108,970,000, compared to HK$125,804,000 a year ago and turnover from property investment and management (before inter-segment revenue eliminated) was HK$14,094,000, an increase of 12 percent. Gross profit of the Group improved by 19.5 percent over the same period in 2001. Coupled with management focus on operation efficiencies, operating losses reduced by 29 percent to HK$46,684,000. Net loss attributable to shareholders decreased by 5 percent to HK$41,478,000 due to a share of losses from associated companies. Loss per share was reduced to HK cents 3.88 from a loss of HK cents 5.02 per share in the same period last year.

The results are in line with management's expectations and are tracking to the 2002 full year plan. These results validate Playmates Toys' strategy to reposition toy operations by focusing efforts on the establishment and growth of core, extendable, promotional brands with higher gross margin potential. Additionally, Playmates Toys decided to minimize its reliance on lower gross margin export shipments and maximize higher gross margin domestic U.S. shipments. This shift in shipping patterns has enabled Playmates Toys to meet retailers' inventory control objectives.

The implementation of Playmates Toys' strategy to improve supply chain efficiencies, reduce operating costs, grow profitable core brands, and realign its financial planning is delivering tangible, positive results. Playmates Toys continues to refine its product development and sourcing functions resulting in a marked increase in gross profit margin. As additional efforts are being made to rationalize operations and streamline organization structure, Playmates Toys has taken significant steps to strengthen its core management team with the addition of seasoned, industry professionals in senior sales, marketing and financial management positions. These efforts are laying the foundation for long-term growth.

Sales of the Disney© product line have grown 180% over 2001, exceeding early forecast. Continued growth is planned through 2003. For Holiday 2002, Playmates Toys will expand the Disney© lineup with the first extension to the "My Interactive Princess™" segment that was successfully introduced last year. This year's introduction, My Interactive Princess™ Belle (inspired by Disney's Beauty and the Beast), reached retailer shelves earlier in season and is already performing ahead of plan. Early sales of the "Before Once Upon a Time™..." assortment of Disney© Princess toddler dolls validate Playmates Toys' strategy to position this segment as a sustainable, staple addition to the Disney© business. Playmates Toys' new, TV advertised line of beautifully detailed, interactive "Magic Talk™" small dolls and playsets bring the Disney© Princesses to life with actual character voices and sound effects from Disney© feature films. Sales of all "Magic Talk™" products are tracking ahead of plan. The Disney© Waterbabies® business continues to grow with the timely addition of new, classic Disney© characters to this successful, basic segment.

"The Simpsons©" line of collectible products has maintained its positive momentum in 2002. New figures and playsets based on the 20th Century FOX prime time animated series, "The Simpsons©" will be released throughout 2002 and 2003. The Simpsons©, is currently entering its 14th season and will celebrate its 300th episode in February 2003.

Amazing Little Friends™ is the latest addition to Playmates' acclaimed Amazing doll brand. Launched in Fall 2002, Amazing Little Friends™ is a truly interactive assortment of endearing and imaginative characters that will engage and amaze little girls.

Playmates Toys has partnered with Mirage Studios (creators of the Teenage Mutant Ninja Turtles®) and 4Kids Entertainment Inc. to launch a completely new, updated version of the classic Teenage Mutant Ninja Turtles® property. Earlier this year, Mirage and 4Kids announced that production has commenced on the first twenty-six of a planned fifty-two episodes of an entirely new, animated Teenage Mutant Ninja Turtles® television series. This new series is scheduled to premiere in the U.S. in the first quarter of 2003 on the FOX BOX, the 4Kids programmed, Saturday morning slate of boys action programs on the national Fox Network.

The Mirage/4Kids/Playmates Toys partnership has commenced development of comprehensive, national, child directed advertising, public relations and promotional campaigns in preparation for the Spring 2003 national, multimedia launch of this property. Additionally, Mirage and 4Kids will soon conclude negotiations with a major licensing partner for the development and worldwide distribution of Teenage Mutant Ninja Turtles® video games on all leading console and hand held platforms.

Playmates Toys' is fully prepared for a broad, television advertised re-launch of the Teenage Mutant Ninja Turtles® toy line in Spring 2003. As the Master Toy Licensee, it will develop products in a wide range of categories to fully exploit the significant potential of this timeless property.

Other promising product line introductions in 2003 include Speedeez™, a new boys' micro scale vehicle and playset brand that fulfills Playmates Toys' objective of building a sustainable presence in the important vehicle category. Incorporating Playmates Toys' proprietary Intelli-Tronic technology, Pro-Zone™ collectible sports figures and electronic environments will also launch in Spring 2003.

To capitalize on opportunities outside the U.S. market, Playmates Toys has formed strategic alliances with key, experienced, capable and financially strong European distributors. These reciprocal relationships will not only strengthen the worldwide distribution of Playmates Toys products but also facilitate the identification and joint development of new product lines.

The Group's income from property rental and management (before inter-segment revenue eliminated) in the first half increased by 12 percent to HK$14,094,000 compared to the same period last year. Despite the extremely soft property market in Hong Kong, we have been able to attract more quality tenants and achieve reduction in vacancy rates. Rental yield of investment properties during the period was 5.2 percent, compared to 5.03 percent during the same period last year. Property investment and management business will continue to provide the Group with a steady income stream and augment the Group's core business.

Liquidity and financial resources

The Group's toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are significantly higher than 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 seasons. As at 30 June 2002, trade receivables related to toy operation were HK$22,087,000 (31 December 2001: HK$45,013,000) and inventories were HK$20,402,000 (31 December 2001: HK$14,604,000).

The Group's property investment business generates stable monthly income over the period. Approximately 90% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2002. Rental receivables were minimal as at period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 30 June 2002 was 31.9 percent compared to 29.5 percent at 31 December 2001. The ratio of current assets to current liabilities, i.e. current ratio, was 1.23 at 30 June 2002 compared to 1.15 at 31 December 2001.

During the period, the Group increased its short term Other Investments (liquid listed investments, bonds or unit trusts) to HK$118,217,000 (31 December 2001: HK$12,923,000) with a view to improve portfolio investment return. The Group's cash and bank balances as at 30 June 2002 were HK$141,234,000 (31 December 2001: HK$230,233,000). As at 30 June 2002, the Group's cash and bank balances and short term Other Investments were HK$259,451,000 compared to HK$243,156,000 as at 31 December 2001.

Charges on group assets

Details of charges on group assets are set out in Note 9 to the interim accounts.

Employees

As at 30 June 2002, the Group had a total of 99 employees world-wide.

There was no material change in remuneration policies compared to the most recently published annual report.