

(b) As lessor

At 30 June 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Within one year	22,447	25,146
In the second to fifth years inclusive	14,474	9,710
	36,921	34,856

14. 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 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

For the six months ended 30 June 2003, the Group recorded a turnover of HK\$277,366,000 compared to HK\$122,289,000 a year ago. Turnover from toy sales was HK\$260,473,000 compared to HK\$108,970,000 a year ago. Turnover from property investment and management (before inter-segment revenue elimination) was HK\$17,399,000 compared to HK\$14,094,000 a year ago. Gross profit improved by 181% over the same period in 2002. Operating profit for the period was HK\$13,020,000, a significant change from the loss of HK\$47,088,000 reported for the same period in 2002. Net profit attributable to shareholders was HK\$9,911,000 compared to a net loss of HK\$42,540,000 a year ago. Earnings per share was HK cent 0.81 compared to a loss of HK cents 3.97 per share in the same period last year.

Incomes from property rental and management (before inter-segment revenue elimination) grew by 23% in the first six months of 2003 to HK\$17,399,000 compared to the same period last year. The increase reflected incremental rental and management fee incomes from the building acquired in July 2002. Rental yield of investment properties during the period was 5.7%, compared to 5.2% during the same period last year. Despite the favorable results in the first six months, management maintains a cautious outlook on property investments for the whole year given the continued downward pressure on rental rates in the commercial property market in Hong Kong. Nevertheless, property investment and management business will continue to provide the Group with a steady income stream and augment the Group's core business.

The first half results of Playmates Toys were ahead of management expectations and trending to the 2003 full year plan. The interim results validated the focused brand management strategy of making investments in categories with long term growth potential and in which Playmates has competitive advantage. This strategy, coupled with broadening US retail distribution into non-traditional toy channels and simultaneous product introductions in the US and major international markets, have laid the foundation for continued growth in sales and profits.

Playmates Toys, led by the new management team, continues to streamline its operations, resulting in lower overhead and reduced break-even volume. Management focus on improvements in gross margins continues to be a priority.

In 2003 Playmates Toys launched a completely new, updated version of the classic **Teenage Mutant Ninja Turtles**[®] ("**Turtles**") toy line to a whole new generation of children. A multi-year toy product roll-out plan has been developed, supported by the new **Turtles** TV series, with 52 episodes committed to broadcast through Fall 2004 on FoxBox, the popular Saturday morning children programming on the US national Fox network. The series premiered on 8 February 2003 and is currently the top rated show on FoxBox. First half 2003 retail sales are strong and have placed **Turtles** among the top boys action figure brands. With full retail distribution and comprehensive marketing and promotional programs in place for the Fall 2003 selling season, the stage is set to reaffirm **Turtles** as an evergreen brand.

Starting in August 2003, Playmates will participate in promotions with several of the 22 **Turtles** licensees. Promotional programs, with category leading companies such as Nestle, Fleer, Konami and General Mills, will run through the balance of the year and well into 2004. Each partner adds a new facet to the multi-layered marketing program and helps to expose the **Turtles** brand to more children. In concert with these promotions, Playmates will ship a broad selection of new products this Fall including exciting new action figures, vehicles, accessories and role-play items. In September of 2003 all new episodes of the TV series will premier on the FoxBox. These episodes will continue to draw new **Turtles** fans in the core boys target market and will be supported with on-air, in store and extensive licensed promotions.

A US national fast food promotion is planned for January 2004 to coincide with the release of Playmates' new 2004 **Turtles** products. Playmates long term product development strategy will position **Turtles** as a category leader not only in the action figure business but also in additional categories including vehicles, seasonal toys, role-play and others.

In Spring 2003 Playmates capitalized on a void in the micro vehicle category with the introduction of **Speedeez™**, a line of micro vehicles and accessories incorporating a patented Turbo Ball propulsion system. The line was successfully launched with US national TV advertising campaign. Major promotions and more TV advertising are planned for Fall 2003 in an effort to establish **Speedeez™** as a perennial brand.

Following a record-breaking run in 2002, sales of **Simpsons™** collectable merchandise declined in the first half of 2003 versus a year ago. Sales for the full year are expected to be below last year. Playmates is developing a new interactive toy line under the umbrella of "Bart's World". This line, targeted for Fall 2004 introduction, will feature innovative, entertaining new products that capture Bart Simpson's attitude and irreverence and will appeal to the significant children audience following the popular weekly show.

Sales of products under the **Disney®** brand grew substantially over 2002 and are tracking to the full year plan. Sales of the "Before Once Upon a Time™" assortment of **Disney®** Princess Toddler dolls have exceeded all expectations and are tracking as one of the best selling items in the large doll category. This Fall, Playmates will launch Disney's® "Dancing Cinderella", its latest entry in the special feature doll category, with US national television advertising support. This doll embodies all of the magic, beauty and play appeal of the **Disney®** Princesses and is supported by all major retailers. The Interactive Princesses segment has been extended with a value priced Princess Ariel who comes to life through music and speech. The brand will be further expanded in Fall 2003 through the addition of the "Perfectly Princess™" line of soft bodied dolls and accessories. In 2004 the Princess Toddler World will grow to include feature-based dolls, fashion accessories and Princess pet friends. Playmates' **Disney®** Princess offering will continue to expand in the coming year with new, innovative product segments, including a Princess inspired assortment of baby dolls and accessories.

Sales of **Waterbabies®**, a 14 years' proprietary brand increased significantly over 2002. The basic Sweet Cuddler™ assortment is continually refreshed with new themes and designs to ensure the long term staple positioning of the brand. The licensed character segment of the **Waterbabies®** brand continues to expand with the introduction of new popular characters, such as American Greetings' Care Bears™ and Scholastic Publishing's Clifford The Big Red Dog™. New Waterbabies® will be added to this segment in 2004 inspired by popular classic characters.

Strategic alliances with experienced and financially strong international distributors resulted in multiple increase in sales during the period in non-US markets. This validates the strategy of broadening worldwide distribution through simultaneous product introductions in the US and leading international markets. Shipments of **Turtles** were made to support the launch campaigns of leading independent distributors in the U.K., Australia, Canada, France, Spain and Italy. Playmates has worked closely with these distributors to adapt U.S. sales and promotional strategies for use in their local markets. To date, Playmates has appointed **Turtles** distributors in over 30 countries. The **Turtles** TV series has premiered or will premier this Fall on the leading broadcasters in over 15 countries including; the United Kingdom, France, Australia and Canada. Early retail sales of **Turtles** products in the U.K. and Australia are tracking ahead of distributor and local retailer forecasts – prior to the premier of the TV series and launch of distributor TV advertising campaigns.

In June, Playmates Toys acquired worldwide fashion dolls rights for Hilary Duff® – currently the hottest teen TV, movie, music and fashion celebrity in the USA. Hilary is the star of the Disney® Channel's top rated Lizzie McGuire® TV series and will soon release her first music album. She appeared in MGM's "Agent Cody Banks" and Disney's® "The Lizzie McGuire® Movie" earlier this year and will star in two new feature films in the coming year. Playmates' September 2003 launch of the first Hilary Duff® doll assortment will coincide with the retail introduction of her new fashion collection; "Stuff by Hilary Duff®".

International sales of **Disney®** products increased substantially during the first six months over the same period last year and **Speedeez™** products continue to ship to support Fall promotional campaigns in over 15 major markets including the U.K., Canada and Germany.

Full year international sales forecasts are tracking well ahead of 2002 performance and are on plan for the year.

Management continues to pursue new product concepts, licensed entertainment properties and innovative technologies to build on this solid foundation and continue to profitably grow the company through the extension of existing brands and development of new brands with sustainable, multi-year revenue potential.

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 2003, trade receivables related to toy operation were HK\$123,412,000 (31 December 2002: HK\$120,656,000) and inventories were HK\$44,496,000 (31 December 2002: HK\$22,042,000).

The Group's property investment and management business generates a relatively steady income stream throughout the period. Approximately 90% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2003. Account receivables were minimal as at the period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2003 was 33.8% compared to 33.0% at 31 December 2002. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.3 at 30 June 2003 compared to 1.3 at 31 December 2002. As at 30 June 2003, the Group's cash and bank balances were HK\$232,180,000 compared to HK\$206,456,000 at 31 December 2002.

Charges on group assets

Details of charges on group assets are set out in note 8 to the interim accounts.

Employees

As at 30 June 2003, the Group had a total of 106 employees in Hong Kong, the Mainland China and the United States of America.

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