

Chairman's Statement



For the second consecutive year, I am very pleased to report that Group turnover and operating profit grew over the prior year. Group turnover for the year ended 31 December 2004 was HK\$1,312,276,000, a 34% increase over 2003. Group operating profit was HK\$258,649,000, a 226% increase over the prior year. Revenue from toy sales grew by 36% to HK\$1,282,662,000 and revenue from the property investment and management business (before inter-segment revenue elimination) was HK\$30,443,000, a 9% decrease over 2003. In 2004, profit attributable to shareholders was HK\$260,378,000, a 263% increase over 2003.

Playmates Toys' continued growth in the face of an industry-wide downturn is further evidence of the effectiveness of our brand management strategies. As planned, these strategies resulted in the further growth of our core brands in 2004.

Toy sales in 2004 grew by 36% over the prior year and have grown a total of 162% over the past three years. U.S. toy sales grew by 29%. International sales grew by 67%, representing 22% of the division's turnover. The international growth represents significant progress towards achievement of our stated goal of having international sales account for 25% of total division turnover. International sales growth was led primarily by territorial expansion of all core brands.

Thomas CHAN Chun Hoo
Chairman of the Board
Hong Kong, 23 February 2005

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In the U.S., we grew our business with both the mass merchandisers and toy specialists. Our sales increase with the mass merchandisers was greater than that experienced with the toy specialists. In spite of continued retail consolidation, we were able to maintain, at prior year levels, the share of our total U.S. sales accounted for by toy specialists. Continued growth with the mass merchandisers and a commitment to broaden distribution beyond traditional mass market channels has positioned Playmates Toys to minimize the impact that any further retail consolidation may have upon our U.S. business.

In the second full year of distribution, worldwide sales of **Teenage Mutant Ninja Turtles** increased by 55% over the prior year. The largest of our core brands, **Teenage Mutant Ninja Turtles** continues to rank among the best selling boys toy brands in the U.S. and all major international markets. International distribution of **Speedeez** micro scale vehicles and playsets expanded to over 23 countries in 2004. Led by the introduction of an entirely new television advertised segment, sales of our most enduring core brand, **Waterbabies**, grew by 45%. The continued strength of our award winning "**Little Princess**" dolls and the introduction of the new "**Disney Princess Babies**" enabled us to expand this brand and extend distribution to over 30 countries.

In a year during which most manufacturers were faced with escalating plastic prices, Playmates Toys minimized the impact of these cost increases through improved operating efficiencies and reliance on our long term relationships with leading vendors. We anticipate continued upward cost pressure in 2005

and have, therefore, implemented selective price increases without sacrificing distribution breadth or the competitive pricing of our products.

In 2004 we grew our core brands, improved productivity through the addition of experienced marketing personnel and made investments in the infrastructure of Playmates Toys. These actions were undertaken to enable us to pursue our goal of expanding our business in selected, strategic growth categories. We are well on our way to achieving this goal in 2005 with the launch of proprietary product lines such as **Amazing Amanda**, **Amazing Puppies** and **Kinder Garden Babies** and the introduction of product lines based upon licensed entertainment properties including Universal Studios' **King Kong**, Nickelodeon's **Evergirl** and the Breakthrough Entertainment production of the Cartoon Network television series; **Atomic Betty**.

The property investment portfolio continues to contribute a dependable source of income to the Group. As the local economy recovered in 2004, leasing activities increased and the occupancy level of the Group's investment properties improved from a low of 88% at the end of 2003 to about 95% by the end of 2004. The reported profit for the year includes HK\$52,758,000 due to surplus arising from revaluation of the property portfolio.

In a very challenging year, I am proud of and grateful for the support, diligence and dedication of our employees, vendors, licensors, customers, tenants and distribution partners. The collective efforts of these partners enabled us to achieve our ambitious objectives. In closing and on behalf of the Board of Directors, I would like to thank every member of this exceptional partnership for the support and hard work that made it possible for the Group to continue to enhance shareholder value during the past year. As we move forward in 2005, our 40th year in business, I am confident that the fundamentals for continued growth are in place.