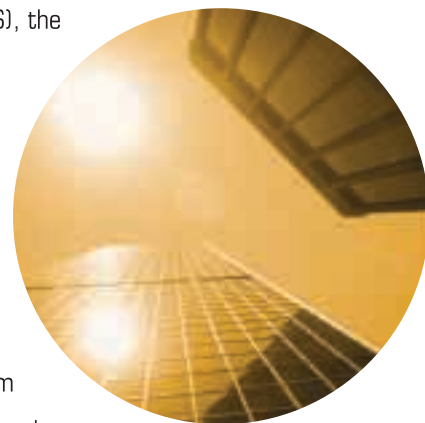


## ***Business Review and Prospects***

**G**roup turnover and operating profit grew for the second consecutive year. Turnover for the year ended 31 December 2004 was HK\$1,312,276,000, a 34% increase over a year ago. Toy division turnover was HK\$1,282,662,000, a 36% increase over the prior year. Turnover from the Group's property investment and management division (before inter-segment revenue elimination) was HK\$30,443,000, a 9% decrease over the prior year. Operating profit was HK\$258,649,000 compared to HK\$79,310,000 in 2003 and net profit attributable to shareholders was HK\$260,378,000 compared to HK\$71,649,000 in 2003. Basic earnings per share was HK cents 16.72 in 2004 compared to HK cents 5.57 in 2003.

### ***Property Investments***

At the end of 2003, as Hong Kong was recovering from the impact of the outbreak of Severe Acute Respiratory Syndrome (SARS), the overall occupancy level of the property portfolio was at a low of 88%. As the economy recovered, leasing activities increased and the occupancy level improved to about 95% by the end of 2004. Income from property rental and management (before inter-segment revenue elimination) for the year amounted to HK\$30,443,000, a decrease of 9% compared to 2003, mainly due to the negative reversion of rental income in 2004. For the remaining available area, the Group aims to secure an optimal mix





of tenants in order to further enhance the potential rental income. Independent valuation of the property portfolio on 31 December 2004 resulted in a valuation surplus of HK\$146,452,000, of which HK\$52,758,000 had been written back as profit for the year. The reported profit also included a gain of HK\$10,834,000 on the disposal of a residential property during the year. Management remains optimistic that the property investment portfolio will continue to contribute stable income to the Group.

### **Toy Business**

In 2004, the toy division's ("Playmates Toys") worldwide sales grew by 36%. Disciplined brand management and focused marketing strategies resulted in increased retail shelf space, increased sales and increased operating profits. All core brands contributed to this growth as we continued to build a balanced portfolio of proprietary and licensed entertainment properties and significantly expanded worldwide distribution. Despite continued U.S. retail consolidation and an overall decline in toy industry sales, Playmates Toys was among the fastest growing toy companies in the U.S. Retail sell through of our products exceeded management forecasts and set the stage for the continued growth of our core brand business in 2005.

Playmates Toys' U.S. sales increased 29% over 2003 to HK\$1,000,310,000. This growth was due in large part to the successful implementation of promotional partnerships with **4Kids, Disney, Cartoon Network** and **Nickelodeon**, coupled with broader full year advertising campaigns that drove U.S. sales in all distribution channels.

Playmates Toys' international sales increased 67% over 2003 to HK\$282,352,000 and accounted for 22% of the division's turnover. International growth was led by the continued strength of the **Teenage Mutant Ninja Turtles** and the geographic expansion of **Speedeez, Waterbabies** and **Disney Princess** distribution. **Teenage Mutant Ninja Turtles** are now distributed in over 45 countries worldwide and continue to rank among the best selling action figure brands in all major markets.

# TEENAGE MUTANT NINJA TURTLES



In 2004, worldwide sales of **Teenage Mutant Ninja Turtles** (“Turtles”) products grew by 55%. **Turtles** finished the year among the top 3 best selling action figure brands in the U.S., Canada, United Kingdom, Australia, France, Belgium, Holland, and throughout Scandinavia. Distribution expanded into Spain in late 2004 and the brand was launched in January of this year in Italy. Early sales results in both markets are encouraging. The brand is well positioned for continued growth in 2005.



*Sam Chan founds Playmates  
as O.E.M. Doll Company*

*Playmates launches first  
proprietary doll brand:  
“Precious Playmates”*

## Teenage Mutant Ninja Turtles



In 2004, Playmates Toys, in partnership with **Mirage Licensing** and **4Kids Entertainment**, further enhanced the promotional momentum of the **Turtles** franchise. The Saturday morning broadcast of the Turtles television series on the **FOX Box** and the addition of the Monday to Friday broadcast of the series on **Cartoon Network** resulted in significantly more kids being exposed to the **Turtles** brand. A total of 117 episodes of the television series are now completed or in production. This production commitment will see new episodes premiering on both **Cartoon Network** and the **FOX Box** well into 2006.



*Playmates launches first branded pre-school product line: "Li'l Playmates"*

# TEENAGE MUTANT NINJA TURTLES

The worldwide non-toy **Turtles** licensee program expanded to over 115 different partners last year in over 45 countries. The promotional and distribution efforts of these licensees have expanded the retail presence for **Turtles** while building brand awareness among the core target audience of boys between the ages of 4 and 9.

In 2005, Playmates Toys will continue to focus on the expansion of core product categories; action figures, vehicles, playsets and role play toys. Brand extensions will



*First licensed Disney® items  
U.S. subsidiary, Playmates Toys Inc.,  
established in California*

*Becomes first publicly  
listed toy company  
in Hong Kong*

## Teenage Mutant Ninja Turtles



include entries in the radio controlled vehicle, motorized vehicle and other creative activity categories. These products will be launched in 2005 with the same comprehensive advertising and promotional support that has characterized our marketing efforts over the past two years.

Early retail point-of-sales results in 2005 for the **Turtles** brand are encouraging. Retail presence for the brand has expanded with dedicated end caps and "licensed" counter programs that have added significant incremental shelf space to the in-aisle planogram presence. National consumer directed promotions with **Subway** restaurants, the **Monster Jam** monster truck live tour and **Cartoon Network** are planned for the pre-Easter period.



*"Cricket", Playmates' first television advertised product, leads U.S. doll category for two years*

# Disney



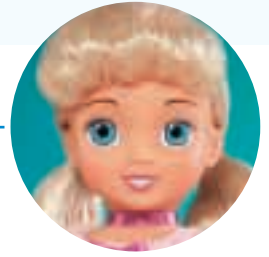
In the fourth full year of Playmates Toys' partnership with **Disney Consumer Products**, we continue to innovate in the **Disney Princess** large doll business through the extension of the best selling "*Little Princess*" doll assortment and the launch of the new "*Disney Princess Babies*" segment. Playmates Toys continues to be Disney's leading large doll licensee. In 2005 Playmates Toys' plans to introduce a new scale of dolls inspired by the classic **Disney Princesses**, further expanding our product selection into new growth segments.

"*Little Princesses*" remain among the best selling dolls in the large doll category for the third consecutive year. This segment was extended in Spring of last year with the introduction of the "*Color Change Princesses*" and during the fourth quarter with the launch of the "*Little Princess Read Along*" assortment. The "*Read Along*" introduction marked the first time that original story content was introduced to bring little girls into the world of their favorite "*Little Princess*". The new "*Sing Along*



Teenage Mutant Ninja Turtles® launch in U.S.

## Disney Princesses



*Little Princesses*” were launched in January 2005 as the first dolls that bring the “*Little Princesses*” to life with their own voices. Each “*Little Princess*” sings her own song to the tune of universally well known nursery rhymes. “*Disney Princess Babies*” were launched with a national print advertising campaign in the Fall of last year and strong year end retail sell through for this value priced assortment has set the stage for the introduction of new “*Baby Princesses*” throughout 2005.

International distribution of Playmates Toys’ Princess dolls expanded to over 30 countries in 2004. Playmates Toys’ partnerships with Disney Consumer Products’ preferred international distributors has set the stage for future growth in the international market.

In 2005, **Disney** has committed over US\$150 million in cross divisional support for the Platinum Edition release of the classic “**Cinderella**” feature film on DVD. To take advantage of this unprecedented promotional commitment, Playmates Toys will introduce its new collection of large dolls inspired by the well known stars of this classic film. The “*World of Cinderella*” doll assortment is targeted at little girls between the ages of 3 and 6 and includes easy-to-dress outfits

and fashion accessories that can be used with the doll and transformed to be worn by the little girl.

**Disney** recently reported that worldwide retail sales of all **Disney Princess** licensed products surpassed US\$1.5 billion in 2004 and forecast continued growth of this franchise in the year ahead. Playmates Toys’ agreement with Disney Consumer Products to extend our license partnership through 2007 reflects our shared faith in the commitment of both companies to extend and expand Playmates Toys’ participation in the marketing of this world class brand.



Group sales exceed US\$500,000,000  
as Teenage Mutant Ninja Turtles®  
business explodes worldwide

Waterbabies® brand introduced in U.S.





In 2004, Waterbabies' 15th year, sales of this proprietary baby doll brand grew by 45%. This performance validated our belief that, with the right promotional product and strong advertising support, this brand is firmly established as an evergreen line. 2004 was the first year of a multi year marketing program that will expand U.S. shelf presence, broaden the brand's customer base and extend the **Waterbabies** brand into new markets.

Promotional and advertising efforts in 2004 were led by the introduction of the "Wiggly" **Waterbabies**. This segment highlighted the unique appeal of the world's only water filled doll while fulfilling the core target market's fascination with traditional caring and nurturing play patterns.

"Wiggly" **Waterbabies** was



awarded the *National Parenting Center's Seal of Approval* and a *National Parenting Publications Award*. Clean retail sell through of this segment in 2004 has resulted in expanded retail listings for the entire **Waterbabies** product line in 2005. In Fall 2005, the "Wiggly" segment



*Playmates acquires master toy rights in Star Trek® franchise*

*Playmates' Nano® brand captures large share of worldwide virtual pet market  
Thomas Chan appointed Chairman*

## Waterbabies



will be updated with the introduction and strong advertising support for a new "Special Delivery" assortment of dolls that will further enhance the emotional appeal of this classic baby doll brand.

In 2005, distribution of the basic, affordably priced staple "Sweet Cuddlers" segment has expanded with the introduction of new packaging, updated fashions and classic themes and play patterns. In 2005, the licensed **Waterbabies** segment will be extended with the addition of new characters from popular **Disney** and **Nickelodeon** properties. Additionally, we are excited about the introduction of a soon to be announced, classic pre-school license.

The expansion of **Waterbabies** international distribution remains a priority and discussions regarding the pan-European launch of the brand have commenced with a leading European doll and pre-school toy company.



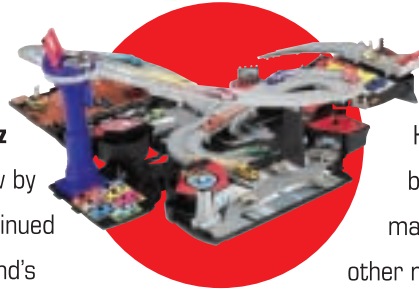
*"Amazing Amy" ships in U.S.  
First of 6 best selling dolls in "Amazing" brand*



## Speedeez

**W**orldwide sales of the **Speedeez** micro vehicle and playset brand grew by 8%. This growth was led by the continued strong retail performance of the brand's signature 2-in-1 playset segment in the U.S. and major international markets. International sales grew substantially as **Speedeez** was launched in Italy and Spain, expanding worldwide distribution to over 25 countries.

In the U.S., the **Hummer H2 Speed City** 2-in-1 playset had another strong year supported by national cable television advertising. This playset was the recipient of a *National Parenting Publications Award* and the *National Parenting Center's Seal of Approval*. Internationally, the **Mini Cooper S** 2-in-1 playset replicated the U.S.



Hummer H2 success and established the brand as a strong promotional entrant in markets where competitive pressure from other micro vehicle lines required an imaginative strategy to communicate **Speedeez'** unique selling proposition.

In 2005, television advertising will introduce new action packed products under the "**Speedeez N'Sane**" branding banner.

Fall season advertising and promotional campaigns will be

led by the introduction of an all new 2-in-1 playset

inspired by the 40th Anniversary edition of the classic **Ford Mustang GT**. Ford's year-round publicity and promotional campaigns for this American classic will

insure that this special edition Mustang is among the most widely recognized vehicles in the U.S. in 2005.



**Speedeez** will launch in France, the Benelux and Germany in 2005 and will be supported in established markets with the Mini Cooper S playset and customized international versions of the Hummer H2 playset.



*Playmates revolutionizes collector business with Intelli-Tronic Simpsons® figures*

## New Products



**P**laymates Toys 2005 expansion plans focus on selective investments in strategic growth categories to broaden our balanced portfolio of licensed entertainment and proprietary brands. We will launch proprietary, interactive large doll and feature plush products, strong

character led licensed properties and an innovative new concept in the fashion doll category.



Proprietary product lines include new additions to Playmates Toys' hugely successful **Amazing** brand as well as the re-launch of **Kinder Garden Babies** – one of the best selling promotional doll lines of the '90s.



**Amazing Amanda** is the next step in the evolution of Playmates Toys' award winning doll brand. The **Amazing** brand generated in excess of US\$250 million in retail sales between 1998 and 2001. **Amazing Amanda** will take ultra realistic, interactive doll play to new heights.

Patented speaker independent voice recognition technology and endless play possibilities make **Amanda** the most technologically sophisticated and engaging doll in the category. **Amazing Puppies** will also join the **Amazing** brand stable in the feature plush category. For the first time ever,

**Amazing Puppies** will recreate the real world fun of puppy play when they give little girls

and boys a real, wet "cold nose kiss". Both products will be launched with national public relations, promotional and television advertising campaigns in the Fall season.



**Playmates Disney Princess®**  
brand launches

**Teenage Mutant Ninja Turtles®** return  
with all **NEW** entertainment,  
products and marketing support

## New Products



**L**icensed property introductions in 2005 include **Nickelodeon's everGirl**, **Breakthrough Entertainment's** production of the **Cartoon Network** series **Atomic Betty** and **Universal Studios** production of the Peter Jackson feature film **King Kong**.

Playmates Toys will launch the **everGirl** fashion doll and accessory line to coincide with Nickelodeon's national promotional and marketing efforts in the Fall. Playmates Toys' **everGirl** dolls will introduce a unique, customizable twist to the fashion doll category that will empower girls to personalize dolls that most closely reflect their interests, aspirations and dreams.



The **Atomic Betty** television series premiered on **Cartoon Network** in the fourth quarter of last year and ratings continue to grow for this fast-paced, action oriented girls' property. Later this year, **Cartoon Network** intends to compliment the current weekend scheduling of the series with Monday through Friday broadcasts. Playmates Toys has recently commenced shipments of selected **Atomic Betty** products to



capitalize on the growing **Cartoon Network** audience.

As master toy licensee, Playmates Toys will launch its **King Kong** line of action figures, accessories, playsets and role play toys to coincide with the worldwide fourth quarter 2005 release of the **Universal**

**Studios** production of **King Kong**, directed

by Academy Award winner, **Peter Jackson**. WETA Digital will bring

Kong to life on screen as never before. Their vision has inspired

Playmates Toys to create a wide range of special feature products for today's kids

based upon the most famous and heroic monster in movie history.

In 2004, as part of our category expansion and growth strategy, plans were implemented to compliment existing resources in all key functional areas. These selective investments will enable us to maximize core brand growth potential and take full advantage of new business opportunities while maintaining our lean operating structure. These actions will insure that we continue to grow the business and enhance shareholder value in the years ahead.

**CORE BRANDS:**  
*Teenage Mutant Ninja Turtles®,  
Disney Princess®,  
Waterbabies®,  
Speedeez® — fuel growth*

*Universal Studios' King Kong and  
return of "Amazing" franchise  
expands Playmates brand portfolio  
Playmates enters 40th year in business*