

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Highlights

For the six months ended 30 June	2005 HK\$'000	2004 HK\$'000	Percentage Change
Turnover	462,762	436,658	+ 6.0%
Gross profit	240,796	237,426	+ 1.4%
Operating profit before non-recurring items	46,794	41,928*	+ 11.6%
– Revaluation surplus on investment properties	67,271	–	
– Onetime restructuring expenses	(22,576)	–	
Operating profit	91,489	41,928*	+ 118.2%
Profit attributable to shareholders	94,814	34,879*	+ 171.8%
Earnings per share	HK cents	HK cents	
– Basic	5.60	2.25	+ 148.9%
– Diluted	5.41	2.22	+ 143.7%

* First half 2004 profit has been restated due to the adoption of new Hong Kong Financial Reporting Standards. See Notes 1 and 2 to the condensed interim accounts for details.

Property Investments and Associated Businesses

Rental and management income from the Group's investment properties (before inter-segment revenue elimination) for the period amounted to HK\$15,233,000, representing a slight increase from HK\$15,151,000 a year ago. The stable level of income was mainly attributable to the majority of the leases continuing within their terms. As at the end of the period, the overall occupancy rate was 96%, a further improvement over the end of last year.

A major enhancement program is underway in the Group's principal investment property at 100 Canton Road, to take advantage of its location in one of the most prominent areas for retail, dining and entertainment in Hong Kong. The program involves renovation and realignment of spaces with a view to optimize the tenant mix. A number of upscale specialty restaurants and prestigious brand name retail shops are scheduled to open starting from the second half of the year.

During the period under review, the property market continued to improve reflecting the continued recovery of the local economy. The Group's property investment portfolio was independently valued at the end of the period, resulting in a valuation surplus of HK\$67.3 million which was reported in the profit and loss account in accordance with the latest accounting standards.

Management remains confident in the medium to long term prospects of the property investment and associated businesses which will continue to form important parts of the activities of the Group.

Playmates Toys Overview

Playmates Toys worldwide toy sales during first half 2005 increased by 6.2% over the same period last year from HK\$421,791,000 to HK\$447,816,000. This increase was achieved despite a reported 6% industry decline in U.S. toy retail sales during the first six months of 2005 and heightened competition in several major product categories. The international division was a significant contributor to this overall sales growth as Playmates Toys continues to expand its distribution reach and build brand presence in major markets worldwide.

The first half retail performance of several third party movie related brands, such as “Star Wars®: Episode III™”, “Batman Begins™”, and “The Fantastic Four™” had a negative impact on sales of all other male action properties as well as other boys toy categories. In spite of this competitive environment, “*Teenage Mutant Ninja Turtles®*”, Playmates Toys’ lead boys brand, performed well. With the exception of the “*Speedeez®*” vehicles and playset business, all core brands experienced sales growth over 2004. “*Speedeez®*” sales declined, reflecting an overall shrinkage of the vehicle category which was a victim of the impact of the movie based male action brands.

Gross profit on toy sales was 50.4% during the first half of 2005 (52.8% during the same period of 2004). This decline is largely attributable to a higher percentage of lower margin sales to international markets earlier in the year.

Consistent with its long term operating strategy, Playmates Toys continues to invest in portfolio expansion. A number of new brands will launch in the second half of this year expanding Playmates Toys’ presence in targeted growth categories and complementing the core brand foundation that has been built during the past three years. These brands include: Universal Studios’ and Peter Jackson’s “*King Kong®*”, “*Amazing Amanda™*”, “*Amazing Puppies™*” and “*Kinder Garden Babies™*”.

Brand Overview:

Although the “*Teenage Mutant Ninja Turtles®*” brand was negatively impacted by the launch of competitive, movie related products during the second quarter, Playmates Toys’ preemptive marketing and promotional campaign maintained the growth momentum for the brand.

This fall, Playmates Toys will significantly expand its overall marketing, promotional and advertising program for the “*Turtles*” brand. “*Turtles*” continues to rank among the best selling action figure brands in many major markets. The brand will launch in Germany this fall and is planned to launch in Japan in the spring of 2006.

Playmates Toys, *Mirage Studios*® and *4Kids Entertainment*® recently finalized plans for the launch in the fall of 2006 of an all new 26 episode block of the “*Turtles*” television series featuring new characters, story lines and a new look. This new programming commitment brings the total number of episodes completed or in production to 130.

Recently, *Mirage Studios*® and *Imagi Animation Studios* reached an agreement with *The Weinstein Company* (headed up by Miramax founder, Harvey Weinstein) and *Warner Bros. Pictures* for the worldwide distribution of an all new “*Turtles*” computer animated feature film. This film represents the next stage in the evolution of the “*Turtles*” entertainment franchise and will inspire the development of an all new range of toy products that will launch to coincide with the film’s premier in early 2007.

An overall decline in U.S. toy vehicle sales and continued competitive product discounting negatively impacted the sales of “*Speedeez*”® products during the first half. Early retail sales results for the newest addition to the signature “*Speedeez*”® 2-in-1 playset segment, the Ford Motor Company’s *40th Anniversary Mustang GT*®, are encouraging. This playset will be the centerpiece of the brand’s fall television advertising campaign. International sales for this brand increased significantly in the first half as new markets launched and existing markets, including the United Kingdom, Spain, Italy and Canada extended the “*Speedeez*”® line. In further pursuit of Playmates Toys’ long term growth objectives in the vehicle category, a new brand, “*Turbo Treads*”, will be launched late this year and expanded in the spring of 2006. This addition to the vehicle business is designed to maintain Playmates Toys’ presence in this core product category.

In the fifth year as *Disney’s* lead large doll licensee for the *Disney*® *Princess* franchise, Playmates Toys has expanded its product offering and established a well recognised brand presence for the “*Little Princess*” and “*Princess Babies*” segments. This fall, a new doll scale and play pattern will be introduced to compliment these well known segments with the introduction of Playmates Toys’ “*World of Cinderella*” dolls and accessories. Playmates Toys’ products will benefit from the unprecedented, cross divisional support of *Disney*® *Consumer Product’s* fall marketing program. *Disney’s* planned television, print, on line, home video and retail promotion expenditures for the “*Cinderella*” platinum edition DVD re-release are estimated at over US\$150 million.

Sales of the basic “*Sweet Cuddlers*”® and “*Wiggly Waterbabies*”® segments led the first half growth of “*Waterbabies*”®, Playmates Toys’ longest lived brand franchise. Sales of the licensed segment declined from the same period last year but are expected to rebound in the second half with the introduction of characters from the world’s most popular pre-school license, *Sesame Street*™, and the launch of products inspired by *Nickelodeon*® properties such as *Blue’s Clues* and *Spongebob Squarepants*. Additionally, extensions to the successful “*Wiggly Waterbabies*”® segment will be television advertised in the fall.

This fall's planned introduction of several new product lines in core categories represents the next stage in Playmates Toys' growth strategy. "**King Kong**[®]" action figures and accessories, "**Yo Stick**[™]" activity toys, "**Kinder Garden Babies**[™]" dolls, "**Amazing Puppies**[™]" special feature plush and the return of the best selling "**Amazing Doll**" brand will significantly expand Playmates Toys' brand portfolio.

Playmates Toys' innovative line of "**King Kong**[®]" products captures the imagination of the **Universal Studios**[®] production of the **Peter Jackson** feature film. "**King Kong**[®]" figures, plush, role play toys and playsets will hit retail shelves worldwide on 1st October. **Universal Studios**[®] pre-release promotion of the film has already begun and will gain momentum with an anticipated US\$100 million expenditure in theaters, on television, in print and on line through the film's release date.

Playmates Toys' "**King Kong**[®]" products are distributed at leading mass merchandisers, national toy chain, drug and grocery retailers. Plans are in place to extend this retail presence in 2006 by capitalizing on **Universal's** home video promotional campaigns. **Universal** plans to promote both the spring 2006 DVD release as well as the fall 2006 release of a special edition DVD.

The successful Canadian launch of "**Yo Stick**[™]" earlier this year has set the stage for a television advertised U.S. launch of this innovative activity toy in the fall of 2005. Plans are in place to extend this proprietary product concept with new scales, features and themes in the spring of 2006.

Playmates Toys' is launching a restyled, updated version of "**Kinder Garden Babies**[™]", a doll line that generated worldwide retail sales of over US\$50 million in 1997 and 1998 with national television advertising this fall. The line will be expanded for spring 2006 with the addition of new characters and new products at lower spring price points.

This fall, Playmates Toys enters the feature plush segment by leveraging the established equity of its **Amazing**[™] brand. The "**Amazing Puppies**[™]" special feature plush line will recreate the real world fun of puppy play when they give little boys and girls real, wet "**Cold Nose Kisses**". A planned national advertising campaign and a comprehensive public relations program will convey the magic of this innovative product.

"**Amazing Amanda**[™]" is the latest addition to Playmates Toys' **Amazing**[™] doll brand. **Amanda** is the most technologically sophisticated and truly interactive doll in the category and will add never before seen dimensions to the traditional nurturing and caring play pattern. **Amanda** employs speaker independent voice recognition, lifelike animatronics and smart accessory recognition to create a new, magical play experience for little girls. U.S. television advertising, an extensive public relations campaign and retailer advertisements will commence in late August and continue through December. Early sales results in the United Kingdom are encouraging. **Amanda** has been named a top 10 toy for the holiday season 2005 by **Hamleys** and **Woolworths**, two of the U.K.'s leading toy retailers. Development has commenced to extend the **Amazing Amanda**[™] segment and introduce a new **Amazing**[™] doll in 2006.

With the strongest new brand offering in recent years, Playmates Toys is well positioned for continued growth. It is anticipated that future growth will be led by new brand introductions as reliance on continuing brands is reduced.

2006 and Beyond:

Playmates Toys has recently acquired rights in several major licensed properties and commenced development of new proprietary products in targeted growth categories.

Playmates Toys has been appointed the master toy licensee for “***Strawberry Shortcake™***”, ***American Greetings*** timeless girls entertainment and licensed product franchise. Originally launched in the early ‘80s, “***Strawberry Shortcake™***” generated retail sales of over US\$1 billion between 1980 and 1985. In partnership with ***DiC Entertainment, American Greetings*** introduced “***Strawberry Shortcake™***” to a new generation of little girls and their mothers in 2003 and retail sales of all licensed products are forecast to exceed US\$1 billion by year end 2005. The ***Fox Home Video*** series of direct to video releases has ranked among the top 10 best selling children’s titles during the past two years and three new titles will be released in 2006. For the first time in this franchise’s history, a computer animated theatrical feature film is scheduled for release in the second half of 2006. This new ***Fox Entertainment*** film will introduce all new characters and themes. A national fast food restaurant promotion will generate millions of consumer impressions in the first quarter of 2006 and will coincide with the television advertised launch of Playmates Toys’ all new toy line.

In spring 2006, Playmates Toys will launch a new, proprietary and extendable platform for collectible figures, branded “***Battle Dice***”. “***Battle Dice***” represents an entirely new way to play and collect that combines dice play with the perennial appeal of battling action figures. The introductory assortment of starter sets, expansion packs and dice launchers will be based upon the universe of superheroes and villains from the hugely successful ***Marvel Heroes™*** franchise.

New brand introductions in 2005 and further expansion of Playmates Toys’ brand portfolio in 2006 and beyond represent significant progress towards achievement of management’s strategic growth objectives.

Liquidity and Financial Resources

The toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are much 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 2005, trade receivables related to toys operation were HK\$164,938,000 (31 December 2004: HK\$336,433,000) and inventories were HK\$50,785,000 (31 December 2004: HK\$36,736,000).

The property investment and management business generates a relatively steady income stream throughout the period. Approximately 96% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2005. 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 2005 was 1.5% compared to 3.2% at 31 December 2004. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.8 at 30 June 2005 compared to 2.1 at 31 December 2004. As at 30 June 2005, the Group's cash and bank balances were HK\$521,592,000 compared to HK\$195,839,000 at 31 December 2004.

Charges on Group Assets

Details of charges on group assets are set out in note 10 to the interim accounts.

Employees

As at 30 June 2005, the Group had a total of 130 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.