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Statement from the Chairman

I am pleased to report that in 2006 as the Playmates Group celebrates its 40th anniversary, our fundamentals remain strong. Looking towards to the future, our business units continue to focus on long term growth with disciplined and prudent strategies.

In 2005, the toy industry faced retail challenges and cost pressures that negatively impacted profitability of all toy companies. The U.S. toy market was characterized by continued retail consolidation, a slowdown in consumer spending and the adoption by several major retailers of conservative inventory policies in the fall season. Recently published industry data shows a 4% decline in overall U.S. toy retail sales in 2005.

Playmates Toys reported flat revenue in 2005 compared to 2004, with strong international growth offsetting U.S. sales performance. For the fourth consecutive year, international distribution broadened and sales increased. Nevertheless, overall profitability decreased as a result of lower U.S. toy sales, higher costs and increased investments in the development and marketing of new toy brands.

Consistent with Playmates Toys long term growth strategy, plans were put in place to diversify the product portfolio and to reduce reliance on established core brands. In the second half of 2005 several new brands were launched including action figures and accessories inspired by the Universal Studios major feature film, King Kong and the re-launch of the Amazing brand led by Amazing Amanda and a new special feature plush segment, Amazing Pets.

During the 2005 holiday season, U.S. retailers adopted cautious inventory policies. We chose to control the risks inherent in building inventory rather than attempt to maximize sales in this uncertain retail environment. As a result, we did not achieve our full year sales plan. However, at the end of 2005 U.S. retail sell-through was at the highest level in recent company history, giving us a strong starting position for 2006. International sales growth was led by the launch of the Amazing brand, expanded Disney Princess distribution, and the worldwide launch of the King Kong product line.

Teenage Mutant Ninja Turtles sales declined in 2005 as a result of severe competition in the action figure category. Despite this decline, Turtles remains a significant global brand in the category. All new animated television programming in 2006 and a new feature film scheduled to premier in early 2007 will sustain Turtles as an important action figure brand for the foreseeable future. King Kong expanded our action figure portfolio in 2005 and Universal Home Video's promotion plans for two DVD releases in 2006 will extend the brand.

With the introduction of Amazing Amanda, Playmates Toys reestablished its dominance in the large doll category. Amanda was among the best selling large dolls in the U.S., U.K. and Australia in 2005 and was nominated for the Girls "Toy of The Year" by the Toy Industry Association in the U.S. In our fifth year as Disney Consumer Product's leading large doll licensee, our Disney Princess brand continued to grow. In 2006, Waterbabies, a core girls' brand, enters its sixteenth year with the introduction of Sesame Street characters in the licensed segment.



In 2006, Playmates Toys will continue to pursue long term growth through portfolio expansion: new brands inspired by leading entertainment licenses will be introduced, and proprietary product lines in core competency categories will be launched. This year's licensed brand introductions include Strawberry Shortcake and Disney Fairies. Battle Dice, a collectible figure line, has been launched with the universe of Marvel Heroes and DC Comics' superheroes. These licenses have enabled us to extend our product offering into new, targeted growth categories. The proprietary Amazing brand will be expanded with the introduction of the Amazing Allysen doll and a new addition to the Amazing Pets special feature plush segment.

For the first time in many years, we will re-enter the growing preschool toy category in 2006 with the introduction of two brands inspired by character-rich animated entertainment properties. Little Robots, a BBC Worldwide co-production currently airing on Cartoon Network, has inspired our development of a line of preschool figures and playsets. Land Before Time is one of the most popular children's home video franchises and an all new animated television series is scheduled to premier in early 2007.

The Group's property investments continued to deliver a dependable source of income. During 2005, as the Hong Kong economy continued to recover, the value of commercial and residential properties rebound and rental income from such properties increased.

The Group's property investment and management business reported a 10% increase in revenue in 2005 over the last year. The initial phase of the earlier announced enhancement program in the Group's principal investment property at 100 Canton Road has been completed with a number of upscale specialty restaurants and a prestigious brand name retail shop opened for business during the second half of 2005. The entire enhancement program is expected to be completed during 2006 when further benefits will be generated through higher portfolio valuation and rental income.

In November 2005, the Group entered into an agreement to acquire a major portion of an apartment building located in an up-market residential neighborhood in Hong Kong. The acquisition, completed in January 2006, represented a significant addition to the portfolio of investment properties of the Group and is consistent with our strategy of investing selectively in properties with good potential of capital value appreciation.

I am also pleased to report that two new members, Mr. Alain Cheng Bing Kin and Mr. Alexander Chow Yu Chun, have joined our board respectively as executive director and independent non-executive director with effect from 2 March 2006. Mr. Cheng and Mr. Chow bring with them extensive professional and industrial experiences that further broaden the collection of knowledge, perspective and skill of the board.

As the Group enters its 40th year in business, I am very proud of our collective accomplishments and recognize that our shared success would not be possible without the contributions of the entire extended Playmates family. On behalf of the Board of Directors, I wish to sincerely thank our employees and business partners for their continued dedication and commitment to the Playmates Group. Despite the challenges of the past year, we have successfully implemented our diversification strategy and laid the foundation for renewed growth in the years ahead.

Thomas CHAN Chun Hoo

*Chairman of the board
Hong Kong, 2 March 2006*

