



## *Business Review and Prospects*

Group turnover for the year ended 31 December 2005 was HK\$1,310 million, compared to HK\$1,312 million a year ago. Toy division turnover was HK\$1,277 million, compared to HK\$1,283 million in 2004. Turnover from the Group's property investment and management division was HK\$33 million, a 10% increase over the prior year. Operating profit was HK\$172 million compared to HK\$251 million (as restated) in 2004 and net profit attributable to shareholders was HK\$196 million compared to HK\$255 million (as restated) in 2004. Basic earnings per share was HK cents 11.00 in 2005 compared to HK cents 16.39 (as restated) in 2004.

### **Property Investments:**

Rental and property management income from the Group's investment properties increased by approximately 10% from last year. At the end of the year, the overall occupancy rate was 98%, a further improvement from 95% of last year.

Rental income increased during the year as a result of overall rent increases in both new leases and renewals. A significant part of the increase in rental income was attributable to improved contribution from the Group's principal investment property at 100 Canton Road. The first phase of a major enhancement program has been completed on the property. During the second half of 2005, a number of upscale specialty restaurants have opened for business on the higher floors of the building which were previously occupied by office tenants. The Group has initiated and supported the transformation through equity participations in some of those restaurants. The entire enhancement program is expected to complete during 2006 when the property will be transformed into a landmark building to take advantage of its strategic location in one of Hong Kong's most prominent districts for retail, dining and entertainment.

The Group has adopted the fair value model for its investment properties in Hong Kong. As at the year end, the investment properties of the Group were revalued by an independent professional surveyor, resulting in a valuation surplus of approximately HK\$75 million which was reported in the consolidated profit and loss account of the Group for the year.

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 its strategy of investing selectively in properties with good potential of capital value appreciation. The acquired apartment units will be refurbished and upgraded as they become vacant to further enhance their value and generate higher rental income.

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





### Toy Business:

In 2005, the toy division's worldwide sales were flat against the prior year. International sales continued to grow as distribution of continuing and new brands expanded and as our leading international partners intensified their marketing and promotional efforts in support of these brands. A challenging U.S. retail environment, consumer spending uncertainties and the attendant pressures on retail inventories all contributed to a decline in Playmates Toys' U.S. sales in the past year. 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.

Playmates Toys' introduction of several new brands and entry into targeted growth categories in 2005 represented the first stage in the company's long term diversification strategy. This product portfolio expansion successfully established new brands in the large doll and special feature plush categories.

Major contributors to 2005 revenue included continuing brands, **Teenage Mutant Ninja Turtles** and **Disney Princesses** and new introductions led by **Amazing Amanda**, among the year's best selling large dolls in the U.S., as well as a line of action figures and accessories inspired by **Universal Studios' King Kong**. The company's fourth consecutive year of international sales growth was fueled by the continued strength of the **Turtles** brand in several major markets, the extensive distribution of Playmates Toys' **King Kong** products, strong year over year growth in the **Disney Princess** business and the introduction of **Amazing Amanda** in the U.K. and Australia.

Not all of the new brands introduced during 2005 performed up to our expectations and those under-performing brands have been discontinued.

In 2006, Playmates Toys will capitalize on the growth momentum of product lines launched in 2005 and will introduce several new brands in core competency and targeted growth categories.



1966 2006

# TEENAGE MUTANT NINJA TURTLES

## *Teenage Mutant Ninja Turtles*

During 2005, all established action figure brands were negatively impacted by the launch of a strong slate of competitive product lines based upon major feature film franchises that dominated the category. Despite the sales decline attributable to this competitive challenge, **Teenage Mutant Ninja Turtles** continued to rank among the top 5 best selling boys' properties in the U.S., Spain, Scandinavia, Australia and Canada and, following its launch in September, finished the year as one of the action figure category leaders in Germany.

This brand will be reenergized in the year ahead with the introduction of new television entertainment, new themes in key product segments and extensive, television advertising and promotional campaigns. During the first half of 2006, marketing and promotional efforts will be led by the introduction of an all new theme called **Paleo Patrol**, inspired by little boy's tireless fascination with the **Turtles** and the perennial play appeal of dinosaurs.





1966 2006

In September 2006, an all new animated television series entitled **ast or ard** will transport the **Turtles** into the future. This new programming will feature a futuristic look, new stories and most importantly new characters, vehicles and gadgets that will be translated into a broad range of new products packaged and promoted under the **ast or ard** banner.



TEENAGE MUTANT NINJA  
**TURTLES**  
FAST FORWARD





## *Teenage Mutant Ninja Turtles*

Another milestone in the continuing expansion of the **Turtles** entertainment franchise will be achieved in spring 2007. For the first time in the property's history, a fully computer generated animated feature film will premier as a major, worldwide theatrical release. **Warner Bros. Studios** in partnership with **TriStar Pictures** and **Imagi Animation Studios** will launch the film with a wide array of promotional partners and extensive pre-release advertising and promotion.

With new television animation, a widely publicized feature film and the products that these entertainment drivers will inspire, the **Turtles** franchise will remain an important part of Playmates Toys' boys business.





1966 2006

# King Kong

Universal Studios' widely anticipated feature film, **King Kong**, premiered worldwide in December of last year. To insure that the product line was well represented at retail, Playmates Toys developed a variety of merchandising programs that maximized distribution as sales momentum built through December. This momentum was sustained into this spring and will be capitalized upon to extend the brand's distribution through the planned Universal Home Video D/D promotional campaigns in spring and fall of 2006.

# KONG

THE 8TH WONDER OF THE WORLD™





1966 2006

Disney  
PRINCESS



## Disney Princess

In 2005, our fifth year as **Disney's** leading large doll licensee, Playmates Toys extended this girls entertainment and lifestyle franchise with the introduction of a new **World of Cinderella** product segment driven by the Platinum Edition DVD release of the classic **Cinderella** feature film. The cross divisional promotional support of **The Walt Disney Company** for this first ever DVD release of the most popular Princess feature film created a new branding platform and product segment that will be further broadened with the re-release of **The Little Mermaid** special edition DVD in 2006.

**Disney's** continued investment in the consumer marketing of the **Disney Princess** franchise has enabled Playmates Toys to expand our product offering in several new segments in 2006. The **Little Princess** collection will grow with the introduction of the **Ballerina Princesses** and a new **Petal Princess** theme in the core doll assortment. The new soft body **Soft and Sweet Little Princesses**



and the new **Big N' Little Beauty Princess** assortments have strengthened the entry price point of the brand.

International distribution of Playmates Toys' **Disney Princess** line grew significantly in 2005 as the **Little Princess** segment was expanded and the **Beauty Princess** segment was introduced in several European and Latin American markets.

**Disney Princess** is a staple brand within Playmates Toys' girls' toy portfolio. In 2006, new products and continued consumer promotion from several **Disney** divisions will further expand the retail presence of the brand.

WALT DISNEY'S  
**Cinderella**  
SPECIAL EDITION





1966 2006

Amazing  
Allysen



## The Amazing Brand

The launch of the **Amazing Amanda** interactive doll and the **Amazing Pets** special feature plush segment in 2005 established Playmates Toys as the innovation leader in these two important categories. The success of our **Amazing** branded products has created a “must have” awareness among consumers that will be capitalized upon in the year ahead. The brand will be extended in 2006 with the introduction of **Amazing Allysen**, the continued U.S. promotion of **Amanda**, the launch of a fully localized **Amanda** in seven international markets and the addition of **Love N’ Licks** puppy to the **Amazing Pets** segment.

**Amazing Amanda** was among the best selling large dolls in the U.S., U.K. and Australia last year and was nominated for **Girls Toy of the Year** by the Toy Industry Association in the U.S. The magical interactive experience between a little girl and her **Amazing Amanda** was achieved through the use of voice response technology and RFID accessory recognition. This same technology will be enhanced to create a “best friend” play experience with **Amazing Allysen**. Programmed as a modern nine year old girl, **Allysen** features a far wider range of content and play experiences for older girls. **Allysen** expands the **Amazing** brand’s age appeal and is a complimentary addition to the nurturing and caring play pattern of **Amazing Amanda**.

Amazing  
Amanda™





1966 2006



# Amazing Pets

In 2005, as part of our longer term product diversification strategy, Playmates Toys identified targeted growth categories in which we could capitalize on the company's product development and marketing competencies. Special feature plush was one of these categories. **Cold Nose Puppy**, the first product launched under the **Amazing Pets** brand banner, was the first step towards building a sustainable feature plush segment that will be expanded in 2006 with the fall launch of the new **Love N' Licks** puppy. As **Cold Nose Puppy** recreated the magic of a cold, wet puppy kiss, **Love N' Licks** puppies will respond to children's touch and eventually reward them with a loving puppy lick.

## *Waterbabies*

The proprietary **Waterbabies** brand enters its sixteenth year in 2006. The value priced **Sweet Cuddlers** assortment and the licensed segment were the focus of Playmates Toys' marketing efforts for this staple brand during the past year. Updated outfits and accessories and a new packaging look were introduced at the entry price point and characters from the evergreen pre-school franchise **Sesame Street** were added to the licensed segment.

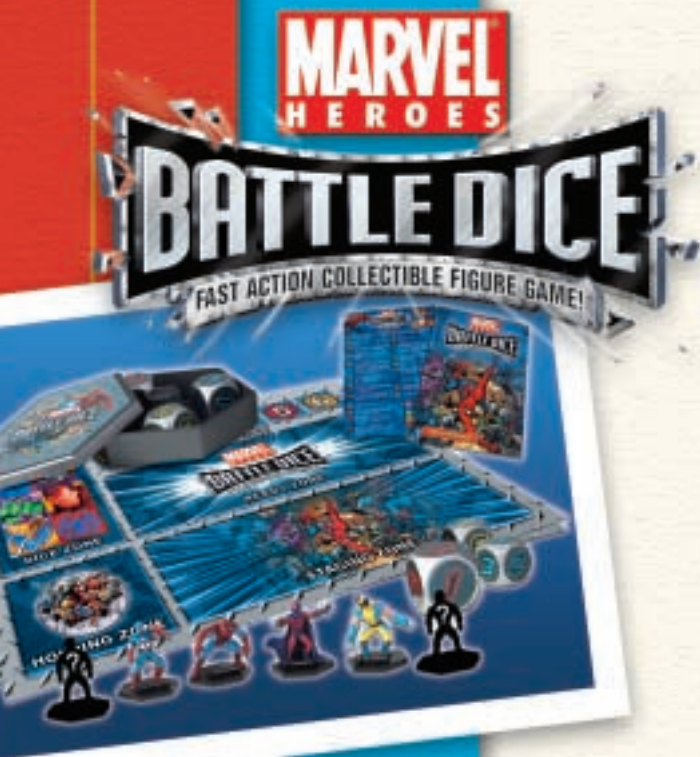
Water Babies



123  
SESAME STREET



1966 2006



## New Products

In 2006 Playmates Toys will continue to pursue the product portfolio expansion and diversification strategy as we launch new proprietary businesses, add to our license portfolio and expand the breadth of our offerings in established brands.

The launch of **Battle Dice** marks Playmates Toys' entry into the growing collectible figure gaming category. **Battle Dice** combines the familiar dice play pattern with the perennial appeal of trading and doing battle with collectible figures. Patented pop dice open to reveal highly detailed miniature figures inspired by the universe of super hero characters from the **Marvel Heroes** and **Dinosaurs** franchises.

Playmates Toys' refreshed and updated **Strawberry Shortcake** products hit U.S. store shelves in January 2006 and early retail response has been encouraging. **Americanreetings** and **Disney Entertainment** worked closely with Playmates Toys to fulfill our vision for a more contemporary interpretation of this classic license. This entirely new line of dolls, playsets and role play products remains true to the property's wholesome roots while offering today's girls a reason to expand their **Strawberry Shortcake** collection. 2006 is the busiest entertainment year in this brand's history. **Disney Entertainment** will release three new titles in their bestselling direct-to-video series, **Disney Fairies** will premier the first ever animated feature length **Strawberry Shortcake** film in the third quarter, a nationwide promotion in **McDonald's** restaurants is currently running in the U.S. and an all new series of books from **Penguin Publishing** will be introduced throughout the year. This exceptional entertainment presence in all media categories combined with Playmates Toys' full year promotional program has successfully revitalized this classic toy brand.





1966 2006

Another addition to Playmates Toys' girls' toy portfolio is **Disney Fairies**. Playmates Toys has been appointed as the master toy licensee for this new entertainment and lifestyle franchise that is based upon the world's most famous fairy: **Tinkerbell**. **Disney Publishing** introduced **Tinkerbell**, her friends and their world in the 2005 New York Times Bestseller **Fairy Dust and the Quest for the Egg** by award winning author Gail Carson Levine and will release several titles in a young reader chapter book series throughout 2006 – the first of which has already appeared on the New York Times Children's Bestseller list. Playmates Toys' line of beautifully detailed small dolls and playsets will launch in fall 2006 and will include ten minutes of original animation produced by **Disney**. Additionally, and as part of our strategy to expand our portfolio into targeted growth categories, Playmates Toys has been granted rights to market a line of **Fairies** creative activity products. In 2007, the first **Disney Fairies** full length animated film will premier and plans are being finalized for future films that will expand the **Fairies** story and introduce new characters. **Disney** has adopted a long term brand building strategy for **Fairies** that will be powered by cross divisional promotional support including on-air, online, print, home video and theme park campaigns. This license extends our partnership with **Disney Consumer Products** and targets an older girls' market that complements Playmates Toys' **Disney Princess** product line.





## New Products

Playmates Toys will return to its pre-school roots with products inspired by two character rich, entertainment supported brands: **BBC Worldwide's Little Robots** and **Universal Studios' The Land Before Time**. The **Little Robots** television series premiered on **Cartoon Network's** pre-school block in 2005 and all new episodes will air throughout 2006. **Penguin Publishing** and **FOX Home Entertainment** will release books and home videos in late 2006 and plans are in place for a theatrical release of a **Little Robots** film during the same period. Playmates Toys and **The Joester Loria Group**, the U.S. licensing and merchandising representative, have partnered to create a line of pre-school figures, playsets and plush toys that mirror the "can do" attitude and team building message of this visually unique property. **The Land Before Time** is one of the best selling children's home video series of all time. Over 65 million videos have been sold and, for the first time in the franchise's history, an all new animated television series is being produced and is scheduled to premier on **Cartoon Network** in spring 2007.

With promising additions in core competency categories, expanded offerings in established brands, strong partnerships with the world's leading children's entertainment and marketing partners and the entry into strategic growth categories such as pre-school, special feature plush and creative activity, Playmates Toys has made significant progress in pursuit of our portfolio expansion and diversification objectives. The 2006 product lineup is balanced, focused and reflective of our continuing commitment to profitably grow our presence in those categories where we may capitalize on our competitive advantages.

