

## MANAGEMENT DISCUSSION AND ANALYSIS

### Highlights of Performance

<b>For the six months ended 30 June</b>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Group turnover	<b>338,837</b>	462,762
– from toys business	<b>317,579</b>	447,816
– from property investment & associated business	<b>21,258</b>	14,946
Gross profit	<b>165,327</b>	240,796
Revaluation surplus on investment properties	<b>167,931</b>	67,271
Operating profit	<b>135,585</b>	91,489
Profit attributable to shareholders	<b>125,105</b>	94,814
Earnings per share	<b>HK cents</b>	HK cents
– Basic	<b>6.69</b>	5.60
– Diluted	<b>6.64</b>	5.41
Interim dividend per share	<b>2.00</b>	2.50

### Property Investment & Associated Business

Rental and management income from the portfolio of properties for the period increased by 42.2% from the same period a year ago. Segment operating profit was HK\$181 million, an increase of 135.2% over the comparative period. Overall occupancy rate remained at a high level of 96% during the period under review.

Rental income from both new leases and renewals generated by the principal property at 100 Canton Road recorded significant growth during the period, reflecting robust market demand for commercial premises and benefiting from the enhancement program commenced in 2005. A renowned restaurant and a reputable spa treatment center are scheduled to open in the coming months. The final phase of the enhancement program is expected to be completed by the end of the year at which time the premises will host several more premier retail tenants.

Rental income from the residential properties acquired in January 2006 also contributed to the increase in rental income of the Group during the period. Rental yields from new leases of these properties increased substantially as a direct result of the ongoing refurbishment and upgrade program undertaken since the acquisition earlier in the year.

With the sustained growth of the regional economy, management remains confident of the positive outlook of the property investment and associated business which will continue to form an important and integral part of the activities of the Group.

## Toys Business

Playmates Toys worldwide sales during the first half of 2006 were HK\$318 million, a decrease of 29.1% over the same period last year. This decrease was attributable to sluggishness in the U.S. retail sector and specifically within the boys' toy category of action figures. Rising interest rates and higher gas and oil prices negatively impacted consumer spending and when coupled with the continuing inventory reduction by major retailers, resulted in an overall industry decline in U.S. toy retail sales of 3% through 30 June 2006. Despite the first half sales decrease, over the counter U.S. retail sales of Playmates Toys' products accelerated during June, generating positive momentum and assuring continued trade support as we enter the second half of the year with a wide variety of new products and extensions to proven product lines.

Gross profit was 45.4% of toy sales during the first half of 2006 (50.4% during the same period in 2005). The lower gross profit percentage is attributable to increased investment in tooling and R&D, and higher product costs. Consistent with Playmates Toys low overhead operating strategy, recurring operating expenses were within plan and comparable to the same period last year. The division reported an operating loss of HK\$32 million (operating profit of HK\$22 million during the same period in 2005) resulting from decreased sales volume, lower gross margin, and increased spending on the marketing of new brands.

Lower U.S. sales of *Teenage Mutant Ninja Turtles* (“*Turtles*”) reflected the overall market decline in the action figure category as well as fewer retailer promotions for the brand compared to the same period last year. The discontinuation of the *Speedeez* vehicle product line in the U.S. market in late 2005 also contributed to the first half sales decrease. Sales of *King Kong* products remained strong through the first half but will not figure prominently in our second half sales mix. Sales outside the U.S. also decreased during the first half of the year, due primarily to lower *Speedeez* and *Turtles* sales. The launch of several new girls' brands and the *R.E.V.s* vehicle line will strengthen the Company's international distribution in the second half of the year.

Sales of Playmates Toys' girls' brands remain healthy, led by *Disney Princess* and the successful launch of the all new, contemporized *Strawberry Shortcake*.

Although lower than the same period in 2005, sales in the first half of 2006 were within management expectations and consistent with the Company's plans to launch a significant number of new products during the second half of this year. These introductions include: an entirely new line of products inspired by *Disney Fairies*, Disney's latest girl's entertainment and lifestyle franchise, a widely expanded *Amazing* doll and feature plush offering, a broader *Strawberry Shortcake* line that will capitalize on the success of our spring launch campaign, and *Turtles* products inspired by both the all new animated *Fast Forward* television series and the highly anticipated, computer generated *TMNT* feature film.

### ***Brand Overview:***

All new animated television episodes and feature film entertainment will expand the ***Turtles*** franchise in the second half of 2006 and throughout 2007. The new ***Fast Forward*** animated series will premier in September in the U.S. and, for the first time in the history of the ***Turtles***, a computer generated feature film will premier worldwide in spring 2007. A DVD release of the feature film in the fall of 2007 will create a full year entertainment platform upon which Playmates Toys will build an entirely new line of products.

This fall, new girls' toy introductions will be led by extensions to the successful, proprietary ***Amazing*** brand of dolls and feature plush. Sales of ***Amazing*** dolls will grow in 2006 with the introduction of ***Amazing Allysen***. ***Allysen*** will extend the age appeal of the ***Amazing*** doll segment and is a complimentary, accretive addition to this proprietary brand. A new special feature plush product will be added to the ***Amazing Pets*** segment in 2006. ***Love 'n Licks Puppy*** will join 2005's ***Cold Nose Puppy*** to expand this realistic, interactive plush segment.

In the spring of this year, Playmates Toys unveiled an entirely new look for ***Strawberry Shortcake***. The new look, new packaging and extensive promotion of these dolls and accessories successfully revitalized the toy segment of this perennial girl's entertainment franchise. The successful spring launch in the U.S. and Canada resulted in significantly expanded retail listings for the line this fall and set the stage for expanded distribution in international markets such as France, Australia, the U.K., Spain and Mexico where ***Strawberry Shortcake*** has a strong toy heritage and loyal following among girls.

***Disney Princess*** dolls and accessories continue to generate stable revenues within Playmates Toys' portfolio. Playmates Toys line will expand in the fall of this year with new dolls inspired by Disney's Platinum Edition DVD re-release of ***The Little Mermaid***.

We have been appointed by Disney Consumer Products as their master toy partner for their latest and most important new girls branding initiative, ***Disney Fairies***. Disney has committed the resources of their various print, television, home video, theatrical, online and theme park divisions to spread the ***Disney Fairies*** message in the years ahead. Additionally, our grant of creative activity rights in this franchise will enable us to build our presence in this strategic growth category as awareness for ***Disney Fairies*** builds throughout 2007.

Playmates Toys enters the second half of the year with broad retail support for its new product offering and remains on track to achieve its 2006 plan. This continued portfolio expansion is further affirmation of our commitment to broaden and diversify our product offering, a central tenet of our long term growth strategy. The 2007 product line will be unveiled in New York during the toy fair of this October, with major extensions to existing brands and significant new introductions. The fundamentals for Playmates Toys' future growth remain firmly in place.