

## Chairman's Statement

I am pleased to report that Group turnover for the year ended 31 December 2003 was HK\$977,764,000, doubling that of a year ago. Revenue from toy sales was HK\$945,464,000, a 107% year-on-year increase over 2002. Operating profit before property revaluation deficit was HK\$128,610,000 compared to HK\$13,865,000 (as restated) for the year 2002. Profit attributable to the shareholders for the same period was HK\$71,649,000, a substantial growth over 2002.

**“Create and manage multi-year brands  
in a balanced portfolio to sustain  
continuous growth”**

The 2003 performance represents significant progress towards the achievement of our corporate objectives: i) the creation of profitable, multi-year brands; ii) the growth of a sustainable revenue base within a balanced product portfolio; and iii) the enhancement of value for shareholders through growth of operating profit. The continued pursuit of these objectives insures that we will continue to develop our capabilities as one of the toy industry's most innovative and entrepreneurial marketing groups.

The toy division's U.S. and international businesses grew significantly in 2003.

Disciplined brand management strategies delivered impressive sales and operating profit gains for U.S. business in an increasingly challenging retail environment. While expanding our mass market distribution, we also implemented sales strategies to build our business in the growing drug, grocery, warehouse club and other non-traditional toy retail channels.

During 2003, we aggressively marketed our products in all major international territories. International sales grew by over three times in revenue and represented about 18% of total toy sales. This growth validates our strategy of partnering with leading independent distributors to launch new brands in major international markets concurrently with U.S. launch campaigns.

In the boys toy business, we successfully launched two new brands in 2003: **Teenage Mutant Ninja Turtles** action figures and accessories and **Speedeez** micro scale vehicles and playsets. I am pleased to report that the **Teenage Mutant Ninja Turtles** are ranked among the top 3 action figure brands in every major market where the product line was introduced in 2003. In girls toys, we grew the **Disney Princess** brand by close to 50% and positioned the evergreen **Waterbabies** brand for a broad promotional expansion in 2004. During 2003 we became the leading **Disney Princess** large doll licensee in the U.S. Most importantly, exceptional sales performance and clean retail sell through has positioned each of these four core brands for continued growth in 2004.

In the 2002 annual report I discussed a number of cost reduction initiatives to improve productivity and maximize operating efficiencies. We continued on this path during 2003 and, as evidenced by the growth in our operating profit, I am pleased to report that these initiatives have been successful and have nurtured the growth of a disciplined, cost conscious corporate culture.

The Group achieved its ambitious growth objectives in 2003. Our goal in 2004 is to continue to grow our core business while selectively expanding our brand portfolio with new licensed and proprietary product lines.

Despite difficult economic condition in Hong Kong, we were able to maintain rental yield of 5.5% in 2003 from investment properties, the same level as in 2002. The property investment and management business will continue to provide a steady income stream to augment the Group's core toy business.

On behalf of the Board of Directors, I would like to take this opportunity to extend sincere thanks to our employees, vendors and business partners for the exceptional efforts put forth this past year. The dedication and tireless commitment of the Playmates team and all of our partners has set the stage for continued growth in the year ahead.

**Thomas CHAN Chun Hoo**

*Chairman of the Board*

Hong Kong, 27 February 2004

