

Business Review and Prospects

Business Review

Turnover for the year ended 31 December 2003 was HK\$977,764,000 compared to HK\$485,261,000 a year ago. Turnover from toy sales was HK\$945,464,000 compared to HK\$456,112,000 in 2002. Turnover from property investment and management (before inter-segment revenue elimination) was HK\$33,311,000 compared to HK\$30,683,000 in 2002. Gross profit improved by 123.5% over 2002. Operating profit before revaluation deficit on investment properties was HK\$128,610,000, compared to HK\$13,865,000 (as restated) for the year 2002. Net profit attributable to shareholders was HK\$71,649,000 compared to a (restated) net loss of HK\$1,043,000 a year ago. Basic earnings per share was HK cents 5.57 compared to a (restated) loss of HK cents 0.09 per share in last year.

Property Investments

Incomes from property rental and management (before inter-segment revenue elimination) grew by 8.6% to HK\$33,311,000 compared to last year. The increase reflected full year rental and management fee incomes from the building acquired in 2002. During 2003, despite difficult economic environment in Hong Kong, rental yield of investment properties during the period was maintained at 5.5%, the same as 2002. Independent valuation of the property portfolio as on 31 December 2003 resulted in a valuation deficit of HK\$49,300,000. Nevertheless, management maintains an optimistic outlook on the Group's portfolio of property investments in the coming year as sentiments in the local economy in general, and the property sectors in particular, gain positive momentum. Property rental and management will continue to provide the Group with a steady income stream and augment the Group's core toy business.

Toy Business

The successful introduction of two new brands and the growth of established businesses resulted in a doubling of toy sales in 2003. Playmates Toys continues to focus on the expansion of its core brands while actively developing several new licensed and proprietary product lines. Playmates Toys is now well positioned for future growth.



A new, contemporary line of *Teenage Mutant Ninja Turtles* (TMNT) action figures and accessories was introduced in January 2003 and sales exceeded all initial expectations. In the U.S., the new animated TMNT television series premiered on the Fox Box in February 2003 and instantly attracted new fans to this evergreen property.

U.S. retail support for the brand was exceptionally strong. Several of our customers positioned TMNT as the lead brand in the male action category. In store merchandising initiatives including the use of license counters supported their dedicated TMNT advertising campaigns. By year end, TMNT action

figures ranked among the best selling boys toys and have been nominated for the Toy Industry of America's Boys' Toy of the Year award.

The launch of the TMNT brand in leading international markets has been very successful. The TMNT product line and animated TV series have translated well around the world and attracted a global following in the core boys target market. At year end, TMNT was among the top 3 boys action figure brands in the UK, France, Australia and Canada and recently won the prestigious Boys Toy of the Year Award from the British Association of Toy Retailers. The brand was launched and the TV series premiered in 15 international markets in 2003. Playmates Toys has partnered with over 30 leading distributors to insure that the TMNT brand is introduced in all major international markets throughout 2004 and 2005.

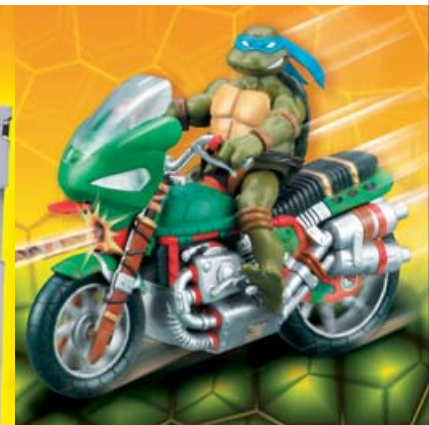
The universe of TMNT partners continues to expand. Over 40 U.S. licensees have been appointed to cover all key non-toy product categories. Lead non-toy licensees include Konami who launched the first TMNT video game with a national TV advertising campaign and is in active development of the second game, and Funimation who published the TMNT home video/DVD series. The broad marketing and promotional efforts of these partners will enhance the overall awareness of the brand in the year ahead.

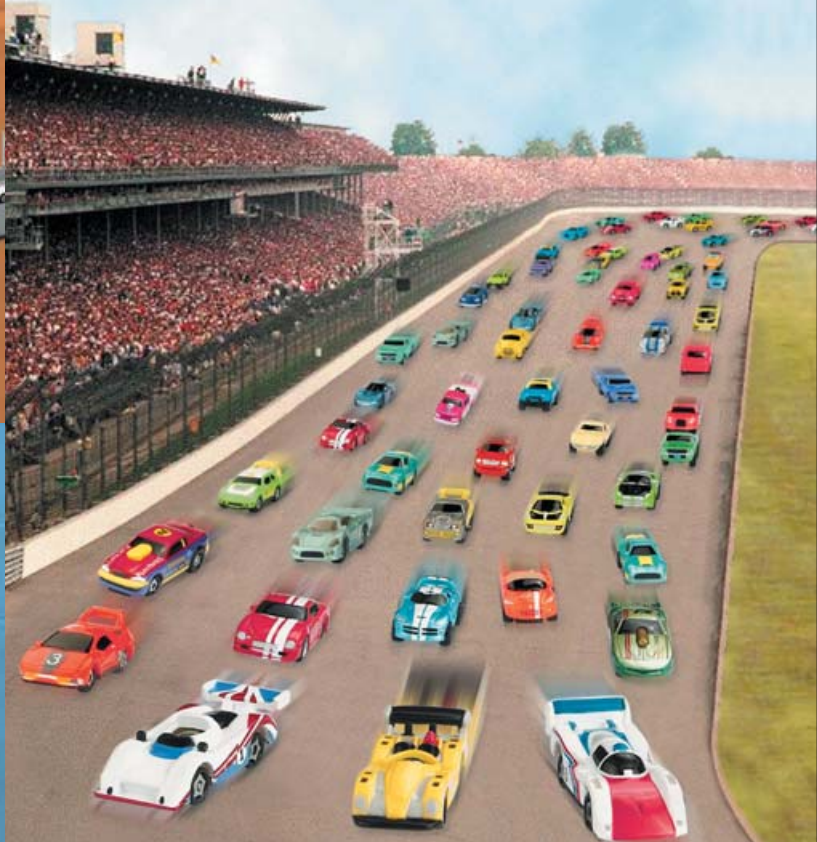
The TMNT brand is off to a strong start in 2004 with a widely publicized, chain-wide promotion in Burger King restaurants throughout the U.S. and Canada and the announcement of a second U.S. broadcast home for the TV series on Time Warner's Cartoon Network.

“Combined strength of two major broadcast vehicles will substantially expand viewing audience”

The series will premier on the Cartoon Network in mid-April and will run daily, Monday through Friday, to compliment the continued broadcast of all new episodes in the FOX BOX Saturday morning schedule. The combined strength of these two broadcast partners will substantially expand the viewing audience for the series.

Playmates Toys' TMNT product line will continue to expand in 2004 with the extension of established segments and the introduction of several new product categories.





The Speedeez line of micro scaled vehicles and playsets was launched in the Spring of 2003. Competitive pricing supported by a strong national TV advertising campaign resulted in the expansion of retail distribution for the line in Fall 2003. Playmates' marketing message reinforces the attributes and appeal of the patented Turbo Ball

propulsion system that differentiates this brand from all competitors in the category. Fall TV campaigns and other value driven promotions successfully spurred consumer demand and resulted in a complete sell out of the brand's lead promotional item, the Hummer H2 playset. This action packed playset has been nominated for the Vehicle Toy of the Year award by the Toy Industry of America.

In 2004, Playmates Toys will continue to emphasize the unique speed, action and racing attributes of this brand through comprehensive TV campaigns and consumer promotions.

“Comprehensive TV and consumer promotion campaigns will further fuel the growth of the Speedeez brand”



brand matured. At this stage in the brand's life cycle, Playmates Toys projects more limited retail distribution in the year ahead.

As *The Simpsons* line of collectible figures and playsets entered its' fourth full year of U.S. distribution, Playmates Toys maintained collector interest while managing retailer expectations as the

“A collectible classic”





The Waterbabies brand continued to expand in 2003. New character properties such as Care Bears were added to the licensed segment. The Disney Waterbabies assortment was expanded through the introduction of several new classic characters. “My First Waterbabies” were introduced in the infant/juvenile market and the value priced “Sweet Cuddlers” segment was extended through the addition of new themes and basic, special features.

**“Exceptional goodwill with
15 years of uninterrupted
U.S. distribution”**

This proprietary brand has built exceptional consumer goodwill during 15 years of uninterrupted distribution in the U.S. No other baby doll brand can claim this legacy. This impressive history and the continued success of new product introductions have prompted Playmates Toys to update the Waterbabies line look and launch a new promotional segment. In Fall 2004, Playmates Toys will launch a TV advertising campaign to introduce the new “Wiggly Waterbabies” doll assortment. This campaign will reinforce the brand's core message; “Waterbabies are the only dolls that move and feel just like real babies!”.





The highlight of Playmates girls' business in 2003 was the significant growth of the Disney "Princess" large doll segment. Playmates "Little Princess" dolls were the best selling large dolls in the U.S. This strong performance is testament to the Walt Disney Company's continued support of the classic Disney "Princess" franchise. This support extends across all Disney divisions and has successfully built a Disney "Princess" brand foundation on which Playmates will continue to build its "Princess" business through 2004 and beyond.

The Disney "Princess Nursery", an all new product segment, will be added to Playmates' Disney "Princess" brand in Fall 2004. This segment will introduce little girls to an assortment of adorable dolls that are dressed and accessorized as "Baby Princesses". The Disney "Princess Nursery" segment will introduce the perennial and proven nurturing play pattern to Playmates Toys' "Princess" brand and further expand the retail presence for this product line.

"Continuous growth year after year"

Playmates Toys has grown its Disney "Princess" doll business each year for the past three years and continues to work closely with Disney Consumer Products to develop character appropriate themes and innovative products that will extend this core brand for years to come.



New Opportunities

Playmates Toys is in active development of several new licensed and “home grown” product lines that will be introduced in late 2004 and 2005. Included among these initiatives are Nickelodeon's “Evergirl”, Autocannon’s “Max Boost” and a new interactive character product line.

Evergirl is a broad based, aspirational lifestyle property that has been in development at Nickelodeon for the past three years. Nickelodeon will unveil this property in 2004 and aggressively promote the unique, positive “Evergirl” message to girls with TV advertising, promotional and merchandising campaigns. Playmates will introduce an innovative, customizable doll and accessory product line to coincide with and capitalize upon Nickelodeon’s promotional programs.

Following the enthusiastic response to the October 2003 Toy Fair presentation of Playmates Toys’ Max Boost product line, active development has begun on an animated TV series inspired by this trendy, character rich property. Playmates Toys is working closely with the property rights holder to insure that not only do the Max Boost figures, vehicles and playsets reflect the hip attitude and tone of this series but also that these products are launched to coincide with the U.S. broadcast premier of the series.

Playmates Toys’ focused brand management strategies have resulted in exceptional growth during the past year. These strategies coupled with selective investments in new product categories and licensed properties will guide Playmates Toys’ efforts in the year ahead and have set the stage for continued profitable growth.