



## Business Review and Prospects

Group turnover for the year ended 31 December 2006 was HK\$1,172 million (2005: HK\$1,310 million). Toy division turnover was HK\$1,128 million (2005: HK\$1,277 million). Turnover from the Group's property investment and management businesses was HK\$44 million (2005: HK\$33 million). Operating profit was HK\$268 million (2005: HK\$172 million), and net profit attributable to shareholders was HK\$260 million (2005: HK\$196 million). Basic earnings per share was HK cents 13.93 (2005: HK cents 11.00).

### TOY BUSINESS:

Turnover of Playmates Toys was HK\$1,128 million in 2006 (2005: HK\$1,277 million). The lower sales were attributable to the industry downturn in the key product categories of action figure, doll and plush. During the year, the **Turtles** brand had a planned transition, in anticipation of the March 2007 worldwide release of the CGI movie, and the **King Kong** and **Speedeez** brands were phased out. Sales gains were achieved in the expanded **Amazing** brand as well as the successful introduction of two new brands: **Strawberry Shortcake** and **Disney Fairies**. While Playmates Toys was able to raise prices, overall gross profit ratio decreased by approximately 2%, due to a shift in sales mix to lower margin products. Playmates Toys operating profit for the year was HK\$28 million (2005: HK\$96 million). The reduced profit was attributable to the

lower sales combined with increased investments in brand marketing and development, offset to some extent by reduced operating costs during the year.

At the center of Playmates Toys growth strategy is category expansion. Several years of focused efforts have resulted in a diversified portfolio of brands and broader participation in different segments that characterize the toy industry. In 2007, Playmates Toys' product portfolio continues to expand. In addition to the five established brands: **Disney Princess**, **Strawberry Shortcake**, **Disney Fairies**, **Amazing** and **Teenage Mutant Ninja Turtles**, three new initiatives will be launched: **R.E.V.s**, **Land Before Time**, and **Popples**.

The **Disney Princess** brand, in its sixth year, has established itself as an evergreen franchise and in 2006 delivered solid revenue contribution.



Building on the brand's strong foundation, a new TV promoted **Little Princess** doll featuring interactive play will lead the sales drive in 2007. **Belle** and all her friends will join little girls in a magical setting where they can have their very own tea party. The core segments of the brand, **The World of Little Princess** and **My Baby Princess**, have been refreshed with new features and play patterns, while the classic **Princesses** return in 2007 to sing their classic theme songs from their respective movies.

**Strawberry Shortcake** enters her second year with Playmates, building on the successful launch year with a new contemporary positioning for the lead character and her friends, all carrying the respective scents of their namesakes in a fantasy world of playsets and dolls in different scales. In 2007

Playmates will introduce new themes, play environments, vehicles and most importantly a **Strawberry Baby Doll** that giggles while she blows you a strawberry scented kiss. A key driver for the brand going forward is the expansion of the world of **Strawberry Shortcake** into new toy categories. New animated home video releases throughout the year by **20th Century Fox** will continue to expand the franchise.

Playmates Toys introduced the **Disney Fairies** brand in 2006 with a broad line of fashion dolls, playsets and environments that brought the world of fairies to life, as depicted in a series of novels published by **Random House**. In 2007 the **Disney Fairies** franchise will further expand across multiple platforms including the **Disney Channel**, sneak previews of the new **"Tinker Bell"** movie on **Buena Vista Home Entertainment** DVD releases, and

a growing base of licensees. All of these elements build towards the anticipated release of **"Tinker Bell"** in November 2008 with further animated movies to follow through 2011.

The **Amazing** brand, capitalizing on its proven success in 2005 with **Amanda** and 2006 with **Allysen**, will launch **McKayla** in 2007. **Amazing McKayla** is an interactive baby doll who turns her head in response to the girl's voice, recognises her accessories, begins to speak in baby talk and then learns to converse in real words and play games. Another new member of the brand is **Amazing Lexie**, a smart fashion puppy that knows her food, outfits, toys, can "talk" to her friends and play games with them, emulating the hot new trend of fashion puppy companions touted by celebrities and seen everywhere in the entertainment world.

Our plush pets line has had two consecutive years of success with **Cold Nose Puppy** and **Love 'N Licks Puppy**, feature plush toys that delivered whimsical play. Building on this success, Playmates Toys is introducing **Love 'N Blush Puppy** with a color change feature, which reacts to human touch by its whiskers turning a blushing pink.

The **Teenage Mutant Ninja Turtles** brand had a planned transition year in 2006 in anticipation of "TMNT", a CGI animated action adventure movie scheduled for worldwide premier in March 2007. The movie has a dramatic plot, state-of-the-art CGI animation, the wackiness of the original characters, and revitalizes the **Turtles** as "marquee" style heroes. In tandem with the movie release, Playmates Toys has invigorated the brand with new heroes, villains, vehicles and playsets to recreate the key action

elements from the movie.

New Playmates Toys initiatives launched in 2007 include:

**R.E.V.s**, a proprietary robotic vehicle line, combines the uniqueness of a stand-alone robotic action figure disguised inside a functional roll-along vehicle. The vehicle can be dismantled into multiple parts which can then be re-attached to the robot figure, turning him into a mean fighting machine. The underlying storyline involves a good versus evil



More Brands,  
More Fun



struggle in an advanced world sometime in the future, where scientists have created vehicles that can think and act through their robot commanders.

**Popples**, a line of feature plush characters licensed from **American Greetings**, provides another unique position for Playmates in the feature plush category. Each of the **Popples** characters has a distinct personality, a unique look and interactive electronic features that make it come alive. They all transform into a ball, but when magically inverted they have a distinctive popping sound and turn into their specific character and giggle. There are also **Popplings**, the babies of the group, who have an electronic messaging feature.

**Land Before Time**, a classic preschool franchise from **Universal Studios**, has a heritage of over ten million copies of home videos sold worldwide during the last decade. In 2007, the brand is being relaunched with new animated

TV programming on **Cartoon Network**. Playmates Toys' new preschool toy line will consist of dinosaur characters from the show, vehicles, playsets, and a plush line.

In addition to these new initiatives, Playmates Toys has a rich pipeline of new initiatives that are in development and planned for future launch in conjunction with Playmates' partners, including **4Kids Entertainment, American Greetings, DIC, Disney, Microsoft, Mirage, Universal** and **Upper Deck**.

#### **PROPERTY INVESTMENT & ASSOCIATED BUSINESS:**

The Hong Kong property market continued to benefit from an improved regional economy and a buoyant capital market during 2006. Rental and property management income from the Group's investment properties increased

professional retail management of this principal investment property. Another key source of the increment in rental income was the residential properties acquired in January 2006 as previously reported. Substantial improvements in rental yields were achieved from new leases of these properties as a direct result of the ongoing refurbishment and upgrade program carried out since the acquisition.

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\$238 million which was reported in the consolidated profit and loss account of the Group for the year.



by approximately 34% over that of last year. Segment operating profit including properties revaluation surplus was HK\$261 million, an increase of 176% over last year. Overall occupancy rate remained at a high level at the end of the year.

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

The significant increase in rental income during the year was attributable to the overall higher rental levels achieved for both new leases and renewals. Upon the completion of the enhancement program as planned, the Group's principal investment property at 100 Canton Road has taken on a brand new look as a contemporary specialty retail landmark. During the year, a leading lifestyle fashion brand and a reputable spa treatment centre set up shops in the building. A renowned restaurant has selected the building for its flagship store which is scheduled to open during the first quarter of 2007. Management will continue to optimize the tenant mix and to maintain a high standard of

