



PLAYMATES HOLDINGS LIMITED
彩星集團有限公司*

(Incorporated in Bermuda with limited liability)
 (Stock Code: 635)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

RESULTS

The directors of Playmates Holdings Limited (“the Company”) are pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2005 (“the period”) as follows:

Unaudited condensed consolidated income statement
For the six months ended 30 June 2005

	Note	Six months ended 30 June		
		2005 US\$'000 (Note 7)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	2	59,328	462,762	436,658
Cost of sales		(28,457)	(221,966)	(199,232)
Gross profit		30,871	240,796	237,426
Marketing expenses		(13,393)	(104,464)	(93,811)
Selling, distribution and administration expenses		(11,479)	(89,538)	(101,687)
Revaluation surplus on investment properties		8,624	67,271	–
Restructuring expenses		(2,894)	(22,576)	–
Operating profit		11,729	91,489	41,928
Non-operating income/(expenses)				
Interest expense and bank charges		(348)	(2,717)	(5,052)
Other revenues		839	6,544	3,144
Net loss on investments		(234)	(1,823)	(1,274)
		11,986	93,493	38,746
Share of profits less losses of associated companies		(275)	(2,147)	(2,034)
Profit before taxation	3	11,711	91,346	36,712
Taxation credit/(charge)	4	445	3,468	(1,833)
Profit attributable to shareholders		12,156	94,814	34,879
Dividend	5	5,983	46,666	31,205
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6			
Basic		0.72	5.60	2.25
Diluted		0.69	5.41	2.22

Unaudited condensed consolidated balance sheet
As at 30 June 2005 and 31 December 2004

	<i>Note</i>	30 June 2005 US\$'000 (Note 7)	30 June 2005 HK\$'000	31 December 2004 HK\$'000 (restated)
Non-current assets				
Goodwill		766	5,976	5,976
Property, plant and equipment		2,798	21,821	8,031
Investment properties		91,436	713,200	662,000
Prepaid premium on leasehold land held for own use under an operating lease		2,956	23,053	–
Investment in associated companies		4,152	32,384	35,531
Held-to-maturity investments		4,435	34,594	–
Investments		–	–	35,319
Deferred tax assets		11,865	92,554	68,391
		<u>118,408</u>	<u>923,582</u>	<u>815,248</u>
Current assets				
Inventories		6,511	50,785	36,736
Trade receivables		21,148	164,956	336,755
Other receivables, deposits and prepayments		6,698	52,250	33,092
Taxation recoverable		146	1,136	1,168
Financial assets at fair value through profit or loss		32,374	252,517	–
Investments		–	–	186,701
Cash and bank balances		66,871	521,592	195,839
		<u>133,748</u>	<u>1,043,236</u>	<u>790,291</u>
Current liabilities				
Bank loans		380	2,964	22,464
Trade payables		11,097	86,556	61,901
Other payables and accrued charges		13,877	108,243	219,338
Taxation payable		9,658	75,333	69,098
		<u>35,012</u>	<u>273,096</u>	<u>372,801</u>
Net current assets		<u>98,736</u>	<u>770,140</u>	<u>417,490</u>
Total assets less current liabilities		<u>217,144</u>	<u>1,693,722</u>	<u>1,232,738</u>
Non-current liabilities				
Bank loans		3,511	27,385	28,867
Deferred tax liabilities		5,679	44,299	32,173
		<u>9,190</u>	<u>71,684</u>	<u>61,040</u>
Net assets		<u>207,954</u>	<u>1,622,038</u>	<u>1,171,698</u>
Financed by:				
Share capital		23,931	186,665	156,351
Reserves		178,040	1,388,707	952,806
Proposed dividend	5	5,983	46,666	62,541
Shareholders' funds		<u>207,954</u>	<u>1,622,038</u>	<u>1,171,698</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNTS

1 Basis of preparation

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (July 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

Details of the changes to the Group's accounting policies are set out in note 2 to the interim report. The effect of adopting these new policies are summarised below.

The effects of changes in the accounting policies on the consolidated balance sheet are as follows:

	HKAS	HKAS	Effects of adopting		HKAS	Total
	16/17	32/39	HKAS	HKFRS	HKAS	
	HK\$'000	HK\$'000	40	2	3	HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2005 (unaudited)						
Increase/(decrease) in assets						
Goodwill	-	-	-	-	485	485
Property, plant and equipment	12,171	-	-	-	-	12,171
Prepaid premium on leasehold land held for own use under an operating lease	23,053	-	-	-	-	23,053
Investment properties	(35,700)	-	67,271	-	-	31,571
Financial assets at fair value through profit or loss	-	252,517	-	-	-	252,517
Investments	-	(252,517)	-	-	-	(252,517)
Deferred tax assets	-	-	-	3,206	-	3,206
Increase in liabilities						
Deferred tax liabilities	-	-	-	-	-	28,169
Increase/(decrease) in reserves						
Share premium	-	-	-	10,297	-	10,297
Investment properties revaluation reserve	-	-	(93,694)	-	-	(93,694)
Properties revaluation reserve	-	-	4,803	-	-	4,803
Retained profits	(476)	-	156,162	(7,091)	485	120,911
At 31 December 2004 (restated)						
Increase in assets						
Deferred tax assets	-	-	-	2,443	-	2,443
Increase in liabilities						
Deferred tax liabilities	-	-	-	-	-	16,397
Increase/(decrease) in reserves						
Share premium	-	-	-	7,974	-	7,974
Investment properties revaluation reserve	-	-	(93,694)	-	-	(93,694)
Properties revaluation reserve	-	-	4,803	-	-	4,803
Retained profits	-	-	88,891	(5,531)	-	66,963

The effects of changes in the accounting policies on the consolidated income statement are as follows:

	HKAS	HKAS	Effects of adopting		HKAS	Total
	16/17	40	HKFRS	HKFRS	HKAS	
	HK\$'000	HK\$'000	2	3	3	HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2005 (unaudited)						
Increase/(decrease) in profit attributable to shareholders						
(Increase)/decrease in administrative expenses	(476)	-	(2,323)	485	-	(2,314)
Increase in revaluation surplus on investment properties	-	67,271	-	-	-	67,271
Increase in tax expense	-	-	-	-	(11,772)	(11,772)
Decrease in tax expense	-	-	763	-	-	763
Increase/(decrease) in profit attributable to shareholders	(476)	67,271	(1,560)	485	(11,772)	53,948
Increase/(decrease) in basic earnings per share (HK cents)	(0.03)	3.97	(0.09)	0.03	(0.70)	3.18
Increase/(decrease) in diluted earnings per share (HK cents)	(0.03)	3.83	(0.09)	0.03	(0.67)	3.07

HKAS 16/17 HK\$'000	HKAS 40 HK\$'000	Effects of adopting		HKAS – Int 21 HK\$'000	Total HK\$'000
		HKFRS 2 HK\$'000	HKFRS 3 HK\$'000		

For the six months ended 30 June 2004 (unaudited)

Increase/(decrease) in profit attributable to shareholders

Increase in administrative expenses	–	–	(3,336)	–	–	(3,336)
Decrease in tax expense	–	–	1,004	–	–	1,004
Decrease in profit attributable to shareholders	–	–	(2,332)	–	–	(2,332)
Decrease in basic earnings per share (HK cents)	–	–	(0.15)	–	–	(0.15)
Decrease in diluted earnings per share (HK cents)	–	–	(0.15)	–	–	(0.15)

2 Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management.

Business segments

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2005			
	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	Group HK\$'000
Revenue				
Turnover	447,816	14,946	–	462,762
Inter-segment revenue (Note iii)	–	287	(287)	–
	<u>447,816</u>	<u>15,233</u>	<u>(287)</u>	<u>462,762</u>
Results				
Segment results	22,597	76,694	–	99,291
Inter-segment transactions	(287)	287	–	–
	<u>22,310</u>	<u>76,981</u>	<u>–</u>	<u>99,291</u>
Unallocated costs				(7,802)
Operating profit				<u>91,489</u>

	Six months ended 30 June 2004			
	Toys HK\$'000 (restated)	Property investment and management HK\$'000 (restated)	Eliminations HK\$'000	Group HK\$'000 (restated)
Revenue				
Turnover	421,791	14,867	–	436,658
Inter-segment revenue (Note iii)	–	284	(284)	–
	<u>421,791</u>	<u>15,151</u>	<u>(284)</u>	<u>436,658</u>
Results				
Segment results	37,535	9,563	–	47,098
Inter-segment transactions	(284)	284	–	–
	<u>37,251</u>	<u>9,847</u>	<u>–</u>	<u>47,098</u>
Unallocated costs				(5,170)
Operating profit				<u>41,928</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

(iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the period amounted to HK\$2,147,000 (2004: HK\$2,034,000), which has not been included in the segment results shown above.

Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (restated)
America				
– USA	296,328	307,574	(25,003)	17,468
– Others	23,117	17,758	5,999	2,218
Europe	109,473	78,595	35,595	14,551
Asia Pacific	32,996	31,559	82,382	12,649
Others	848	1,172	318	212
	<u>462,762</u>	<u>436,658</u>	<u>99,291</u>	<u>47,098</u>

3 Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Charging:		
Cost of inventories sold	192,553	171,766
Staff costs	38,862	36,236
Depreciation of property, plant and equipment	1,651	2,731
Amortisation of prepaid premium on leasehold land for own use under an operating lease	262	–
Loss on disposal of property, plant and equipment	22	506
Amortisation of goodwill	–	485
	<u>–</u>	<u>485</u>
Crediting:		
Interest income from bank deposits	5,174	1,680
Dividend income from financial assets at fair value through profit or loss	1,370	–
Dividend income from investments	–	1,464
Unutilised provision for customer concession	10,257	–
	<u>10,257</u>	<u>–</u>

4 Taxation credit/charge

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

The taxation credit/(charge) in the unaudited condensed consolidated income statement comprises:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Current taxation		
Hong Kong profits tax	(1,329)	(742)
Overseas taxation	(7,410)	(1,270)
Over-provision in prior years	170	–
	<u>(8,569)</u>	<u>(2,012)</u>
Deferred taxation		
Origination and reversal of temporary differences	12,037	179
	<u>3,468</u>	<u>(1,833)</u>

5 Dividend

At a meeting held on 23 February 2005 the directors proposed a final dividend of HK cents 4 per share for the year ended 31 December 2004, which was paid on 5 May 2005 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2005.

At a meeting held on 29 August 2005 the directors declared an interim dividend of HK cents 2.5 (2004: HK cents 2.0) per share for the year ending 31 December 2005 to be paid on 28 September 2005 to shareholders on the Company's Register of Members on 21 September 2005. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

6 Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>94,814</u>	<u>34,879</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,692,825,000	1,553,168,000
Number of potential ordinary shares issuable under share options and warrants	<u>61,352,000</u>	<u>16,684,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,754,177,000</u>	<u>1,569,852,000</u>

7 US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Highlights

For the six months ended 30 June	2005 HK\$'000	2004 HK\$'000	% Change
Turnover	462,762	436,658	+ 6.0%
Gross profit	240,796	237,426	+ 1.4%
Operating profit before non-recurring items	46,794	41,928*	+ 11.6%
– Revaluation surplus on investment properties	67,271	–	
– Onetime restructuring expenses	(22,576)	–	
Operating profit	91,489	41,928*	+ 118.2%
Profit attributable to shareholders	94,814	34,879*	+ 171.8%
Earnings per share	HK cents	HK cents	
– Basic	5.60	2.25	+ 148.9%
– Diluted	5.41	2.22	+ 143.7%

* First half 2004 profit has been restated due to the adoption of new Hong Kong Financial Reporting Standards. See Notes 1 and 2 to the condensed interim report for details.

Property Investments and Associated Businesses

Rental and management income from the Group's investment properties (before inter-segment revenue elimination) for the period amounted to HK\$15,233,000, representing a slight increase from HK\$15,151,000 a year ago. The stable level of income was mainly attributable to the majority of the leases continuing within their terms. As at the end of the period, the overall occupancy rate was 96%, a further improvement over the end of last year.

A major enhancement program is underway in the Group's principal investment property at 100 Canton Road, to take advantage of its location in one of the most prominent areas for retail, dining and entertainment in Hong Kong. The program involves renovation and realignment of spaces with a view to optimize the tenant mix. A number of upscale specialty restaurants and prestigious brand name retail shops are scheduled to open starting from the second half of the year.

During the period under review, the property market continued to improve reflecting the continued recovery of the local economy. The Group's property investment portfolio was independently valued at the end of the period, resulting in a valuation surplus of HK\$67.3 million which was reported in the profit and loss account in accordance with the latest accounting standards.

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

Playmates Toys Overview

Playmates Toys worldwide toy sales during first half 2005 increased by 6.2% over the same period last year from HK\$421,791,000 to HK\$447,816,000. This increase was achieved despite a reported 6% industry decline in U.S. toy retail sales during the first six months of 2005 and heightened competition in several major product categories. The international division was a significant contributor to this overall sales growth as Playmates Toys continues to expand its distribution reach and build brand presence in major markets worldwide.

The first half retail performance of several third party movie related brands, such as “Star Wars®: Episode III™”, “Batman Begins™”, and “The Fantastic Four™” had a negative impact on sales of all other male action properties as well as other boys toy categories. In spite of this competitive environment, “*Teenage Mutant Ninja Turtles*®”, Playmates Toys’ lead boys brand, performed well. With the exception of the “*Speedeez*®” vehicles and playset business, all core brands experienced sales growth over 2004. “*Speedeez*®” sales declined, reflecting an overall shrinkage of the vehicle category which was a victim of the impact of the movie based male action brands.

Gross profit on toy sales was 50.4% during the first half of 2005 (52.8% during the same period of 2004). This decline is largely attributable to a higher percentage of lower margin sales to international markets earlier in the year.

Consistent with its long term operating strategy, Playmates Toys continues to invest in portfolio expansion. A number of new brands will launch in the second half of this year expanding Playmates Toys’ presence in targeted growth categories and complementing the core brand foundation that has been built during the past three years. These brands include: Universal Studios’ and Peter Jackson’s “*King Kong*®”, “*Amazing Amanda*™”, “*Amazing Puppies*™” and “*Kinder Garden Babies*™”.

Brand Overview:

Although the “*Teenage Mutant Ninja Turtles*®” brand was negatively impacted by the launch of competitive, movie related products during the second quarter, Playmates Toys’ preemptive marketing and promotional campaign maintained the growth momentum for the brand.

This fall, Playmates Toys will significantly expand its overall marketing, promotional and advertising program for the “*Turtles*” brand. “*Turtles*” continues to rank among the best selling action figure brands in many major markets. The brand will launch in Germany this fall and is planned to launch in Japan in the spring of 2006.

Playmates Toys, *Mirage Studios*® and *4Kids Entertainment*® recently finalized plans for the launch in the fall of 2006 of an all new 26 episode block of the “*Turtles*” television series featuring new characters, story lines and a new look. This new programming commitment brings the total number of episodes completed or in production to 130.

Recently, *Mirage Studios*® and *Imagi Animation Studios* reached an agreement with *The Weinstein Company* (headed up by Miramax founder, Harvey Weinstein) and *Warner Bros. Pictures* for the worldwide distribution of an all new “*Turtles*” computer animated feature film. This film represents the next stage in the evolution of the “*Turtles*” entertainment franchise and will inspire the development of an all new range of toy products that will launch to coincide with the film’s premier in early 2007.

An overall decline in U.S. toy vehicle sales and continued competitive product discounting negatively impacted the sales of “*Speedeez*®” products during the first half. Early retail sales results for the newest addition to the signature “*Speedeez*®” 2-in-1 playset segment, the Ford Motor Company’s *40th Anniversary Mustang GT*®, are encouraging. This playset will be the centerpiece of the brand’s fall television advertising campaign. International sales for this brand increased significantly in the first half as new markets launched and existing markets, including the United Kingdom, Spain, Italy and Canada extended the “*Speedeez*®” line. In further pursuit of Playmates Toys’ long term growth objectives in the vehicle category, a new brand, “*Turbo Treads*”, will be launched late this year and expanded in the spring of 2006. This addition to the vehicle business is designed to maintain Playmates Toys’ presence in this core product category.

In the fifth year as *Disney*’s lead large doll licensee for the *Disney*® *Princess* franchise, Playmates Toys has expanded its product offering and established a well recognized brand presence for the “*Little Princess*” and “*Princess Babies*” segments. This fall, a new doll scale and play pattern will be introduced to complement these well known segments with the introduction of Playmates Toys’ “*World of Cinderella*” dolls and accessories. Playmates Toys’ products will benefit from the unprecedented, cross divisional support of *Disney*® *Consumer Product*’s fall marketing program. *Disney*’s planned television, print, on line, home video and retail promotion expenditures for the “*Cinderella*” platinum edition DVD re-release are estimated at over US\$150 million.

Sales of the basic “*Sweet Cuddlers*®” and “*Wiggly Waterbabies*®” segments led the first half growth of “*Waterbabies*®”, Playmates Toys’ longest lived brand franchise. Sales of the licensed segment declined from the same period last year but are expected to rebound in the second half with the introduction of characters from the world’s most popular pre-school license, *Sesame Street*™, and the launch of products inspired by *Nickelodeon*® properties such as *Blue’s Clues* and *Spongebob Squarepants*. Additionally, extensions to the successful “*Wiggly Waterbabies*®” segment will be television advertised in the fall.

This fall’s planned introduction of several new product lines in core categories represents the next stage in Playmates Toys’ growth strategy. “*King Kong*®” action figures and accessories, “*Yo Stick*™” activity toys, “*Kinder Garden Babies*™” dolls, “*Amazing Puppies*™” special feature plush and the return of the best selling “*Amazing Doll*” brand will significantly expand Playmates Toys’ brand portfolio.

Playmates Toys’ innovative line of “*King Kong*®” products captures the imagination of the *Universal Studios*® production of the *Peter Jackson* feature film. “*King Kong*®” figures, plush, role play toys and playsets will hit retail shelves worldwide on 1st October. *Universal Studios*® pre-release promotion of the film has already begun and will gain momentum with an anticipated US\$100 million expenditure in theaters, on television, in print and on line through the film’s release date.

Playmates Toys’ “*King Kong*®” products are distributed at leading mass merchandisers, national toy chain, drug and grocery retailers. Plans are in place to extend this retail presence in 2006 by capitalizing on *Universal’s* home video promotional campaigns. *Universal* plans to promote both the spring 2006 DVD release as well as the fall 2006 release of a special edition DVD.

The successful Canadian launch of “*Yo Stick*™” earlier this year has set the stage for a television advertised U.S. launch of this innovative activity toy in the fall of 2005. Plans are in place to extend this proprietary product concept with new scales, features and themes in the spring of 2006.

Playmates Toys’ is launching a restyled, updated version of “*Kinder Garden Babies*™”, a doll line that generated worldwide retail sales of over US\$50 million in 1997 and 1998 with national television advertising this fall. The line will be expanded for spring 2006 with the addition of new characters and new products at lower spring price points.

This fall, Playmates Toys enters the feature plush segment by leveraging the established equity of its *Amazing*™ brand. The “*Amazing Puppies*™” special feature plush line will recreate the real world fun of puppy play when they give little boys and girls real, wet “*Cold Nose Kisses*”. A planned national advertising campaign and a comprehensive public relations program will convey the magic of this innovative product.

“*Amazing Amanda*™” is the latest addition to Playmates Toys’ *Amazing*™ doll brand. *Amanda* is the most technologically sophisticated and truly interactive doll in the category and will add never before seen dimensions to the traditional nurturing and caring play pattern. *Amanda* employs speaker independent voice recognition, lifelike animatronics and smart accessory recognition to create a new, magical play experience for little girls. U.S. television advertising, an extensive public relations campaign and retailer advertisements will commence in late August and continue through December. Early sales results in the United Kingdom are encouraging. *Amanda* has been named a top 10 toy for the holiday season 2005 by *Hamleys* and *Woolworths*, two of the U.K.’s leading toy retailers. Development has commenced to extend the *Amazing Amanda*™ segment and introduce a new *Amazing*™ doll in 2006.

With the strongest new brand offering in recent years, Playmates Toys is well positioned for continued growth. It is anticipated that future growth will be led by new brand introductions as reliance on continuing brands is reduced.

2006 and Beyond:

Playmates Toys has recently acquired rights in several major licensed properties and commenced development of new proprietary products in targeted growth categories.

Playmates Toys has been appointed the master toy licensee for “*Strawberry Shortcake*™”, *American Greetings* timeless girls entertainment and licensed product franchise. Originally launched in the early ‘80s, “*Strawberry Shortcake*™” generated retail sales of over US\$1 billion between 1980 and 1985. In partnership with *DiC Entertainment*, *American Greetings* introduced “*Strawberry Shortcake*™” to a new generation of little girls and their mothers in 2003 and retail sales of all licensed products are forecast to exceed US\$1 billion by year end 2005. The *Fox Home Video* series of direct to video releases has ranked among the top 10 best selling children’s titles during the past two years and three new titles will be released in 2006. For the first time in this franchise’s history, a computer animated theatrical feature film is scheduled for release in the second half of 2006. This new *Fox Entertainment* film will introduce all new characters and themes. A national fast food restaurant promotion will generate millions of consumer impressions in the first quarter of 2006 and will coincide with the television advertised launch of Playmates Toys’ all new toy line.

In spring 2006, Playmates Toys will launch a new, proprietary and extendable platform for collectible figures, branded “*Battle Dice*”. “*Battle Dice*” represents an entirely new way to play and collect that combines dice play with the perennial appeal of battling action figures. The introductory assortment of starter sets, expansion packs and dice launchers will be based upon the universe of superheroes and villains from the hugely successful *Marvel Heroes*[™] franchise.

New brand introductions in 2005 and further expansion of Playmates Toys’ brand portfolio in 2006 and beyond represent significant progress towards achievement of management’s strategic growth objectives.

Liquidity and Financial Resources

The toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are much higher than in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling seasons. As at 30 June 2005, trade receivables related to toys operation were HK\$164,938,000 (31 December 2004: HK\$336,433,000) and inventories were HK\$50,785,000 (31 December 2004: HK\$36,736,000).

The property investment and management business generates a relatively steady income stream throughout the period. Approximately 96% of the total gross floor area of the Group’s investment properties were leased out as at 30 June 2005. Account receivables were minimal as at the period end.

The Group’s gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2005 was 1.5% compared to 3.2% at 31 December 2004. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.8 at 30 June 2005 compared to 2.1 at 31 December 2004. As at 30 June 2005, the Group’s cash and bank balances were HK\$521,592,000 compared to HK\$195,839,000 at 31 December 2004.

Charges on Group Assets

As at 30 June 2005, the Group had banking facilities amounting to approximately HK\$390 million (31 December 2004: HK\$392 million), of which HK\$30 million (31 December 2004: HK\$51 million) were utilised.

The banking facilities of certain subsidiaries are secured by land and building and investment properties with aggregate net book value of HK\$705 million (31 December 2004: HK\$640 million) of the Group at 30 June 2005.

Contingent Liabilities

There was no material change in contingent liabilities compared to those disclosed in the most recently published annual report.

Employees

As at 30 June 2005, the Group had a total of 130 employees in Hong Kong, the Mainland China and the United States of America.

There was no material change in remuneration policies compared to those disclosed in the most recently published annual report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the Code on Corporate Governance Practices (“Code on Corporate Governance”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005 except for the deviation from A.2.1 of the Code on Corporate Governance in respect of segregation of the roles of chairman and chief executive officer.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30 June 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20 September 2005 to 21 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Abacus Share Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 16 September 2005.

On behalf of the Board
Thomas CHAN Chun Hoo
Chairman

Hong Kong, 29 August 2005

As at the date hereof, the board of directors of the Company comprises the following directors:

Executive Directors:

Mr. Thomas Chan Chun Hoo (*Chairman*), Mr. Sidney To Shu Sing

Non-executive Directors:

Mr. Charles Ip Shu Wing, Mr. Tsim Tak Lung (*Deputy Chairman*)

Independent Non-executive Directors:

Mr. Allen Lee Peng Fei, Mr. Anthony Lo Kai Yiu, Mr. David Yu Hon To

* *for identification purpose only*