



PLAYMATES HOLDINGS LIMITED

彩星集團有限公司*

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

Announcement of Annual Results Year Ended 31 December 2004

RESULTS

The Directors of Playmates Holdings Limited (the “Company”) announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 as follows:

	Note	2004 US\$'000 (Note 6)	2004 HK\$'000	2003 HK\$'000
Turnover	1	168,240	1,312,276	977,764
Cost of sales		(74,876)	(584,035)	(425,309)
Gross profit		93,364	728,241	552,455
Marketing expenses		(40,852)	(318,646)	(204,514)
Selling, distribution and administration expenses		(27,505)	(214,538)	(219,331)
Revaluation surplus/(deficit) on investment properties		6,764	52,758	(49,300)
Gain on disposal of a subsidiary		1,389	10,834	–
Operating profit		33,160	258,649	79,310
Non-operating income/(expenses)				
Interest expense and bank charges		(1,802)	(14,056)	(17,426)
Other revenues		824	6,424	3,909
Net gain on other investments		493	3,845	20,578
		32,675	254,862	86,371
Share of profits less losses of associated companies		95	744	385
Profit before taxation	2	32,770	255,606	86,756
Taxation credit/(charge)	3	612	4,772	(15,107)
Profit attributable to shareholders		33,382	260,378	71,649
Dividends	4	12,023	93,777	44,011
		US cents	HK cents	HK cents
Earnings per share	5			
Basic		2.14	16.72	5.57
Diluted		2.12	16.53	5.49

Notes :

1. Turnover and 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. Turnover during the year is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of toys	1,282,662	945,464
Rental income from investment properties	26,072	28,898
Property management income	3,542	3,402
	<u>1,312,276</u>	<u>977,764</u>

Business segments

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

	Year ended 31 December 2004			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	1,282,662	29,614	–	1,312,276
Inter-segment revenue (Note (iii))	–	829	(829)	–
	<u>1,282,662</u>	<u>30,443</u>	<u>(829)</u>	<u>1,312,276</u>
Results				
Segment results	188,582	79,685	–	268,267
Inter-segment transactions	(829)	829	–	–
	<u>187,753</u>	<u>80,514</u>	<u>–</u>	<u>268,267</u>
Unallocated costs				<u>(9,618)</u>
Operating profit				<u>258,649</u>
	Year ended 31 December 2003			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	945,464	32,300	–	977,764
Inter-segment revenue (Note (iii))	–	1,011	(1,011)	–
	<u>945,464</u>	<u>33,311</u>	<u>(1,011)</u>	<u>977,764</u>
Results				
Segment results	113,164	(25,979)	–	87,185
Inter-segment transactions	(1,011)	1,011	–	–
	<u>112,153</u>	<u>(24,968)</u>	<u>–</u>	<u>87,185</u>
Unallocated costs				<u>(7,875)</u>
Operating profit				<u>79,310</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.

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 year amounted to HK\$650,000 (2003: HK\$194,000), which has not been included in the segment results shown above.

(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.

Geographical segments

A geographical analysis of the Group's turnover and segment results is as follows:

	Turnover		Segment results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
America				
– USA	1,000,310	776,743	130,249	83,767
– Others	58,494	30,909	10,137	4,899
Europe	183,101	110,512	39,638	19,581
Asia Pacific	69,107	57,710	87,962	(21,420)
Others	1,264	1,890	281	358
	<u>1,312,276</u>	<u>977,764</u>	<u>268,267</u>	<u>87,185</u>

2. Profit before taxation

The profit before taxation is stated after charging/crediting the following:

	2004 HK\$'000	2003 HK\$'000
Charging		
Cost of inventories sold	527,141	373,034
Depreciation of fixed assets	4,526	6,569
Amortisation of goodwill	969	969
Loss on disposal of fixed assets	506	1
Outgoings in respect of investment properties	3,838	2,370
Interest on bank loans and overdrafts	2,081	9,347
Net realised loss on other investments	890	–
	<u>538,871</u>	<u>393,320</u>
Crediting		
Net realised gain on other investments	–	2,811
Net unrealised gain on other investments	4,735	17,767
Interest income	3,155	2,625
Dividend income from other investments	3,269	1,284
	<u>11,159</u>	<u>24,487</u>

3. Taxation credit/(charge)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. 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 amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation		
Hong Kong profits tax	(569)	(320)
Overseas taxation	(4,592)	(10,917)
Under provision in prior years	(6)	(55)
Provisions on pending tax cases (<i>Note</i>)	(53,082)	–
	<u>(58,249)</u>	<u>(11,292)</u>
Deferred taxation		
Origination and reversal of temporary differences	64,415	(2,204)
Deferred taxation resulting from an increase in tax rate	–	(1,032)
	<u>64,415</u>	<u>(3,236)</u>
	6,166	(14,528)
Share of taxation attributable to associated companies	(1,394)	(579)
	<u>4,772</u>	<u>(15,107)</u>

Note: These relate to the examination by the US Tax Authorities of certain tax returns of the US subsidiaries (“the Subsidiaries”).

The Internal Revenue Service (“IRS”) of the United States of America (“USA”) has completed its routine examination of the federal income tax returns of the Subsidiaries for the tax years 1996 and 1997 and has proposed adjustments to these returns in respect of the Subsidiaries’ transfer pricing policy and timing of certain deductions. The Subsidiaries are in negotiation with the IRS to settle these issues and expect a final settlement could be reached during 2005.

The California Franchise Tax Board has completed its examination of the state tax returns of the Subsidiaries for the tax years 1988 through 1990 and has proposed adjustments to the Subsidiaries’ apportionment of income to the State of California for these tax years. The Subsidiaries have filed an appeal to the proposed adjustments and believe they have meritorious defenses and intend to vigorously contest the issue.

Although the ultimate outcome of these matters cannot be predicted with certainty, the Group has established, and periodically reviews and re-evaluates, an estimated contingent tax liability to provide for the possibility of adverse outcomes in the tax proceedings. Included in tax payable of the Group at 31 December 2004 is a provision of approximately HK\$68 million for the contingent tax liability related to these tax matters. The directors of the Company believe that the provision at 31 December 2004 is a reasonable estimate of the additional tax liabilities that may be due.

4. Dividends

	2004 <i>HK\$’000</i>	2003 <i>HK\$’000</i>
Interim dividend paid of HK\$0.02 (2003: HK\$0.01) per share	31,236	13,083
Final dividend proposed of HK\$0.04 (2003: HK\$0.02) per share	62,541	30,928
	<u>93,777</u>	<u>44,011</u>

At a meeting held on 23 February 2005, the directors proposed a final dividend of HK\$0.04 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

5. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2004 <i>HK\$’000</i>	2003 <i>HK\$’000</i>
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>260,378</u>	<u>71,649</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,557,681,102	1,286,206,635
Number of potential ordinary shares issuable under share options and warrants	<u>17,559,891</u>	<u>19,367,184</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,575,240,993</u>	<u>1,305,573,819</u>

6. 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 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Group turnover and operating profit grew for the second consecutive year. Turnover for the year ended 31 December 2004 was HK\$1,312,276,000, a 34% increase over a year ago. Toy division turnover was HK\$1,282,662,000, a 36% increase over the prior year. Turnover from the Group’s property investment and management division (before inter-segment revenue elimination) was HK\$30,443,000, a 9% decrease over the prior year. Operating profit was HK\$258,649,000 compared to HK\$79,310,000 in 2003 and net profit attributable to shareholders was HK\$260,378,000 compared to HK\$71,649,000 in 2003. Basic earnings per share was HK cents 16.72 in 2004 compared to HK cents 5.57 in 2003.

Property Investments:

At the end of 2003, as Hong Kong was recovering from the impact of the outbreak of Severe Acute Respiratory Syndrome (SARS), the overall occupancy level of the property portfolio was at a low of 88%. As the economy recovered, leasing activities increased and the occupancy level improved to about 95% by the end of 2004. Income from property rental and management (before inter-segment revenue elimination) for the year amounted to HK\$30,443,000, a decrease of 9% compared to 2003, mainly due to the negative reversion of rental income in 2004. For the remaining available area, the Group aims to secure an optimal mix of tenants in order to further enhance the potential rental income. Independent valuation of the property portfolio on 31 December 2004 resulted in a valuation surplus of HK\$146,452,000, of which HK\$52,758,000 had been written back as profit for the year. The reported profit also included a gain of HK\$10,834,000 on the disposal of a residential property during the year. Management remains optimistic that the property investment portfolio will continue to contribute stable income to the Group.

Toy Business:

In 2004, the toy division's ("Playmates Toys") worldwide sales grew by 36%. Disciplined brand management and focused marketing strategies resulted in increased retail shelf space, increased sales and increased operating profits. All core brands contributed to this growth as we continued to build a balanced portfolio of proprietary and licensed entertainment properties and significantly expanded worldwide distribution. Despite continued U.S. retail consolidation and an overall decline in toy industry sales, Playmates Toys was among the fastest growing toy companies in the U.S. Retail sell through of our products exceeded management forecasts and set the stage for the continued growth of our core brand business in 2005.

Playmates Toys' U.S. sales increased 29% over 2003 to HK\$1,000,310,000. This growth was due in large part to the successful implementation of promotional partnerships with **4Kids**, **Disney**[®], **Cartoon Network**^{TM&®} and **Nickelodeon**[®], coupled with broader full year advertising campaigns that drove U.S. sales in all distribution channels.

Playmates Toys' international sales increased 67% over 2003 to HK\$282,352,000 and accounted for 22% of the division's turnover. International growth was led by the continued strength of the **Teenage Mutant Ninja Turtles**[®] and the geographic expansion of **Speedeez**[®], **Waterbabies**[®] and **Disney**[®] **Princess** distribution. **Teenage Mutant Ninja Turtles**[®] are now distributed in over 45 countries worldwide and continue to rank among the best selling action figure brands in all major markets.

TMNT:

In 2004, worldwide sales of **Teenage Mutant Ninja Turtles**[®] ("Turtles") products grew by 55%. **Turtles** finished the year among the top 3 best selling action figure brands in the U.S., Canada, United Kingdom, Australia, France, Belgium, Holland, and throughout Scandinavia. Distribution expanded into Spain in late 2004 and the brand was launched in January of this year in Italy. Early sales results in both markets are encouraging. The brand is well positioned for continued growth in 2005.

In 2004, Playmates Toys, in partnership with **Mirage Licensing** and **4Kids Entertainment**[®], further enhance the promotional momentum of the **Turtles** franchise. The Saturday morning broadcast of the Turtles television series on the **FOX Box**[®] and the addition of the Monday to Friday broadcast of the series on **Cartoon Network**^{TM&®} resulted in significantly more kids being exposed to the **Turtles** brand. A total of 117 episodes of the television series are now completed or in production. This production commitment will see new episodes premiering on both **Cartoon Network**^{TM&®} and the **FOX Box**[®] well into 2006.

The worldwide non-toy **Turtles** licensee program expanded to over 115 different partners last year in over 45 countries. The promotional and distribution efforts of these licensees have expanded the retail presence for **Turtles** while building brand awareness among the core target audience of boys between the ages of 4 and 9.

In 2005, Playmates Toys will continue to focus on the expansion of core product categories; action figures, vehicles, playsets and role play toys. Brand extensions will include entries in the radio controlled vehicle, motorized vehicle and other creative activity categories. These products will be launched in 2005 with the same comprehensive advertising and promotional support that has characterized our marketing efforts over the past two years.

Early retail point-of-sales results in 2005 for the **Turtles** brand are encouraging. Retail presence for the brand has expanded with dedicated end caps and "licensed" counter programs that have added significant incremental shelf space to the in-aisle planogram presence. National consumer directed promotions with **Subway**[®] restaurants, the **Monster Jam**[®] monster truck live tour and **Cartoon Network**^{TM&®} are planned for the pre-Easter period.

***Speedeez*[®]:**

Worldwide sales of the **Speedeez**[®] micro vehicle and playset brand grew by 8%. This growth was led by the continued strong retail performance of the brand's signature 2-in-1 playset segment in the U.S. and major international markets. International sales grew substantially as **Speedeez**[®] was launched in Italy and Spain, expanding worldwide distribution to over 25 countries.

In the U.S., the **Hummer H2 Speed City** 2-in-1 playset had another strong year supported by national cable television advertising. This playset was the recipient of a *National Parenting Publications Award* and the *National Parenting Center's Seal of Approval*[®]. Internationally, the **Mini Cooper S**[™] 2-in-1 playset replicated the U.S. **Hummer H2** success and established the brand as a strong promotional entrant in markets where competitive pressure from other micro vehicle lines required an imaginative strategy to communicate **Speedeez**[®]' unique selling proposition.

In 2005, television advertising will introduce new action packed products under the "**Speedeez**[®] **N'Sane**" branding banner. Fall season advertising and promotional campaigns will be led by the introduction of an all new 2-in-1 playset inspired by the 40th Anniversary edition of the classic **Ford Mustang GT**[®]. Ford's year-round publicity and promotional campaigns for this American classic will insure that this special edition Mustang is among the most widely recognized vehicles in the U.S. in 2005.

Speedeez[®] will launch in France, the Benelux and Germany in 2005 and will be supported in established markets with the **Mini Cooper S**[™] playset and customized international versions of the **Hummer H2** playset.

Waterbabies[®]:

In 2004, Waterbabies' 15th year, sales of this proprietary baby doll brand grew by 45%. This performance validated our belief that, with the right promotional product and strong advertising support, this brand is firmly established as an evergreen line. 2004 was the first year of a multi year marketing program that will expand U.S. shelf presence, broaden the brand's customer base and extend the **Waterbabies**[®] brand into new markets.

Promotional and advertising efforts in 2004 were led by the introduction of the "*Wiggly*" **Waterbabies**[®]. This segment highlighted the unique appeal of the world's only water filled doll while fulfilling the core target market's fascination with traditional caring and nurturing play patterns. "*Wiggly*" **Waterbabies**[®] was awarded the *National Parenting Center's Seal of Approval*[®] and a *National Parenting Publications Award*[®]. Clean retail sell through of this segment in 2004 has resulted in expanded retail listings for the entire **Waterbabies**[®] product line in 2005. In Fall 2005, the "*Wiggly*" segment will be updated with the introduction and strong advertising support for a new "*Special Delivery*" assortment of dolls that will further enhance the emotional appeal of this classic baby doll brand.

In 2005, distribution of the basic, affordably priced staple "*Sweet Cuddlers*[®]" segment has expanded with the introduction of new packaging, updated fashions and classic themes and play patterns. In 2005, the licensed **Waterbabies**[®] segment will be extended with the addition of new characters from popular **Disney**[®] and **Nickelodeon**[®] properties. Additionally, we are excited about the introduction of a soon to be announced, classic pre-school license.

The expansion of **Waterbabies**[®] international distribution remains a priority and discussions regarding the pan-European launch of the brand have commenced with a leading European doll and pre-school toy company.

Disney[®] **Princess**:

In the fourth full year of Playmates Toys' partnership with **Disney**[®] **Consumer Products**, we continue to innovate in the **Disney**[®] **Princess** large doll business through the extension of the best selling "*Little Princess*" doll assortment and the launch of the new "*Disney*[®] *Princess Babies*" segment. Playmates Toys continues to be Disney's leading large doll licensee. In 2005 Playmates Toys' plans to introduce a new scale of dolls inspired by the classic **Disney**[®] **Princesses**, further expanding our product selection into new growth segments.

"*Little Princesses*" remain among the best selling dolls in the large doll category for the third consecutive year. This segment was extended in Spring of last year with the introduction of the "*Color Change Princesses*" and during the fourth quarter with the launch of the "*Little Princess Read Along*" assortment. The "*Read Along*" introduction marked the first time that original story content was introduced to bring little girls into the world of their favorite "*Little Princess*". The new "*Sing Along Little Princesses*" were launched in January 2005 as the first dolls that bring the "*Little Princesses*" to life with their own voices. Each "*Little Princess*" sings her own song to the tune of universally well known nursery rhymes. "*Disney*[®] *Princess Babies*" were launched with a national print advertising campaign in the Fall of last year and strong year end retail sell through for this value priced assortment has set the stage for the introduction of new "*Baby Princesses*" throughout 2005.

International distribution of Playmates Toys' Princess dolls expanded to over 30 countries in 2004. Playmates Toys' partnerships with **Disney**[®] **Consumer Products**' preferred international distributors has set the stage for future growth in the international market.

In 2005, **Disney**[®] has committed over US\$150 million in cross divisional support for the Platinum Edition release of the classic "**Cinderella**" feature film on DVD. To take advantage of this unprecedented promotional commitment, Playmates Toys will introduce its new collection of large dolls inspired by the well known stars of this classic film. The "*World of Cinderella*" doll assortment is targeted at little girls between the ages of 3 and 6 and includes easy-to-dress outfits and fashion accessories that can be used with the doll and transformed to be worn by the little girl.

Disney® recently reported that worldwide retail sales of all **Disney**® **Princess** licensed products surpassed US\$1.5 billion in 2004 and forecast continued growth of this franchise in the year ahead. Playmates Toys' agreement with **Disney**® Consumer Products to extend our license partnership through 2007 reflects our shared faith in the commitment of both companies to extend and expand Playmates Toys' participation in the marketing of this world class brand.

Blinkies™:

Blinkies™ interactive characters were introduced in the U.S. and selected international markets in the Fall of last year. Sales forecasts for this product were considered incremental and were not budgeted as a material contributor to our full year results. Although **Blinkies™** was a modest success, sales forecasts did not meet management's expectations as popular demand in the interactive character segment did not materialize as anticipated. Through careful analysis of retail point of sale data, Playmates Toys managed the inventory risk and minimized the markdown exposure for this product line.

New Opportunities:

Playmates Toys 2005 expansion plans focus on selective investments in strategic growth categories to broaden our balanced portfolio of licensed entertainment and proprietary brands. We will launch proprietary, interactive large doll and feature plush products, strong character led licensed properties and an innovative new concept in the fashion doll category.

Proprietary product lines include new additions to Playmates Toys' hugely successful **Amazing™** brand as well as the re-launch of **Kinder Garden Babies™** – one of the best selling promotional doll lines of the '90s.

Amazing Amanda™ is the next step in the evolution of Playmates Toys' award winning doll brand. The **Amazing™** brand generated in excess of US\$250 million in retail sales between 1998 and 2001. **Amazing Amanda™** will take ultra realistic, interactive doll play to new heights. Patented speaker independent voice recognition technology and endless play possibilities make **Amanda** the most technologically sophisticated and engaging doll in the category. **Amazing Puppies™** will also join the **Amazing™** brand stable in the feature plush category. For the first time ever, **Amazing Puppies™** will recreate the real world fun of puppy play when they give little girls and boys a real, wet "cold nose kiss". Both products will be launched with national public relations, promotional and television advertising campaigns in the Fall season.

Licensed property introductions in 2005 include **Nickelodeon**®'s **everGirl**®, **Breakthrough**® **Entertainment**'s production of the **Cartoon Network™&©** series **Atomic Betty**® and **Universal Studios**® production of the Peter Jackson feature film **King Kong**.

Playmates Toys will launch the **everGirl**® fashion doll and accessory line to coincide with Nickelodeon®'s national promotional and marketing efforts in the Fall. Playmates Toys' **everGirl**® dolls will introduce a unique, customizable twist to the fashion doll category that will empower girls to personalize dolls that most closely reflect their interests, aspirations and dreams.

The **Atomic Betty**® television series premiered on **Cartoon Network™&©** in the fourth quarter of last year and ratings continue to grow for this fast-paced, action oriented girls' property. Later this year, **Cartoon Network™&©** intends to compliment the current weekend scheduling of the series with Monday through Friday broadcasts. Playmates Toys has recently commenced shipments of selected **Atomic Betty**® products to capitalize on the growing **Cartoon Network™&©** audience.

As master toy licensee, Playmates Toys will launch its **King Kong** line of action figures, accessories, playsets and role play toys to coincide with the worldwide fourth quarter 2005 release of the **Universal Studios**® production of **King Kong**, directed by Academy Award winner, **Peter Jackson**. WETA Digital will bring Kong to life on screen as never before. Their vision has inspired Playmates Toys to create a wide range of special feature products for today's kids based upon the most famous and heroic monster in movie history.

In 2004, as part of our category expansion and growth strategy, plans were implemented to compliment existing resources in all key functional areas. These selective investments will enable us to maximize core brand growth potential and take full advantage of new business opportunities while maintaining our lean operating structure. These actions will insure that we continue to grow the business and enhance shareholder value in the years ahead.

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 season. As at 31 December 2004, trade receivables related to toys operation were HK\$336,433,000 (2003: HK\$267,182,000) and inventories were at a seasonal low level of HK\$36,736,000 or 2.9% of turnover (2003: HK\$29,108,000 or 3.1% of turnover).

The property investment and management business generates a relatively steady income stream throughout the year. Approximately 95% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2004. Account receivables were minimal as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 31 December 2004 was 3.2% compared to 21.9% at 31 December 2003. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.1 at 31 December 2004 compared to 2.1 at 31 December 2003. As at 31 December 2004, the Group's cash and bank balances were HK\$195,839,000 compared to HK\$471,457,000 at 31 December 2003.

Secured and unsecured bank loan repayable within one year are HK\$3 million and HK\$19 million respectively.

Charges on group assets

As at 31 December 2004, the Group has banking facilities amounting to approximately HK\$392 million (2003: HK\$511 million), of which HK\$51 million (2003: HK\$333 million) were utilised. 35% (2003: 80%) of the total banking facilities are secured by pledged assets with a total value of HK\$640 million (2003: HK\$703 million).

Contingent Liabilities

The Company has executed guarantees amounting to approximately HK\$399 million (2003: HK\$344 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2004, HK\$51 million (2003: HK\$195 million) of such banking facilities were utilised.

Employees

As at 31 December 2004, the Group had a total of 121 employees in Hong Kong, the Mainland China and the United States of America. This compares to 108 employees as at 31 December 2003.

There was no material change in remuneration policies compared to prior year.

PROPOSED BONUS WARRANTS

In order to enhance the return on investment for Shareholders as well as the equity base of the Company, and improve the liquidity position of the Shares in the market, the Directors have proposed an issue of Bonus Warrants, the terms of which are summarised as follows:

Basis of Issue of Bonus Warrants

Bonus Warrants will be issued on the basis of one Bonus Warrant for every 5 Shares held by Shareholders whose names appear on the register of members of the Company as at the Record Date, but excluding Overseas Shareholders whose addresses on the register of members of the Company are outside Hong Kong as at the Record Date.

Subscription Price

The Bonus Warrants will entitle holders to subscribe for Shares at the initial subscription price of HK\$2.03 per Share in cash, subject to adjustments (such adjustment events include alteration of the nominal amount of the Shares by reason of consolidation or sub-division, capitalisation issue and capital distribution). The initial subscription price of HK\$2.03 per Share represents a premium of approximately 10 per cent. to the closing price per Share of HK\$1.85 on 23 February, 2005 and represents a premium of approximately 10 per cent. to the average closing price per Share of approximately HK\$1.84 for the 10 trading days ended on 23 February, 2005.

Subscription Period

The Bonus Warrants may be exercised at any time between the date when dealings in the Bonus Warrants on the Stock Exchange commence, which is expected to be on 24 May, 2005, and expiring 12 months thereafter, which is expected to be 23 May, 2006, both days inclusive.

Number of Bonus Warrants to be issued

Full exercise of the Bonus Warrants would result in the issue of a total of 312,927,133 new Shares (based on the 1,564,635,668 Shares in issue as at the date of this Announcement and on the assumptions that (i) no outstanding Warrants 2005 will be exercised prior to the Record Date; (ii) no outstanding share options will be exercised prior to the Record Date; and (iii) no further Shares will be repurchased prior to the Record Date), representing 20% of the issued share capital of the Company as at 23 February, 2005 and approximately 16.67% of the issued share capital of the Company as at 23 February, 2005 as enlarged by the allotment and issue of new Shares upon full exercise of the Bonus Warrants. If all outstanding Warrants 2005 are fully exercised prior to the Record Date and all outstanding share options eligible to be exercised prior to the Record Date are fully exercised, full exercise of the Bonus Warrants would result in the issue of a total of 383,196,997 new Shares, representing 20% of the issued share capital of the Company as at the Record Date as enlarged by the allotment and issue of such new Shares upon full exercise of the Warrants 2005 and the outstanding share options which are eligible to be exercised prior to the Record Date, and approximately 16.67% of the issued share capital of the Company, as enlarged by the allotment and issue of such new Shares upon full exercise of the Warrants 2005, the outstanding share options which are eligible to be exercised prior to the Record Date, and the Bonus Warrants.

Reasons for the Proposed Issue of Bonus Warrants

The Directors believe that the proposed issue of Bonus Warrants will enhance the return on investment for Shareholders as well as the equity base of the Company, and improve the liquidity position of its Shares in the market.

The issue of Bonus Warrants provides an opportunity for the Group to raise funds to strengthen its financial position and capability to develop and expand its business. The proceeds, if all of the Bonus Warrants proposed to be issued are exercised in full, will be approximately HK\$635,242,080, before expenses, which will enhance the working capital and the net asset position of the Company. The Directors believe that the proposed issue of Bonus Warrants is beneficial to the Company and the Shareholders as a whole.

However, as the amount that may be raised from the exercise of the Bonus Warrants proposed to be issued is uncertain, the Directors have not earmarked any amount for any specific purposes.

Conditions

The issue of the Bonus Warrants is conditional upon:

1. the passing by Shareholders at the Annual General Meeting of an ordinary resolution to approve the creation and issue of the Bonus Warrants and the issue of any new Shares which may fall to be issued upon exercise of the subscription rights attaching to the Bonus Warrants; and
2. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Bonus Warrants, and the new Shares which may fall to be issued upon exercise of the subscription rights attaching to the Bonus Warrants.

Record Date and Closure of Register

The Record Date for ascertaining the entitlement to the Bonus Warrants shall be Thursday, 28 April, 2005. The register of members of the Company will be closed from Friday, 22 April, 2005 to Thursday, 28 April, 2005 (both days inclusive).

Shareholders are reminded that in order to qualify for the Bonus Warrants, they must ensure that all transfers accompanied by the relevant share certificates are lodged with the Company's branch registrars in Hong Kong, Abacus Share Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00p.m. on Thursday, 21 April, 2005.

Listing and Board Lot

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Bonus Warrants and any Shares which may fall to be issued upon exercise of the subscription rights attaching to the Bonus Warrants. The board lot for trading in Bonus Warrants is proposed to be 40,000 units. The Bonus Warrants are not proposed to be listed on any other stock exchange other than the Stock Exchange.

Subject to satisfaction of the conditions referred to above and subject to compliance with the stock admission requirements of Hongkong Clearing, the Bonus Warrants and the new Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Bonus Warrants on the Stock Exchange or such other date(s) as determined by Hongkong Clearing.

Warrants 2005 (Stock Code 1084)

As at the date of this Announcement, according to the register of holders of Warrants 2005, there are 310,926,418 outstanding Warrants 2005 the subscription rights of which are eligible to be exercised on or before 23 May, 2005 at the exercise price of HK\$1.42 per Share (the net asset value per Share by reference to the audited consolidated results of the Group for the year ended 31 December, 2004 is HK\$0.76). Holders of Warrants 2005 are reminded that if they want to be entitled to the Bonus Warrants, they should exercise the subscription rights attaching to their Warrants 2005 in accordance with the terms of the Warrant Instrument 2005 on or before 4:00 p.m. on the Record Date.

Overseas Shareholders

The documents to be issued in relation to the Bonus Warrants will not be registered under any securities legislation outside Hong Kong and Bermuda. Subject to compliance with the relevant requirements (if any) of the Listing Rules, overseas Shareholders will not be entitled to the proposed Bonus Warrants whatsoever, and no Bonus Warrants will be issued to any Overseas Shareholders as the offering would or might, in the absence of compliance with relevant registration or other special formalities in other territories, be unlawful or impracticable.

Bonus Warrants which would otherwise have been issued to the Overseas Shareholders will be sold in the market as soon as practicable after dealings in the Bonus Warrants commence if a premium, net of expenses, can be obtained. Any net proceeds of sale, after deduction of expenses, will be distributed in Hong Kong dollars to the Overseas Shareholders at their own risk pro rata to their respective entitlements except that any amount of less than HK\$100 will be retained for the benefit of the Company.

Fractional Entitlements

Fractional entitlements to the Bonus Warrants will not be issued to Shareholders but will be aggregated and sold for the benefit of the Company. The net proceeds of sale will be retained for the benefit of the Company.

Status of Shares to be issued upon exercise of the Bonus Warrants

Shares which are allotted and issued on the exercise of the subscription rights attaching to the Bonus Warrants will rank pari passu in all respects with the then Shares in issue on the date of such allotment and issue.

Certificates for the Bonus Warrants

It is expected that certificates for the Bonus Warrants will be posted on or before 20 May, 2005 at the risk of the persons entitled thereto to their respective addresses shown on the register of members of the Company.

Subject to the fulfilment of the conditions of the Bonus Warrants as referred to in the paragraph headed "Conditions" above, dealings in the Bonus Warrants on the Stock Exchange are expected to commence on Tuesday, 24 May, 2005.

General

The Circular containing details of the proposed issue of the Bonus Warrants together with a notice convening the Annual General Meeting at which resolutions will be proposed to approve the issue of the Bonus Warrants and the issue of Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants, the general mandates to the Directors to issue and to repurchase Shares of the Company and the re-election of directors will be despatched to Shareholders as soon as practicable.

Expected Timetable for issue of the Bonus Warrants

16 March, 2005	Wednesday	Expected day for the despatch of the Circular
19 April, 2005, 4:00 p.m.	Tuesday	Latest time for dealing in Shares cum entitlements to the Bonus Warrant issue
20 April, 2005	Wednesday	First day of dealings in Shares ex entitlements to the Bonus Warrant issue
21 April, 2005, 4:00 p.m.	Thursday	Latest time for lodging share transfers to qualify for the Bonus Warrant issue
From 22 April, 2005 To 28 April, 2005	Friday Thursday	Register of members closed (both days inclusive)
26 April, 2005, 9:00 a.m.	Tuesday	Latest time for lodging proxy forms for the Annual General Meeting
28 April, 2005	Thursday	Record date for determination of entitlements to the Bonus Warrant issue
28 April, 2005, 9:00 a.m.	Thursday	Annual General Meeting
28 April, 2005, 4:00 p.m.	Thursday	Latest time recommended for lodging exercise documents by the holders of Warrants 2005 to qualify for the Bonus Warrants
20 May, 2005	Friday	Despatch of Bonus Warrant certificates
24 May, 2005, 9:30 a.m.	Tuesday	First day of dealings in Bonus Warrants

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company to be held at Level 3, The Harbour Room, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on 28 April, 2005 at 9:00 a.m., notice of which will be despatched to Shareholders
"Bonus Warrant(s)"	not less than 312,927,133 warrants proposed to be issued by the Company in registered form in units of subscription rights entitling the holder(s) thereof to subscribe in cash from the date on which trading in the same commences on the Stock Exchange and expiring 12 months thereafter, both days inclusive, up to an aggregate amount of approximately HK\$635,242,080 for new Shares at an initial subscription price of HK\$2.03 per Share
"Circular"	the circular to be issued by the Company to give details of the proposal of the issue of the Bonus Warrants, the general mandates to the Directors to issue and to repurchase Shares of the Company and the re-election of directors

“Company”	Playmates Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Overseas Shareholder(s)”	Shareholder(s) whose address(es), as shown on the register of members of the Company at the close of business on the Record Date, are outside Hong Kong
“Record Date”	the record date for the determination of entitlements to the proposed issue of the Bonus Warrants, which is currently proposed to be on 28 April, 2005
“Share(s)”	share(s) of HK\$0.10 each in the authorised share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrant Instrument 2005”	the deed poll dated 20 May, 2004 constituting the Warrants 2005
“Warrants 2005”	311,831,475 warrants issued by the Company in registered form in units of subscription rights entitling the holder(s) thereof to subscribe in cash from 24 May, 2004 and expiry 1 year thereafter, both days inclusive, up to an aggregate amount of approximately HK\$442,800,694.50 for new Shares at the exercise price of HK\$1.42 per Share in respect of each warrant

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 April 2005 to 28 April 2005, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the final 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 21 April 2005.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange’s website in due course.

On behalf of the Board
Thomas CHAN Chun Hoo
Chairman

Hong Kong, 23 February 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

Independent Non-executive Directors: Mr. Allen Lee Peng Fei, Mr. Anthony Lo Kai Yiu, Mr. David Yu Hon To

Non-executive Directors: Mr. Tsim Tak Lung (Deputy Chairman), Mr. Charles Ip Shu Wing

* *For identification purpose only*