



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 2005

RESULTS

The directors of Playmates Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005 as follows:

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 US\$'000 (Note 8)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	167,983	1,310,264	1,312,276
Cost of sales		(81,701)	(637,264)	(584,035)
Gross profit		86,282	673,000	728,241
Marketing expenses		(39,208)	(305,822)	(318,646)
Selling, distribution and administration expenses		(31,767)	(247,783)	(221,957)
Revaluation surplus on investment properties		9,602	74,896	52,758
Restructuring expenses		(2,805)	(21,879)	–
Gain on disposal of a subsidiary		–	–	10,834
Operating profit		22,104	172,412	251,230
Non-operating income/(expenses)				
Interest expense and bank charges		(971)	(7,576)	(14,056)
Other revenues		2,273	17,732	6,424
Net gain on investments		1,855	14,466	3,845
		25,261	197,034	247,443
Share of profits less losses of associated companies		230	1,797	(650)
Profit before taxation	4	25,491	198,831	246,793
Taxation (charge)/credit	5	(364)	(2,841)	8,463
Profit attributable to shareholders		25,127	195,990	255,256
Dividends	6	11,973	93,393	93,777
Earnings per share	7			
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Basic		1.41	11.00	16.39
Diluted		1.39	10.82	16.20

Consolidated Balance Sheet

As at 31 December 2005

	2005 US\$'000 (Note 8)	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current assets			
Fixed assets			
– Investment properties	89,064	694,700	662,000
– Other property, plant and equipment	5,319	41,489	8,031
– Prepaid premium on leasehold land held for own use under an operating lease	6,312	49,234	–
	<u>100,695</u>	<u>785,423</u>	670,031
Goodwill	766	5,976	5,976
Investment in associated companies	4,658	36,328	35,531
Held-to-maturity investments	4,342	33,869	–
Investments	–	–	35,319
Deferred tax assets	8,940	69,732	68,391
	<u>119,401</u>	<u>931,328</u>	815,248
Current assets			
Inventories	7,408	57,786	36,736
Trade receivables	47,647	371,646	336,755
Deposit for purchase of investment property	2,799	21,835	–
Other receivables, deposits and prepayments	6,504	50,729	33,092
Taxation recoverable	6	43	1,168
Financial assets at fair value through profit or loss	29,019	226,347	–
Investments	–	–	186,701
Cash and bank balances	56,917	443,954	195,839
	<u>150,300</u>	<u>1,172,340</u>	790,291
Current liabilities			
Bank loans	2,559	19,957	22,464
Trade payables	11,910	92,899	61,901
Other payables and accrued charges	19,942	155,546	154,529
Provisions	6,638	51,775	64,809
Taxation payable	7,284	56,821	69,098
	<u>48,333</u>	<u>376,998</u>	372,801
Net current assets	<u>101,967</u>	<u>795,342</u>	417,490
Total assets less current liabilities	<u>221,368</u>	<u>1,726,670</u>	1,232,738
Non-current liabilities			
Bank loans	168	1,315	28,867
Deferred tax liabilities	5,803	45,262	32,173
	<u>5,971</u>	<u>46,577</u>	61,040
Net assets	<u>215,397</u>	<u>1,680,093</u>	<u>1,171,698</u>
Financed by:			
Share capital	23,944	186,766	156,351
Reserves	185,466	1,446,635	952,806
Proposed dividend	5,987	46,692	62,541
	<u>215,397</u>	<u>1,680,093</u>	<u>1,171,698</u>
Shareholders' funds	<u>215,397</u>	<u>1,680,093</u>	<u>1,171,698</u>

Notes:

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting policies generally accepted in Hong Kong. The consolidated financial statements have been prepared under the historical cost convention, except that investment properties and financial assets at fair value through profit or loss are stated at fair value.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is detailed in note 1(a) to the annual report. The effect of adopting these new policies are summarised below.

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

	HKAS		Effects of adopting		HKFRS 3	HKAS - Int 21	Total
	16/17	32/39	HKAS 40	HKFRS 2			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2005							
Increase/(decrease) in assets							
Goodwill	-	-	-	-	969	-	969
Other property, plant and equipment	25,945	-	-	-	-	-	25,945
Prepaid premium on leasehold land held for own use under an operating lease	49,234	-	-	-	-	-	49,234
Investment properties	(76,500)	-	74,896	-	-	-	(1,604)
Financial assets at fair value through profit or loss	-	226,347	-	-	-	-	226,347
Investments	-	(226,347)	-	-	-	-	(226,347)
Deferred tax assets	-	-	-	5,068	-	-	5,068
Increase in liabilities							
Deferred tax liabilities	-	-	-	-	-	29,567	29,567
Increase/(decrease) in reserves							
Share premium	-	-	-	17,366	-	-	17,366
Investment properties revaluation reserve	-	-	(77,297)	-	-	(16,397)	(93,694)
Retained profits	(1,321)	-	152,193	(12,298)	969	(13,170)	126,373
At 31 December 2004 (restated)							
Increase in assets							
Deferred tax assets	-	-	-	2,443	-	-	2,443
Increase in liabilities							
Deferred tax liabilities	-	-	-	-	-	16,397	16,397
Increase/(decrease) in reserves							
Share premium	-	-	-	7,974	-	-	7,974
Investment properties revaluation reserve	-	-	(77,297)	-	-	(16,397)	(93,694)
Retained profits	-	-	77,297	(5,531)	-	-	71,766

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

	HKAS		Effects of adopting		HKAS – Int 21 HK\$'000	Total HK\$'000
	16/17 HK\$'000	40 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3 HK\$'000		
For the year ended 31 December 2005						
Increase/(decrease) in profit attributable to shareholders						
(Increase)/decrease in administration expenses	(1,321)	–	(9,392)	969	–	(9,744)
Increase in revaluation surplus on investment properties	–	74,896	–	–	–	74,896
(Increase)/decrease in tax expense	–	–	2,625	–	(13,170)	(10,545)
Increase/(decrease) in profit attributable to shareholders	(1,321)	74,896	(6,767)	969	(13,170)	54,607
Increase/(decrease) in basic earnings per share (HK cents)	(0.07)	4.20	(0.38)	0.05	(0.74)	3.06
Increase/(decrease) in diluted earnings per share (HK cents)	(0.07)	4.14	(0.37)	0.05	(0.73)	3.02
For the year ended 31 December 2004 (restated)						
Increase/(decrease) in profit attributable to shareholders						
Increase in administration expenses	–	–	(7,419)	–	–	(7,419)
Decrease in tax expense	–	–	2,297	–	–	2,297
Decrease in profit attributable to shareholders	–	–	(5,122)	–	–	(5,122)
Decrease in basic earnings per share (HK cents)	–	–	(0.33)	–	–	(0.33)
Decrease in diluted earnings per share (HK cents)	–	–	(0.33)	–	–	(0.33)

3 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:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of toys	1,277,607	1,282,662
Rental income from investment properties	29,077	26,072
Property management income	3,580	3,542
	1,310,264	1,312,276

Business segments

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

	Year ended 31 December 2005			
	Toys <i>HK\$'000</i>	Property investment and management <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Revenue				
Turnover	1,277,607	32,657	–	1,310,264
Inter-segment revenue (<i>Note (iii)</i>)	–	574	(574)	–
	<u>1,277,607</u>	<u>33,231</u>	<u>(574)</u>	<u>1,310,264</u>
Results				
Segment results	97,017	94,293	–	191,310
Inter-segment transactions	(574)	574	–	–
	<u>96,443</u>	<u>94,867</u>	<u>–</u>	<u>191,310</u>
Unallocated costs				<u>(18,898)</u>
Operating profit				<u>172,412</u>

	Year ended 31 December 2004			
	Toys <i>HK\$'000</i> (restated)	Property investment and management <i>HK\$'000</i> (restated)	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i> (restated)
Revenue				
Turnover	1,282,662	29,614	–	1,312,276
Inter-segment revenue (<i>Note (iii)</i>)	–	829	(829)	–
	<u>1,282,662</u>	<u>30,443</u>	<u>(829)</u>	<u>1,312,276</u>
Results				
Segment results	182,150	79,142	–	261,292
Inter-segment transactions	(829)	829	–	–
	<u>181,321</u>	<u>79,971</u>	<u>–</u>	<u>261,292</u>
Unallocated costs				<u>(10,062)</u>
Operating profit				<u>251,230</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.

Geographical segments

The geographical analysis of the Group's turnover is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Americas		
– USA	948,833	1,000,310
– Others	52,766	58,494
Europe	236,402	183,101
Asia Pacific	69,980	69,107
Others	2,283	1,264
	<u>1,310,264</u>	<u>1,312,276</u>

4 Profit before taxation

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Cost of inventories sold	560,095	527,141
Product development costs	21,847	15,728
Direct operating expenses arising from investment properties that generate rental income	1,409	1,734
Direct operating expenses arising from investment properties that did not generate rental income	1,233	2,104
Provision for customer concession	14,540	26,248
Unutilised provision for customer concession	(19,811)	(15,378)
Depreciation of fixed assets	4,979	4,526
Staff costs, including directors' remuneration	95,891	98,539
Operating leases expense on office and warehouse facilities	12,938	10,485
Loss on disposal of fixed assets	171	506
Share of associated companies' taxation	(275)	1,394
Amortisation of goodwill (included in selling, distribution and administration expenses)	–	969
Interest on bank loans and overdrafts	1,347	2,081
Interest income	(14,938)	(3,155)
Dividend income from investments	(2,794)	(3,269)
Net realised loss on investments	944	890
Net unrealised gain on investments	<u>(15,410)</u>	<u>(4,735)</u>

5 Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 (charged)/credited to the consolidated income statement represents:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Current taxation		
Hong Kong profits tax	(2,070)	(569)
Overseas taxation	15,353	(4,592)
Under provision in prior years	(5)	(6)
Provisions for pending tax cases (<i>Note</i>)	(4,371)	(53,082)
	<u>8,907</u>	<u>(58,249)</u>
Deferred taxation		
Origination and reversal of temporary differences	(11,748)	66,712
	<u>(2,841)</u>	<u>8,463</u>

Note: In 2005, the Group has reached a settlement with the Internal Revenue Service regarding the examination of the federal income tax returns of the US subsidiaries for the tax years 1996 and 1997. Under the terms of the settlement, the US subsidiaries will pay the net sum of approximately HK\$52 million, including accrued interest, in 2006.

The Group has favorably settled part of the proposed adjustments raised by the California Franchise Tax Board and has filed an appeal to reverse the remaining proposed adjustments to certain tax returns of the US subsidiaries. While the outcome cannot be certain, 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.

The directors of the Company believe that the provision at 31 December 2005 is a reasonable estimate of the tax liabilities that are due or may be due.

6 Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid of HK\$0.025 (2004: HK\$0.02) per share	46,701	31,236
Final dividend proposed of HK\$0.025 (2004: HK\$0.04) per share	46,692	62,541
	<u>93,393</u>	<u>93,777</u>

At a meeting held on 2 March 2006, the directors proposed a final dividend of HK\$0.025 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 2006.

7 Earnings per share

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>195,990</u>	<u>255,256</u>

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,781,283,000	1,557,681,000
Number of potential ordinary shares issuable under share options and warrants	29,480,000	17,560,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,810,763,000</u>	<u>1,575,241,000</u>

8 US dollars 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 2005.

9 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies.

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review and Prospects**

Group turnover for the year ended 31 December 2005 was HK\$1,310 million, compared to HK\$1,312 million a year ago. Toy division turnover was HK\$1,277 million, compared to HK\$1,283 million in 2004. Turnover from the Group's property investment and management division was HK\$33 million, a 10% increase over the prior year. Operating profit was HK\$172 million compared to HK\$251 million (as restated) in 2004 and net profit attributable to shareholders was HK\$196 million compared to HK\$255 million (as restated) in 2004. Basic earnings per share was HK cents 11.00 in 2005 compared to HK cents 16.39 (as restated) in 2004.

Property Investments:

Rental and property management income from the Group's investment properties increased by approximately 10% from last year. At the end of the year, the overall occupancy rate was 98%, a further improvement from 95% of last year.

Rental income increased during the year as a result of overall rent increases in both new leases and renewals. A significant part of the increase in rental income was attributable to improved contribution from the Group's principal investment property at 100 Canton Road. The first phase of a major enhancement program has been completed on the property. During the second half of 2005, a number of upscale specialty restaurants have opened for business on the higher floors of the building which were previously occupied by office tenants. The Group has initiated and supported the transformation through equity participations in some of those restaurants. The entire enhancement program is expected to complete during 2006 when the property will be transformed into a landmark building to take advantage of its strategic location in one of Hong Kong's most prominent districts for retail, dining and entertainment.

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\$75 million which was reported in the consolidated profit and loss account of the Group for the year.

In November 2005, the Group entered into an agreement to acquire a major portion of an apartment building located in an up-market residential neighborhood in Hong Kong. The acquisition, completed in January 2006, represented a significant addition to the portfolio of investment properties of the Group and is consistent with its strategy of investing selectively in properties with good potential of capital value appreciation. The acquired apartment units will be refurbished and upgraded as they become vacant to further enhance their value and generate higher rental income.

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

Toy Business:

In 2005, the toy division's worldwide sales were flat against the prior year. International sales continued to grow as distribution of continuing and new brands expanded and as our leading international partners intensified their marketing and promotional efforts in support of these brands. A challenging U.S. retail environment, consumer spending uncertainties and the attendant pressures on retail inventories all contributed to a decline in Playmates Toys' U.S. sales in the past year. Overall profitability decreased as a result of lower U.S. toy sales, higher costs and increased investments in the development and marketing of new toy brands.

Playmates Toys' introduction of several new brands and entry into targeted growth categories in 2005 represented the first stage in the company's long term diversification strategy. This product portfolio expansion successfully established new brands in the large doll and special feature plush categories.

Major contributors to 2005 revenue included continuing brands, **Teenage Mutant Ninja Turtles**[®] and **Disney**[®] **Princesses** and new introductions led by **Amazing Amanda**[™], among the year's best selling large dolls in the U.S., as well as a line of action figures and accessories inspired by **Universal Studio's King Kong**[®]. The company's fourth consecutive year of international sales growth was fueled by the continued strength of the **Turtles** brand in several major markets, the extensive distribution of Playmates Toys' **King Kong**[®] products, strong year over year growth in the **Disney**[®] **Princess** business and the introduction of **Amazing Amanda**[™] in the U.K. and Australia.

Not all of the new brands introduced during 2005 performed up to our expectations and those under-performing brands have been discontinued.

In 2006, Playmates Toys will capitalize on the growth momentum of product lines launched in 2005 and will introduce several new brands in core competency and targeted growth categories.

TMNT

During 2005, all established action figure brands were negatively impacted by the launch of a strong slate of competitive product lines based upon major feature film franchises that dominated the category. Despite the sales decline attributable to this competitive challenge, **Teenage Mutant Ninja Turtles**[®] continued to rank among the top 5 best selling boys' properties in the U.S., Spain, Scandinavia, Australia and Canada and, following its launch in September, finished the year as one of the action figure category leaders in Germany.

This brand will be reenergized in the year ahead with the introduction of new television entertainment, new themes in key product segments and extensive, television advertising and promotional campaigns. During the first half of 2006, marketing and promotional efforts will be led by the introduction of an all new theme called **Paleo Patrol**, inspired by little boy's tireless fascination with the **Turtles** and the perennial play appeal of dinosaurs.

In September 2006, an all new animated television series entitled **Fast Forward** will transport the **Turtles** into the future. This new programming will feature a futuristic look, new stories and most importantly: new characters, vehicles and gadgets that will be translated into a broad range of new products packaged and promoted under the **Fast Forward** banner.

Another milestone in the continuing expansion of the **Turtles** entertainment franchise will be achieved in spring 2007. For the first time in the property's history, a fully computer generated animated feature film will premier as a major, worldwide theatrical release. **Warner Bros. Studios**[™] in partnership with **The Weinstein Company**[®] and **Imagi Films**[®] will launch the film with a wide array of promotional partners and extensive pre-release advertising and promotion.

With new television animation, a widely publicized feature film and the products that these entertainment drivers will inspire, the **Turtles** franchise will remain an important part of Playmates Toys' boys business.

King Kong[®]

Universal Studios' widely anticipated feature film, **King Kong**[®], premiered worldwide in December of last year. To insure that the product line was well represented at retail, Playmates Toys developed a variety of merchandising programs that maximized distribution as sales momentum built through December. This momentum was sustained into this spring and will be capitalized upon to extend the brand's distribution through the planned Universal Home Video DVD promotional campaigns in spring and fall of 2006.

Disney[®] *Princess*

In 2005, our fifth year as **Disney**'s leading large doll licensee, Playmates Toys extended this girls entertainment and lifestyle franchise with the introduction of a new **World of Cinderella** product segment driven by the Platinum Edition DVD release of the classic **Cinderella** feature film. The cross divisional promotional support of **The Walt Disney Company**[®] for this first ever DVD release of the most popular Princess feature film created a new branding platform and product segment that will be further broadened with the re-release of **The Little Mermaid**[®] special edition DVD in 2006.

Disney's continued investment in the consumer marketing of the **Disney® Princess** franchise has enabled Playmates Toys to expand our product offering in several new segments in 2006. The **Little Princess** collection will grow with the introduction of the **Ballerina Princesses** and a new **Petal Princess** theme in the core doll assortment. The new soft body **Soft and Sweet Little Princesses** and the new **Hug N' Glow Baby Princess** assortments have strengthened the entry price point of the brand.

International distribution of Playmates Toys' **Disney® Princess** line grew significantly in 2005 as the **Little Princess** segment was expanded and the **Baby Princess** segment was introduced in several European and Latin American markets.

Disney® Princess is a staple brand within Playmates Toys' girls' toy portfolio. In 2006, new products and continued consumer promotion from several **Disney®** divisions will further expand the retail presence of the brand.

The Amazing Brand

The launch of the **Amazing Amanda™** interactive doll and the **Amazing Pets™** special feature plush segment in 2005 established Playmates Toys as the innovation leader in these two important categories. The success of our Amazing branded products has created a "must have" awareness among consumers that will be capitalized upon in the year ahead. The brand will be extended in 2006 with the introduction of **Amazing Allysen™**, the continued U.S. promotion of **Amanda**, the launch of a fully localized **Amanda** in seven international markets and the addition of **Love N' Licks™** puppy to the **Amazing Pets™** segment.

Amazing Amanda™ was among the best selling large dolls in the U.S., U.K. and Australia last year and was nominated for **Girls Toy of the Year** by the Toy Industry Association in the U.S. The magical interactive experience between a little girl and her **Amazing Amanda™** was achieved through the use of voice response technology and RFID accessory recognition. This same technology will be enhanced to create a "best friend" play experience with **Amazing Allysen™**. Programmed as a modern nine year old girl, **Allysen** features a far wider range of content and play experiences for older girls. **Allysen** expands the **Amazing** brand's age appeal and is a complimentary addition to the nurturing and caring play pattern of **Amazing Amanda™**.

In 2005, as part of our longer term product diversification strategy, Playmates Toys identified targeted growth categories in which we could capitalize on the company's product development and marketing competencies. Special feature plush was one of these categories. **Cold Nose Puppy™**, the first product launched under the **Amazing Pets™** brand banner, was the first step towards building a sustainable feature plush segment that will be expanded in 2006 with the fall launch of the new **Love N Licks™** puppy. As **Cold Nose Puppy™** recreated the magic of a cold, wet puppy kiss, **Love N Licks™** puppies will respond to children's touch and eventually reward them with a loving puppy lick.

Waterbabies®

The proprietary **Waterbabies®** brand enters its sixteenth year in 2006. The value priced **Sweet Cuddlers®** assortment and the licensed segment were the focus of Playmates Toys' marketing efforts for this staple brand during the past year. Updated outfits and accessories and a new packaging look were introduced at the entry price point and characters from the evergreen pre-school franchise **Sesame Street®** were added to the licensed segment.

New Products

In 2006 Playmates Toys will continue to pursue the product portfolio expansion and diversification strategy as we launch new proprietary businesses, add to our license portfolio and expand the breadth of our offerings in established brands.

The launch of **Battle Dice™** marks Playmates Toys' entry into the growing collectible figure gaming category. **Battle Dice™** combines the familiar dice play pattern with the perennial appeal of trading and doing battle with collectible figures. Patented "pop dice" open to reveal highly detailed miniature figures inspired by the universe of super hero characters from the **Marvel Heroes®** and **DC Comics™** franchises.

Playmates Toys' refreshed and updated **Strawberry Shortcake™** products hit U.S. store shelves in January 2006 and early retail response has been encouraging. **American Greetings®** and **DiC Entertainment®** worked closely with Playmates Toys to fulfill our vision for a more contemporary interpretation of this classic license. This entirely new line of dolls, playsets and role play products remains true to the property's wholesome roots while offering today's girls a reason to expand their **Strawberry Shortcake™** collection. 2006 is the busiest entertainment year in this brand's history. **FOX Home Entertainment** will release three new titles in their

bestselling direct-to-video series, **20th Century FOX** will premier the first ever animated feature length **Strawberry Shortcake™** film in the third quarter, a nationwide promotion in **McDonald's®** restaurants is currently running in the U.S. and an all new series of books from **Penguin Publishing®** will be introduced throughout the year. This exceptional entertainment presence in all media categories combined with Playmates Toys' full year promotional program has successfully revitalized this classic toy brand.

Another addition to Playmates Toys' girls' toy portfolio is **Disney Fairies®**. Playmates Toys has been appointed as the master toy licensee for this new entertainment and lifestyle franchise that is based upon the world's most famous fairy: **Tinkerbell®**. **Disney® Publishing** introduced **Tinkerbell®**, her friends and their world in the 2005 New York Times Bestseller **Fairy Dust and the Quest for the Egg** by award winning author Gail Carson Levine and will release several titles in a young reader chapter book series throughout 2006 – the first of which has already appeared on the New York Times Children's Bestseller list. Playmates Toys' line of beautifully detailed small dolls and playsets will launch in fall 2006 and will include ten minutes of original animation produced by **Disney®**. Additionally, and as part of our strategy to expand our portfolio into targeted growth categories, Playmates Toys has been granted rights to market a line of **Fairies** creative activity products. In 2007, the first **Disney Fairies®** full length animated film will premier and plans are being finalized for future films that will expand the **Fairies** story and introduce new characters. **Disney®** has adopted a long term brand building strategy for **Fairies** that will be powered by cross divisional promotional support including on-air, online, print, home video and theme park campaigns. This license extends our partnership with **Disney® Consumer Products** and targets an older girls' market that complements Playmates Toys' **Disney® Princess** product line.

Playmates Toys will return to its pre-school roots with products inspired by two character rich, entertainment supported brands: **BBC Worldwide's Little Robots™** and **Universal Studios' The Land Before Time®**. The **Little Robots™** television series premiered on **Cartoon Network's** pre-school block in 2005 and all new episodes will air throughout 2006. **Penguin Publishing®** and **FOX Home Entertainment** will release books and home videos in late 2006 and plans are in place for a theatrical release of a **Little Robots™** film during the same period. Playmates Toys and **The Joester Loria Group®**, the U.S. licensing and merchandising representative, have partnered to create a line of pre-school figures, playsets and plush toys that mirror the "can do" attitude and team building message of this visually unique property. **The Land Before Time®** is one of the best selling children's home video series of all time. Over 65 million videos have been sold and, for the first time in the franchise's history, an all new animated television series is being produced and is scheduled to premier on **Cartoon Network™** in spring 2007.

With promising additions in core competency categories, expanded offerings in established brands, strong partnerships with the world's leading children's entertainment and marketing partners and the entry into strategic growth categories such as pre-school, special feature plush and creative activity, Playmates Toys has made significant progress in pursuit of our portfolio expansion and diversification objectives. The 2006 product lineup is balanced, focused and reflective of our continuing commitment to profitably grow our presence in those categories where we may capitalize on our competitive advantages.

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 2005, trade receivables related to toys operation were HK\$371,370,000 (2004: HK\$336,433,000) and inventories were at a seasonal low level of HK\$57,786,000 or 4.5% of turnover (2004: HK\$36,736,000 or 2.9% of turnover).

The property investment and management business generated a relatively steady income stream throughout the year. Approximately 98% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2005. Accounts 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 2005 was 1.0% compared to 3.2% at 31 December 2004. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.1 at 31 December 2005 compared to 2.1 at 31 December 2004.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. The Group's cash on hand is kept mainly in interest-bearing banking accounts and deposits. After considering the operating cash flow and liquidity requirements, a portion of cash on hand may be invested from time to time in various types of financial instruments including fixed income, equity, derivatives and managed funds with a view to enhance overall return. The selection and allocation of such yield enhancement investments are regularly reviewed to ensure that an acceptable risk-and-return profile is maintained and the liquidity requirements of the Group are served. As at 31 December 2005, the Group's cash and bank balances were HK\$443,954,000 (2004: HK\$195,839,000), and the amount invested in various securities was HK\$260,216,000 (2004: HK\$222,020,000).

Charges on Group Assets

As at 31 December 2005, the Group has banking facilities amounting to approximately HK\$363 million (2004: HK\$392 million), of which HK\$21 million (2004: HK\$51 million) were utilised. 30% (2004: 35%) of the total banking facilities are secured by pledged assets with a total value of HK\$649 million (2004: HK\$640 million).

Contingent Liabilities

The Company has executed guarantees amounting to approximately HK\$363 million (2004: HK\$392 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2005, HK\$21 million (2004: HK\$51 million) of such banking facilities were utilised.

Employees

As at 31 December 2005, the Group had a total of 138 employees in Hong Kong, the Mainland China and the United States of America. This compares to 121 employees as at 31 December 2004.

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, and one Bonus Warrant for every 5 shares to be issued and allotted to Qualifying Warrantholders 2006.

Subscription Price

The Bonus Warrants will entitle holders to subscribe for Shares at the initial subscription price of HK\$1.03 per Share in cash, subject to adjustments. The initial subscription price of HK\$1.03 per Share represents a premium of approximately 9.6 per cent. to the closing price per Share of HK\$0.94 on 2 March 2006 and represents a premium of approximately 9.6 per cent. to the average closing price per Share of approximately HK\$0.94 for the 10 trading days ended on 2 March 2006.

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 26 May 2006, and expiring 12 months thereafter, which is expected to be 25 May 2007, 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 373,535,649 new Shares (based on the 1,867,678,247 Shares in issue as at the date of this Announcement and on the assumptions that (i) no outstanding Warrants 2006 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 2 March 2006 and approximately 16.67% of the issued share capital of the Company as at 2 March 2006 as enlarged by the allotment and issue of new Shares upon full exercise of the Bonus Warrants. If all outstanding Warrants 2006 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 457,222,958 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 2006 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 2006, 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\$384,741,718, 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, 4 May 2006. The register of members of the Company will be closed from Friday, 28 April 2006 to Thursday, 4 May 2006 (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 registrar in Hong Kong, Abacus Share Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Thursday, 27 April 2006.

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 50,000 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 2006 (Stock Code 407)

As at the date of this Announcement, according to the register of holders of Warrants 2006, there are 366,787,547 outstanding Warrants 2006 the subscription rights of which are eligible to be exercised on or before 23 May 2006 at the exercise price of HK\$2.03 per Share (the net asset value per Share by reference to the audited consolidated balance sheet of the Group as at 31 December 2005 is HK\$0.90). Holders of Warrants 2006 are reminded that if they want to be entitled to the Bonus Warrants, they should exercise the subscription rights attaching to their

Warrants 2006 in accordance with the terms of the Warrant Instrument 2006 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. Overseas Shareholders may not be entitled to the proposed Bonus Warrants whatsoever, and Bonus Warrants may not be issued to any Overseas Shareholders, if 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 24 May 2006 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 Friday, 26 May 2006.

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 creation and 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

24 March 2006	Friday	Expected day for the despatch of the Circular
25 April 2006, 4:00 p.m.	Tuesday	Latest time for dealing in Shares cum entitlements to the Bonus Warrant issue
26 April 2006	Wednesday	First day of dealings in Shares ex entitlements to the Bonus Warrant issue
27 April 2006, 4:00 p.m.	Thursday	Latest time for lodging share transfers to qualify for the Bonus Warrant issue
From 28 April 2006 To 4 May 2006	Friday Thursday	Register of members closed (both days inclusive)
2 May 2006, 9:00 a.m.	Tuesday	Latest time for lodging proxy forms for the Annual General Meeting
4 May 2006	Thursday	Record date for determination of entitlements to the Bonus Warrant issue
4 May 2006, 9:00 a.m.	Thursday	Annual General Meeting
4 May 2006, 4:00 p.m.	Thursday	Latest time recommended for lodging exercise documents by the Warrantholders 2006 to qualify for the Bonus Warrants
24 May 2006	Wednesday	Despatch of Bonus Warrant certificates
26 May 2006, 9:30 a.m.	Friday	First day of dealings in Bonus Warrants

Definitions

“Annual General Meeting”	the annual general meeting of the Company to be held at Centenary Room III, Ground Floor, The Marco Polo Hongkong Hotel, Harbour City, 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong on 4 May 2006 at 9:00 a.m., notice of which will be despatched to Shareholders
“Bonus Warrant(s)”	not less than 373,535,649 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\$384,741,718 for new Shares at an initial subscription price of HK\$1.03 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

“Qualifying Warrantholders 2006”	Warrantholders 2006 who lodge completed subscription forms for the Warrants 2006, together with the certificates of the Warrants 2006, with the office of the Hong Kong branch share registrars of the Company not later than 4:00 p.m. on the Record Date and will be issued and allotted with Shares in accordance with the terms of the Warrant Instrument 2006
“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 4 May 2006
“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 2006”	the deed poll dated 20 May, 2005 constituting the Warrants 2006
“Warrants 2006”	366,793,085 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 2005 and expiry 1 year thereafter, both days inclusive, up to an aggregate amount of approximately HK\$774,589,962.55 for new Shares at the exercise price of HK\$2.03 per Share in respect of each warrant

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 5,344,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$0.98 to HK\$1.02 per share through the Stock Exchange.

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 Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) throughout the six months ended 31 December 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.

A.2.1 of the Code on Corporate Governance stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board currently comprises three executive directors (one of whom is the Chairman) and six non-executive directors. Of the six non-executive directors, four of them are independent non-executive directors which represent more than one-third of the Board. Mr. Thomas Chan Chun Hoo is the Chairman and chief executive officer of the Company. He is primarily responsible for leadership of the Board, ensuring the effectiveness on all aspects of its role and setting its agenda, whereas clearly established executive responsibilities for running of the business of the Group lie with different designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

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 accounts for the year ended 31 December 2005.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. Having made specify enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28 April 2006 to 4 May 2006, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 27 April 2006.

APPOINTMENT OF DIRECTORS

The Board of the Company is pleased to announce that Mr. Cheng Bing Kin, Alain and Mr. Chow Yu Chun, Alexander have respectively been appointed as executive director and independent non-executive director of the Company with effect from 2 March 2006.

Mr. Cheng Bing Kin, Alain ("Mr. Cheng"), age 43, was admitted to practice as solicitor in Hong Kong, England and Wales and has over 11 years of experience in the legal field. He is also a CPA of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants.

Mr. Cheng is the Group Legal Counsel of the Group since 2003 and he is also a director of a number of subsidiaries of the Group prior to his current appointment as a director of the Company. There is no service contract between the Company and Mr. Cheng and he will not receive any fee for acting as a director of the Company. His appointment is not for a fixed term and he will be subject to retirement by rotation pursuant to the bye-laws of the Company. Apart from the Company, Mr. Cheng does not hold any directorship in any listed companies in the last three years. In addition, he does not have any relationship with any other directors, senior management or any substantial or controlling shareholder of the Company.

As at the date of this announcement, Mr. Cheng is interested, within the meaning of Part XV of the Securities and Futures Ordinance, in 1,200,000 shares, 200,000 warrants and 1,340,000 share option of the Company, representing approximately 0.06%, 0.01% and 0.07% respectively of the issued share capital of the Company.

Mr. Chow Yu Chun, Alexander ("Mr. Chow"), age 59, is a fellow of The Association of Chartered Certified Accountants and a CPA of the Hong Kong Institute of Certified Public Accountants and has over 31 years of experience in property development and investment in Hong Kong.

Mr. Chow does not hold any position with the Company and other members of the Company immediately before the date of his appointment. He is a director of New World China Land Limited and Top Form International Limited in the last three years. He is also a director of New World Mobile Holdings Limited since July 2004. Mr. Chow does not have any relationship with any other directors, senior management or any substantial or controlling shareholder of the Company. In addition, he does not have any interest in any securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Chow has met the independence guidelines set out in Rule 3.13 of the Listing Rules.

Mr. Chow has entered into a service contract with the Company for a term of three years commencing 2 March 2006. However, such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the bye-laws of the Company. Pursuant to the terms of the service contract and subject to approval by the Company at general meeting, he will be entitled to a fixed sum of HK\$100,000 for each financial year as ordinary remuneration in respect of his capacity as a member of the board. In case he is appointed as a member of the Audit Committee or Compensation Committee, he will be entitled to a fixed fee of HK\$50,000 and HK\$25,000 respectively for each financial year (or such other fixed fee as the Compensation Committee may recommend from time to time). In addition, the Company shall reimburse him an attendance expense of HK\$2,000 per meeting (or such other fixed fee as the Compensation Committee may recommend from time to time) for attending meetings of the Company.

There is no information relating to Mr. Cheng and Mr. Chow that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

The Board takes this opportunity to welcome Mr. Cheng and Mr. Chow to the Board.

After the appointment of Mr. Cheng and Mr. Chow, the board of directors of the Company comprises the following directors:

Executive Directors: Mr. Chan Chun Hoo, Thomas (Chairman); Mr. To Shu Sing, Sidney; Mr. Cheng Bing Kin, Alain

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

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

On behalf of the Board
Thomas CHAN Chun Hoo
Chairman

Hong Kong, 2 March, 2006

* *for identification purpose only*