

Results

The directors of Playmates Holdings Limited (“the Company”) are pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2003 (“the period”) as follows:

Condensed consolidated profit and loss account

For the six months ended 30 June 2003

		Unaudited Six months ended 30 June		
				(As restated)
	Note	2003 US\$'000 (Note 14)	2003 HK\$'000	2002 HK\$'000 (Note 1)
Turnover	2	35,560	277,366	122,289
Cost of sales		(16,576)	(129,289)	(69,521)
Gross profit		18,984	148,077	52,768
Operating expenses				
Marketing		(7,480)	(58,343)	(29,317)
Selling, distribution and administration		(9,835)	(76,714)	(70,539)
Operating profit/(loss)		1,669	13,020	(47,088)
Non-operating income/(expenses)				
Interest expense and bank charges		(947)	(7,392)	(6,450)
Other revenues		209	1,631	2,261
Net gain on investment in securities		1,205	9,402	15,414
		2,136	16,661	(35,863)
Share of profits less losses of associated companies		(522)	(4,069)	(5,861)
Profit/(Loss) before taxation	3	1,614	12,592	(41,724)
Taxation	4	(343)	(2,681)	(816)
Profit/(Loss) attributable to shareholders		1,271	9,911	(42,540)
Dividend	5	1,593	12,425	–
		US cents	HK cents	HK cents
Earnings/(Loss) per share	6			
Basic		0.10	0.81	(3.97)
Diluted		0.10	0.76	N/A

Condensed consolidated balance sheet

As at 30 June 2003 and 31 December 2002

		Unaudited 30 June 2003 US\$'000 (Note 14)	Unaudited 30 June 2003 HK\$'000	(As restated) Audited 31 December 2002 HK\$'000 (Note 1)
Non-current assets				
Goodwill		952	7,429	7,914
Fixed assets		77,175	601,966	601,676
Investment in associated companies		4,584	35,756	40,825
Other investments		–	–	16,807
		<u>82,711</u>	<u>645,151</u>	<u>667,222</u>
Current assets				
Inventories		5,705	44,496	22,042
Trade receivables	7	15,867	123,766	121,253
Other receivables, deposits and prepayments		4,461	34,802	35,019
Taxation recoverable		35	272	305
Other investments		8,810	68,716	65,330
Cash and bank balances		29,767	232,180	206,456
		<u>64,645</u>	<u>504,232</u>	<u>450,405</u>
Current liabilities				
Bank loans	8	26,232	204,608	177,608
Trade payables	9	8,104	63,215	50,670
Other payables and accrued charges		12,015	93,722	109,208
Taxation payable		2,147	16,743	16,627
		<u>48,498</u>	<u>378,288</u>	<u>354,113</u>
Net current assets		<u>16,147</u>	<u>125,944</u>	<u>96,292</u>
Total assets less current liabilities		<u>98,858</u>	<u>771,095</u>	<u>763,514</u>
Non-current liabilities				
Bank loans	8	23,186	180,853	188,912
Deferred tax liabilities		1,721	13,425	11,007
		<u>24,907</u>	<u>194,278</u>	<u>199,919</u>
Net assets		<u>73,951</u>	<u>576,817</u>	<u>563,595</u>
Financed by:				
Share capital	10	15,664	122,177	121,087
Reserves		56,694	442,215	442,508
Proposed dividend		1,593	12,425	–
Shareholders' funds		<u>73,951</u>	<u>576,817</u>	<u>563,595</u>

Condensed consolidated cash flow statement

For the six months ended 30 June 2003

	Unaudited		
	Six months ended 30 June		
			(As restated)
	2003	2003	2002
	US\$'000	HK\$'000	HK\$'000
	(Note 14)		
Net cash outflow from operating activities	(1,018)	(7,945)	(63,233)
Net cash inflow/(outflow) from investing activities	3,190	24,885	(69,145)
Net cash inflow from financing activities	2,853	22,252	68,218
Increase/(decrease) in cash and cash equivalents	5,025	39,192	(64,160)
Cash and cash equivalents at 1 January	13,547	105,668	166,273
Cash and cash equivalents at 30 June	18,572	144,860	102,113
Analysis of cash and cash equivalents:			
Cash and bank balances	29,767	232,180	141,234
Less: Deposits as securities for banking facilities	(11,195)	(87,320)	(39,121)
Cash and cash equivalents	18,572	144,860	102,113

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2003

	Share capital HK\$'000	Share premium HK\$'000	Unaudited Capital redemption reserve HK\$'000	Reserve on consolidation HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003, as previously reported	121,087	112,553	582	21,082	311,384	566,688
Changes in accounting policy (Note 1)						
– provision for net deferred tax liabilities	–	–	–	–	(1,317)	(1,317)
– amortisation of goodwill	–	–	–	–	(1,776)	(1,776)
	–	–	–	–	(3,093)	(3,093)
At 1 January 2003, as restated	121,087	112,553	582	21,082	308,291	563,595
Issue of shares	1,090	2,221	–	–	–	3,311
Profit for the period	–	–	–	–	9,911	9,911
At 30 June 2003	122,177	114,774	582	21,082	318,202	576,817
Representing:						
Share capital						122,177
Reserves						442,215
Proposed dividend						12,425
At 30 June 2003						576,817

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Unaudited Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002, as previously reported	100,906	81,863	582	21,082	310,112	514,545
Changes in accounting policy (<i>Note 1</i>)						
– provision for net deferred tax assets	–	–	–	–	29	29
– amortisation of goodwill	–	–	–	–	(807)	(807)
	–	–	–	–	(778)	(778)
At 1 January 2002, as restated	100,906	81,863	582	21,082	309,334	513,767
Issue of shares	20,181	32,290	–	–	–	52,471
Share issuing expenses	–	(1,600)	–	–	–	(1,600)
Loss for the period	–	–	–	–	(42,540)	(42,540)
At 30 June 2002	121,087	112,553	582	21,082	266,794	522,098

Notes to the condensed interim accounts

1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting this new policy is as follows:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1 January 2002 and 2003 have been increased by HK\$29,000 and reduced by HK\$1,317,000 respectively, which represent the unprovided net deferred tax assets and liabilities respectively. This change has resulted in an increase in deferred tax liabilities at 31 December 2002 by HK\$1,317,000. The loss for the six months ended 30 June 2002 has been increased by HK\$658,000.

The retained profits of certain subsidiaries acquired in prior years have been reduced to recognise the unprovided net deferred tax liabilities. This has given rise to goodwill on consolidation. The opening retained profits at 1 January 2002 and 2003 have been reduced by HK\$807,000 and HK\$1,776,000 respectively, which represent the amortisation of goodwill. This change has resulted in an increase in net deferred tax liabilities and goodwill on consolidation at 31 December 2002 by HK\$9,690,000 and HK\$7,914,000 respectively. The loss for the six months ended 30 June 2002 has been increased by HK\$404,000.

2. Segment information

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

Business segments

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

	Six months ended 30 June 2003			
	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	Group HK\$'000
Revenue				
Turnover	260,473	16,893	–	277,366
Inter-segment revenue (Note iii)	–	506	(506)	–
	<u>260,473</u>	<u>17,399</u>	<u>(506)</u>	<u>277,366</u>
Results				
Segment results	4,523	12,803	–	17,326
Inter-segment transactions	(506)	506	–	–
	<u>4,017</u>	<u>13,309</u>	<u>–</u>	<u>17,326</u>
Unallocated costs				<u>(4,306)</u>
Operating profit				<u>13,020</u>
	Six months ended 30 June 2002 (As restated)			
	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	(As restated) Group HK\$'000
Revenue				
Turnover	108,970	13,319	–	122,289
Inter-segment revenue (Note iii)	–	775	(775)	–
	<u>108,970</u>	<u>14,094</u>	<u>(775)</u>	<u>122,289</u>
Results				
Segment results	(50,125)	5,600	–	(44,525)
Inter-segment transactions	(775)	775	–	–
	<u>(50,900)</u>	<u>6,375</u>	<u>–</u>	<u>(44,525)</u>
Unallocated costs				<u>(2,563)</u>
Operating loss				<u>(47,088)</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the period amounted to HK\$4,069,000 (2002: HK\$5,861,000), which has not been included in the segment results shown above.

Geographical segments

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

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	(As restated) 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
North America	225,711	100,959	917	(45,878)
Europe	24,139	6,061	2,473	(2,207)
Asia Pacific	26,549	15,269	13,847	3,560
Others	967	–	89	–
	277,366	122,289	17,326	(44,525)

3. Profit/(Loss) before taxation

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

	Six months ended 30 June	
	<i>(As restated)</i>	
	2003	2002
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	100,505	37,974
Staff costs	30,409	37,637
Amortisation of goodwill	485	404
Depreciation of fixed assets	13,747	13,583
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Crediting:		
Interest income from bank deposits	1,075	1,232
Dividend income from listed investments	556	1,029
Gain on disposal of fixed assets	–	70
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4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in profits tax from 16% to 17.5% for the fiscal year 2003/2004. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

The taxation (charge)/credit in the condensed consolidated profit and loss account comprises:

	Six months ended 30 June	
	<i>(As restated)</i>	
	2003	2002
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	(371)	(176)
Over-provision in prior years	108	18
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	(263)	(158)
Deferred taxation	(2,418)	(658)
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	(2,681)	(816)
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5. Dividend

At a meeting held on 7 August 2003 the directors declared an interim dividend of HK cent 1 (2002: nil) per share for the year ending 31 December 2003 to be paid on 10 September 2003 to shareholders on the Company's Register of Members on 3 September 2003. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

6. Earnings/(Loss) per share

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

	Six months ended 30 June	
	<i>(As restated)</i>	
	2003	2002
	HK\$'000	HK\$'000
Profit/(loss) attributable to shareholders for the purpose of calculating basic and diluted earnings/(loss) per share	9,911	(42,540)
	1,217,863,000	1,070,380,000
	90,136,000	N/A
	1,307,999,000	N/A

7. Trade receivables

As at 30 June 2003, 99.5% (31 December 2002: 99.7%) of the trade receivables net of provisions were current to 30 days, 0.1% (31 December 2002: 0.1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is normally granted to tenants.

8. Bank loans

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	132,711	132,300
In the second year	16,533	16,122
In the third to fifth years	54,540	53,305
After the fifth year	109,780	119,485
	313,564	321,212
Unsecured bank loan payable within one year	71,897	45,308
	385,461	366,520
Current portion included in current liabilities	(204,608)	(177,608)
	180,853	188,912

As at 30 June 2003, the Group had banking facilities amounting to approximately HK\$519 million (31 December 2002: HK\$526 million), of which HK\$396 million (31 December 2002: HK\$378 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$87 million (31 December 2002: HK\$101 million), other investments of HK\$63 million (31 December 2002: HK\$56 million) and investment properties with aggregate net book value of HK\$591 million (31 December 2002: HK\$591 million) of the Group at 30 June 2003.

9. Trade payables

As at 30 June 2003, 98.1% (31 December 2002: 87.3%) of the trade payables were current to 30 days, 1.9% (31 December 2002: 8.5%) were 31 to 60 days and the remaining were over 60 days.

10. Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2003 and 31 December 2002	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2002	1,009,055,509	100,906
Issue of shares	201,811,101	20,181
Exercise of warrants	1,200	–
At 1 January 2003	1,210,867,810	121,087
Exercise of options	5,050,000	505
Exercise of warrants (<i>Note i</i>)	5,849,800	585
At 30 June 2003	<u>1,221,767,610</u>	<u>122,177</u>

Note:

- (i) The warrants are exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment). As at 30 June 2003, 195,960,101 warrants were outstanding.

11. Contingent liabilities

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

12. Commitments

Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2003 were payable as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Within one year	6,762	10,724
In the second to fifth years inclusive	12,952	14,157
After the fifth year	975	–
	20,689	24,881

13. Operating lease arrangements

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) As lessee

At 30 June 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Within one year	10,765	11,438
In the second to fifth years inclusive	19,048	22,919
After the fifth year	2,400	2,856
	32,213	37,213

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$7,157,000 (31 December 2002: HK\$8,383,000).

(b) As lessor

At 30 June 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Within one year	22,447	25,146
In the second to fifth years inclusive	14,474	9,710
	36,921	34,856

14. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

For the six months ended 30 June 2003, the Group recorded a turnover of HK\$277,366,000 compared to HK\$122,289,000 a year ago. Turnover from toy sales was HK\$260,473,000 compared to HK\$108,970,000 a year ago. Turnover from property investment and management (before inter-segment revenue elimination) was HK\$17,399,000 compared to HK\$14,094,000 a year ago. Gross profit improved by 181% over the same period in 2002. Operating profit for the period was HK\$13,020,000, a significant change from the loss of HK\$47,088,000 reported for the same period in 2002. Net profit attributable to shareholders was HK\$9,911,000 compared to a net loss of HK\$42,540,000 a year ago. Earnings per share was HK cent 0.81 compared to a loss of HK cents 3.97 per share in the same period last year.

Incomes from property rental and management (before inter-segment revenue elimination) grew by 23% in the first six months of 2003 to HK\$17,399,000 compared to the same period last year. The increase reflected incremental rental and management fee incomes from the building acquired in July 2002. Rental yield of investment properties during the period was 5.7%, compared to 5.2% during the same period last year. Despite the favorable results in the first six months, management maintains a cautious outlook on property investments for the whole year given the continued downward pressure on rental rates in the commercial property market in Hong Kong. Nevertheless, property investment and management business will continue to provide the Group with a steady income stream and augment the Group's core business.

The first half results of Playmates Toys were ahead of management expectations and trending to the 2003 full year plan. The interim results validated the focused brand management strategy of making investments in categories with long term growth potential and in which Playmates has competitive advantage. This strategy, coupled with broadening US retail distribution into non-traditional toy channels and simultaneous product introductions in the US and major international markets, have laid the foundation for continued growth in sales and profits.

Playmates Toys, led by the new management team, continues to streamline its operations, resulting in lower overhead and reduced break-even volume. Management focus on improvements in gross margins continues to be a priority.

In 2003 Playmates Toys launched a completely new, updated version of the classic **Teenage Mutant Ninja Turtles**[®] (“**Turtles**”) toy line to a whole new generation of children. A multi-year toy product roll-out plan has been developed, supported by the new **Turtles** TV series, with 52 episodes committed to broadcast through Fall 2004 on FoxBox, the popular Saturday morning children programming on the US national Fox network. The series premiered on 8 February 2003 and is currently the top rated show on FoxBox. First half 2003 retail sales are strong and have placed **Turtles** among the top boys action figure brands. With full retail distribution and comprehensive marketing and promotional programs in place for the Fall 2003 selling season, the stage is set to reaffirm **Turtles** as an evergreen brand.

Starting in August 2003, Playmates will participate in promotions with several of the 22 **Turtles** licensees. Promotional programs, with category leading companies such as Nestle, Fleer, Konami and General Mills, will run through the balance of the year and well into 2004. Each partner adds a new facet to the multi-layered marketing program and helps to expose the **Turtles** brand to more children. In concert with these promotions, Playmates will ship a broad selection of new products this Fall including exciting new action figures, vehicles, accessories and role-play items. In September of 2003 all new episodes of the TV series will premier on the FoxBox. These episodes will continue to draw new **Turtles** fans in the core boys target market and will be supported with on-air, in store and extensive licensed promotions.

A US national fast food promotion is planned for January 2004 to coincide with the release of Playmates’ new 2004 **Turtles** products. Playmates long term product development strategy will position **Turtles** as a category leader not only in the action figure business but also in additional categories including vehicles, seasonal toys, role-play and others.

In Spring 2003 Playmates capitalized on a void in the micro vehicle category with the introduction of **Speedeez™**, a line of micro vehicles and accessories incorporating a patented Turbo Ball propulsion system. The line was successfully launched with US national TV advertising campaign. Major promotions and more TV advertising are planned for Fall 2003 in an effort to establish **Speedeez™** as a perennial brand.

Following a record-breaking run in 2002, sales of **Simpsons™** collectable merchandise declined in the first half of 2003 versus a year ago. Sales for the full year are expected to be below last year. Playmates is developing a new interactive toy line under the umbrella of “Bart’s World”. This line, targeted for Fall 2004 introduction, will feature innovative, entertaining new products that capture Bart Simpson’s attitude and irreverence and will appeal to the significant children audience following the popular weekly show.

Sales of products under the **Disney®** brand grew substantially over 2002 and are tracking to the full year plan. Sales of the “Before Once Upon a Time™” assortment of **Disney®** Princess Toddler dolls have exceeded all expectations and are tracking as one of the best selling items in the large doll category. This Fall, Playmates will launch Disney’s® “Dancing Cinderella”, its latest entry in the special feature doll category, with US national television advertising support. This doll embodies all of the magic, beauty and play appeal of the **Disney®** Princesses and is supported by all major retailers. The Interactive Princesses segment has been extended with a value priced Princess Ariel who comes to life through music and speech. The brand will be further expanded in Fall 2003 through the addition of the “Perfectly Princess™” line of soft bodied dolls and accessories. In 2004 the Princess Toddler World will grow to include feature-based dolls, fashion accessories and Princess pet friends. Playmates’ **Disney®** Princess offering will continue to expand in the coming year with new, innovative product segments, including a Princess inspired assortment of baby dolls and accessories.

Sales of **Waterbabies®**, a 14 years’ proprietary brand increased significantly over 2002. The basic Sweet Cuddler™ assortment is continually refreshed with new themes and designs to ensure the long term staple positioning of the brand. The licensed character segment of the **Waterbabies®** brand continues to expand with the introduction of new popular characters, such as American Greetings’ Care Bears™ and Scholastic Publishing’s Clifford The Big Red Dog™. New Waterbabies® will be added to this segment in 2004 inspired by popular classic characters.

Strategic alliances with experienced and financially strong international distributors resulted in multiple increase in sales during the period in non-US markets. This validates the strategy of broadening worldwide distribution through simultaneous product introductions in the US and leading international markets. Shipments of **Turtles** were made to support the launch campaigns of leading independent distributors in the U.K., Australia, Canada, France, Spain and Italy. Playmates has worked closely with these distributors to adapt U.S. sales and promotional strategies for use in their local markets. To date, Playmates has appointed **Turtles** distributors in over 30 countries. The **Turtles** TV series has premiered or will premier this Fall on the leading broadcasters in over 15 countries including; the United Kingdom, France, Australia and Canada. Early retail sales of **Turtles** products in the U.K. and Australia are tracking ahead of distributor and local retailer forecasts – prior to the premier of the TV series and launch of distributor TV advertising campaigns.

In June, Playmates Toys acquired worldwide fashion dolls rights for Hilary Duff® – currently the hottest teen TV, movie, music and fashion celebrity in the USA. Hilary is the star of the Disney® Channel's top rated Lizzie McGuire® TV series and will soon release her first music album. She appeared in MGM's "Agent Cody Banks" and Disney's® "The Lizzie McGuire® Movie" earlier this year and will star in two new feature films in the coming year. Playmates' September 2003 launch of the first Hilary Duff® doll assortment will coincide with the retail introduction of her new fashion collection; "Stuff by Hilary Duff®".

International sales of **Disney**® products increased substantially during the first six months over the same period last year and **Speedeez™** products continue to ship to support Fall promotional campaigns in over 15 major markets including the U.K., Canada and Germany.

Full year international sales forecasts are tracking well ahead of 2002 performance and are on plan for the year.

Management continues to pursue new product concepts, licensed entertainment properties and innovative technologies to build on this solid foundation and continue to profitably grow the company through the extension of existing brands and development of new brands with sustainable, multi-year revenue potential.

Liquidity and financial resources

The Group's toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are significantly higher than in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling seasons. As at 30 June 2003, trade receivables related to toy operation were HK\$123,412,000 (31 December 2002: HK\$120,656,000) and inventories were HK\$44,496,000 (31 December 2002: HK\$22,042,000).

The Group's property investment and management business generates a relatively steady income stream throughout the period. Approximately 90% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2003. Account receivables were minimal as at the period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2003 was 33.8% compared to 33.0% at 31 December 2002. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.3 at 30 June 2003 compared to 1.3 at 31 December 2002. As at 30 June 2003, the Group's cash and bank balances were HK\$232,180,000 compared to HK\$206,456,000 at 31 December 2002.

Charges on group assets

Details of charges on group assets are set out in note 8 to the interim accounts.

Employees

As at 30 June 2003, the Group had a total of 106 employees in Hong Kong, the Mainland China and the United States of America.

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

SHARE OPTIONS

The following shows the particulars of share options of the Company granted to directors of the Company and employees of the Group, pursuant to a Share Option Plan (“Plan”) and a Share Option Scheme (“Scheme”) adopted on 4 May 1998 and 28 June 2002 respectively, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Listing Rules:

Participant	Date of grant	Exercise price HK\$	Number of share options				Balance at 30 June 2003
			Balance at 1 January 2003	Granted during the period	Exercised during the period (Note (1) & Note (2))	Lapsed during the period	
Plan							
To Shu Sing, Sidney <i>Director</i>	26 August 1998	0.532	529,000	–	–	–	529,000
	27 May 1999	0.506	529,000	–	–	–	529,000
	20 October 1999	0.434	660,000	–	–	–	660,000
	22 July 2000	0.626	551,000	–	–	–	551,000
	21 May 2001	0.297	1,024,000	–	–	–	1,024,000
Lam Yin Shing, Donald <i>Director (Resigned)</i>	21 May 2001	0.297	1,024,000	–	408,000	616,000	–
<i>Continuous Contract Employees, excluding Directors</i>	15 May 1998	0.532	5,464,000	–	497,100	793,000	4,173,900
	27 May 1999	0.506	1,569,000	–	139,300	265,000	1,164,700
	17 August 1999	0.419	1,764,000	–	–	–	1,764,000
	22 July 2000	0.626	2,879,000	–	66,000	331,000	2,482,000
	21 May 2001	0.297	8,057,000	–	2,359,600	224,000	5,473,400
28 August 2001	0.294	8,163,000	–	–	–	8,163,000	
Scheme							
To Shu Sing, Sidney <i>Director</i>	9 August 2002	0.199	1,200,000	–	–	–	1,200,000
	10 March 2003	0.550	–	1,200,000	–	–	1,200,000
Lee Peng Fei, Allen <i>Director</i>	9 August 2002	0.199	1,000,000	–	–	–	1,000,000
Lo Kai Yiu, Anthony <i>Director</i>	9 August 2002	0.199	1,000,000	–	–	–	1,000,000
Tsim Tak Lung <i>Director</i>	9 August 2002	0.199	1,000,000	–	–	–	1,000,000
Yu Hon To, David <i>Director</i>	9 August 2002	0.199	1,000,000	–	–	–	1,000,000
Lam Yin Shing, Donald <i>Director (Resigned)</i>	9 August 2002	0.199	1,000,000	–	250,000	750,000	–
	9 August 2002	0.199	13,240,000	–	1,207,000	575,000	11,458,000
<i>Continuous Contract Employees, excluding Directors</i>	10 March 2003	0.550	–	12,572,000	123,000	–	12,449,000

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were exercised by Mr. Lam Yin Shing, Donald during the period was HK\$0.590.
- (2) The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees, excluding directors, during the period was HK\$0.635.

The closing price of the ordinary shares of the Company on 7 March 2003, being the trading day immediately before the date on which the share options were granted during the period, was HK\$0.590.

The above share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. No options were cancelled during the period.

The share options granted under the Plan and the Scheme are not recognised in the financial statements until they are exercised. The weighted average value per option granted during the period estimated at the date of grant using the Black-Scholes pricing model was HK\$0.407. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

Risk-free interest rate	4.39%
Expected life (in years)	10
Volatility	0.727
Expected dividend yield	1.39%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the aforesaid and other than the warrants mentioned in the section headed "Directors' and Chief Executive's Interests", at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2003, the interests of the directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Division 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long position in shares

Name of director	Name of company	Nature of interest	Number of shares	Percentage
Chan Chun Hoo, Thomas	Playmates Holdings Limited	Corporate (Note (a))	570,000 ordinary shares	46.65%
To Shu Sing, Sidney	Playmates Holdings Limited	Personal	3,300,000 ordinary shares	0.27%
Ip Shu Wing, Charles	Playmates Holdings Limited	Personal	21,200,000 ordinary shares	1.74%
Lee Peng Fei, Allen	Playmates Holdings Limited	Personal	517,500 ordinary shares	0.04%
Lo Kai Yiu, Anthony	Playmates Holdings Limited	Personal	1,200,000 ordinary shares	0.10%
Tsim Tak Lung	Playmates Holdings Limited	Personal	360,000 ordinary shares	0.03%
Yu Hon To, David	Playmates Holdings Limited	Corporate (Note (b))	3,500,000 ordinary shares	0.29%
Ip Shu Wing, Charles	Nippon Toys Limited	Personal (Note (c))	1 share	50%

Long position in underlying shares of the Company

Name of director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary share)	Percentage
Chan Chun Hoo, Thomas	Corporate (Note (a))	92,000,000 warrants	92,000,000 shares	7.53%
To Shu Sing, Sidney	Personal	216,000 warrants	216,000 shares	0.02%
	Personal	5,693,000 share options	5,693,000 shares	0.47%
Lee Peng Fei, Allen	Personal	1,000,000 share options	1,000,000 shares	0.08%
Lo Kai Yiu, Anthony	Personal	200,000 warrants	200,000 shares	0.02%
	Personal	1,000,000 share options	1,000,000 shares	0.08%
Tsim Tak Lung	Personal	60,000 warrants	60,000 shares	0.01%
	Personal	1,000,000 share options	1,000,000 shares	0.08%
Yu Hon To, David	Personal	1,000,000 share options	1,000,000 shares	0.08%

Notes:

- 570,000,000 ordinary shares and 92,000,000 warrants of the Company were beneficially owned by Angers Investments Limited ("AIL"). All the issued share capital of AIL is beneficially owned by a private company which is in turn wholly-owned by Mr. Chan Chun Hoo, Thomas.
- 3,500,000 ordinary shares of the Company were held by a private company which is 50% owned by Mr. Yu Hon To, David and 50% owned by a member of his family.
- Mr. Ip Shu Wing, Charles has a personal interest of one share in Nippon Toys Limited, an associated company of the Group.

All the aforesaid shares and equity derivatives were beneficially owned by the directors concerned. The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares as at 30 June 2003.

The warrants are exercisable at any time from 13 May 2002 to 12 May 2004, both dates inclusive, at an initial subscription price of HK\$0.30 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 7 May 2002.

Details of the share options held by the directors and chief executive of the Company are disclosed in the above section headed "Share Options".

As at 30 June 2003, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

OTHER SHAREHOLDERS' INTERESTS

As at 30 June 2003, persons (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Nature of interest	Number of shares	Percentage
Chan Chun Wai	Corporate & family (Note)	82,079,201 ordinary shares	6.72%

Note:

80,599,201 ordinary shares (representing 6.60% of the issued shares) of the Company were beneficially owned by Waddington Limited which is wholly-owned by Mr. Chan Chun Wai. 1,480,000 ordinary shares of the Company were beneficially owned by a family member of Mr. Chan Chun Wai.

SUBSTANTIAL SHAREHOLDERS' INTEREST

Other than the interests disclosed above in respect of directors and chief executive, the directors are not aware of any other person who was, as at 30 June 2003, shown in the register required to be kept under section 336 of the SFO to be interested, directly or indirectly, in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Listing Rules Appendix 14 Guidelines during the six months ended 30 June 2003, with the exception that all non-executive directors of the Company were not appointed for a specific term. Pursuant to article 87(1) of the Bye-laws of the Company, non-executive directors are subject to retirement by rotation and re-election (if they offer themselves for re-election) at the Company's annual general meetings.

CLOSURE OF REGISTER OF MEMBERS AND REGISTER OF WARRANTHOLDERS

The Register of Members and Register of Warrantholders of the Company will be closed from 2 September 2003 to 3 September 2003, both days inclusive, during which period no transfer or exercise of shares, warrants or share options (as the case may be) of the Company will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates and all documents required in respect of the exercise of warrants and share options issued by the Company accompanied by full payment of the relevant exercise price 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 1 September 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30 June 2003.

On behalf of the Board
Chan Chun Hoo, Thomas
Chairman

Hong Kong, 7 August 2003