



**Playmates Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

# **Brand Builders**

*Interim Report* **2005**

## RESULTS

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

### Unaudited condensed consolidated income statement

For the six months ended 30 June 2005

		Six months ended 30 June		
	Note	2005 US\$'000 (Note 17)	2005 HK\$'000	2004 HK\$'000 (restated)
<b>Turnover</b>	3	<b>59,328</b>	<b>462,762</b>	436,658
<b>Cost of sales</b>		<b>(28,457)</b>	<b>(221,966)</b>	(199,232)
<b>Gross profit</b>		<b>30,871</b>	<b>240,796</b>	237,426
Marketing expenses		(13,393)	(104,464)	(93,811)
Selling, distribution and administration expenses		(11,479)	(89,538)	(101,687)
Revaluation surplus on investment properties		8,624	67,271	–
Restructuring expenses		(2,894)	(22,576)	–
<b>Operating profit</b>		<b>11,729</b>	<b>91,489</b>	41,928
<b>Non-operating income/(expenses)</b>				
Interest expense and bank charges		(348)	(2,717)	(5,052)
Other revenues		839	6,544	3,144
Net loss on investments		(234)	(1,823)	(1,274)
		<b>11,986</b>	<b>93,493</b>	38,746
<b>Share of profits less losses of associated companies</b>		<b>(275)</b>	<b>(2,147)</b>	(2,034)
<b>Profit before taxation</b>	4	<b>11,711</b>	<b>91,346</b>	36,712
<b>Taxation credit/(charge)</b>	5	<b>445</b>	<b>3,468</b>	(1,833)
<b>Profit attributable to shareholders</b>		<b>12,156</b>	<b>94,814</b>	34,879
<b>Dividend</b>	6	<b>5,983</b>	<b>46,666</b>	31,205
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Earnings per share</b>	7			
<b>Basic</b>		<b>0.72</b>	<b>5.60</b>	2.25
<b>Diluted</b>		<b>0.69</b>	<b>5.41</b>	2.22

## Unaudited condensed consolidated balance sheet

As at 30 June 2005 and 31 December 2004

		<b>30 June 2005</b>	<b>30 June</b>	31 December
	<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i>	<i>2004</i>
		<i>(Note 17)</i>		<i>HK\$'000</i>
				<i>(restated)</i>
<b>Non-current assets</b>				
Goodwill		766	5,976	5,976
Property, plant and equipment	8	2,798	21,821	8,031
Investment properties	8	91,436	713,200	662,000
Prepaid premium on leasehold land held for own use under an operating lease	8	2,956	23,053	–
Investment in associated companies		4,152	32,384	35,531
Held-to-maturity investments		4,435	34,594	–
Investments		–	–	35,319
Deferred tax assets		11,865	92,554	68,391
		<u>118,408</u>	<u>923,582</u>	<u>815,248</u>
<b>Current assets</b>				
Inventories		6,511	50,785	36,736
Trade receivables	9	21,148	164,956	336,755
Other receivables, deposits and prepayments		6,698	52,250	33,092
Taxation recoverable		146	1,136	1,168
Financial assets at fair value through profit or loss		32,374	252,517	–
Investments		–	–	186,701
Cash and bank balances		66,871	521,592	195,839
		<u>133,748</u>	<u>1,043,236</u>	<u>790,291</u>
<b>Current liabilities</b>				
Bank loans	10	380	2,964	22,464
Trade payables	11	11,097	86,556	61,901
Other payables and accrued charges		13,877	108,243	219,338
Taxation payable		9,658	75,333	69,098
		<u>35,012</u>	<u>273,096</u>	<u>372,801</u>
<b>Net current assets</b>		<u>98,736</u>	<u>770,140</u>	<u>417,490</u>
<b>Total assets less current liabilities</b>		<u>217,144</u>	<u>1,693,722</u>	<u>1,232,738</u>
<b>Non-current liabilities</b>				
Bank loans	10	3,511	27,385	28,867
Deferred tax liabilities		5,679	44,299	32,173
		<u>9,190</u>	<u>71,684</u>	<u>61,040</u>
<b>Net assets</b>		<u>207,954</u>	<u>1,622,038</u>	<u>1,171,698</u>
Financed by:				
<b>Share capital</b>	12	23,931	186,665	156,351
<b>Reserves</b>		178,040	1,388,707	952,806
<b>Proposed dividend</b>	6	5,983	46,666	62,541
<b>Shareholders' funds</b>		<u>207,954</u>	<u>1,622,038</u>	<u>1,171,698</u>

## Unaudited condensed consolidated statement of changes in equity

For the six months ended 30 June 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Reserve on consolidation HK\$'000	Properties revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2005, as previously reported	156,351	349,127	582	21,082	-	93,694	564,816	1,185,652
Reclassified to properties revaluation reserve	-	-	-	-	4,803	(4,803)	-	-
Reversal of investment properties revaluation reserve	-	-	-	-	-	(88,891)	88,891	-
Deferred tax arising from revaluation of investment properties	-	-	-	-	-	-	(16,397)	(16,397)
Employees share option scheme								
- value of employee services	-	7,974	-	-	-	-	(7,974)	-
- deferred tax	-	-	-	-	-	-	2,443	2,443
At 1 January 2005, as restated	156,351	357,101	582	21,082	4,803	-	631,779	1,171,698
Issue of shares	29,944	395,269	-	-	-	-	-	425,213
Share issuing expenses	-	(436)	-	-	-	-	-	(436)
2004 final dividend paid	-	-	-	-	-	-	(73,359)	(73,359)
Profit for the period	-	-	-	-	-	-	94,814	94,814
Employees share option scheme								
- value of employee services	-	2,323	-	-	-	-	-	2,323
- proceeds from shares issued	370	1,415	-	-	-	-	-	1,785
<b>At 30 June 2005</b>	<b>186,665</b>	<b>755,672</b>	<b>582</b>	<b>21,082</b>	<b>4,803</b>	<b>-</b>	<b>653,234</b>	<b>1,622,038</b>

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	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 2004, as previously reported	154,642	345,240	582	21,082	366,857	888,403
Employees share option scheme						
– value of employee services	–	555	–	–	(555)	–
– deferred tax	–	–	–	–	146	146
At 1 January 2004, as restated	154,642	345,795	582	21,082	366,448	888,549
Issue of shares	1,110	2,218	–	–	–	3,328
2003 final dividend paid	–	–	–	–	(31,183)	(31,183)
Profit for the period (restated)	–	–	–	–	34,879	34,879
Employees share option scheme						
– value of employee services	–	3,336	–	–	–	3,336
– proceeds from shares issued	271	862	–	–	–	1,133
At 30 June 2004, as restated	<u>156,023</u>	<u>352,211</u>	<u>582</u>	<u>21,082</u>	<u>370,144</u>	<u>900,042</u>

**Unaudited condensed consolidated cash flow statement***For the six months ended 30 June 2005*

	Six months ended 30 June		
	2005	2005	2004
	US\$'000 (Note 17)	HK\$'000	HK\$'000
Net cash generated from operating activities	9,786	76,334	128,829
Net cash (used in)/generated from investing activities	(10,616)	(82,802)	39,526
Net cash generated from /(used in) financing activities	<u>42,593</u>	<u>332,221</u>	<u>(303,543)</u>
Net increase/(decrease) in cash and cash equivalents	41,763	325,753	(135,188)
Cash and cash equivalents at 1 January	<u>25,108</u>	<u>195,839</u>	<u>422,852</u>
Cash and cash equivalents at 30 June	<u><u>66,871</u></u>	<u><u>521,592</u></u>	<u><u>287,664</u></u>
<b>Analysis of cash and cash equivalents</b>			
Cash and bank balances	<u><u>66,871</u></u>	<u><u>521,592</u></u>	<u><u>287,664</u></u>

# NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNTS

## 1 Basis of preparation and accounting policies

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

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

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

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

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

## 2 Changes in accounting policies

### (a) *Effect of adopting HKFRS*

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates

HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation and disclosure of the accounts.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land attributable to own-use properties from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land attributable to own-use properties are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and building for own-use was accounted for as investment property as permitted under the previous SSAP 13. Following the adoption of HKAS 40, with effect from 1 January 2005 the leasehold land and building has been reclassified as prepaid premium on leasehold land and property, and accounted for in accordance with HKAS 17 and HKAS 16 respectively.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement. As a result of the adoption of HKAS 40, valuation of the Group's investment properties was performed as at 30 June 2005. No such valuation was performed as at 30 June 2004.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2.8).

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- amortised on a straight line basis over a period of 10 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.4):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require or permit retrospective application other than:

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after the adoption date.

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

	Effects of adopting						Total HK\$'000
	HKAS	HKAS	HKAS	HKFRS	HKFRS	HKAS	
	16/17 HK\$'000	32/39 HK\$'000	40 HK\$'000	2 HK\$'000	3 HK\$'000	-Int 21 HK\$'000	
<b>At 30 June 2005</b>							
<b>(unaudited)</b>							
<b>Increase/(decrease) in assets</b>							
Goodwill	-	-	-	-	485	-	485
Property, plant and equipment	12,171	-	-	-	-	-	12,171
Prepaid premium on leasehold land held for own use under an operating lease	23,053	-	-	-	-	-	23,053
Investment properties	(35,700)	-	67,271	-	-	-	31,571
Financial assets at fair value through profit or loss	-	252,517	-	-	-	-	252,517
Investments	-	(252,517)	-	-	-	-	(252,517)
Deferred tax assets	-	-	-	3,206	-	-	3,206
<b>Increase in liabilities</b>							
Deferred tax liabilities	-	-	-	-	-	28,169	28,169
<b>Increase/(decrease) in reserves</b>							
Share premium	-	-	-	10,297	-	-	10,297
Investment properties revaluation reserve	-	-	(93,694)	-	-	-	(93,694)
Properties revaluation reserve	-	-	4,803	-	-	-	4,803
Retained profits	(476)	-	156,162	(7,091)	485	(28,169)	120,911
<b>At 31 December 2004</b>							
<b>(restated)</b>							
<b>Increase in assets</b>							
Deferred tax assets	-	-	-	2,443	-	-	2,443
<b>Increase in liabilities</b>							
Deferred tax liabilities	-	-	-	-	-	16,397	16,397
<b>Increase/(decrease) in reserves</b>							
Share premium	-	-	-	7,974	-	-	7,974
Investment properties revaluation reserve	-	-	(93,694)	-	-	-	(93,694)
Properties revaluation reserve	-	-	4,803	-	-	-	4,803
Retained profits	-	-	88,891	(5,531)	-	(16,397)	66,963

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

	HKAS		Effects of adopting		HKAS -Int 21	Total
	16/17 HK\$'000	40 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3 HK\$'000		
<b>For the six months ended 30 June 2005 (unaudited)</b>						
<b>Increase/(decrease) in profit attributable to shareholders</b>						
(Increase)/decrease in administrative expenses	(476)	-	(2,323)	485	-	(2,314)
Increase in revaluation surplus on investment properties	-	67,271	-	-	-	67,271
(Increase)/decrease in tax expense	-	-	763	-	(11,772)	(11,009)
	<u>(476)</u>	<u>67,271</u>	<u>(1,560)</u>	<u>485</u>	<u>(11,772)</u>	<u>53,948</u>
<b>Increase/(decrease) in profit attributable to shareholders</b>						
	<u>(476)</u>	<u>67,271</u>	<u>(1,560)</u>	<u>485</u>	<u>(11,772)</u>	<u>53,948</u>
<b>Increase/(decrease) in basic earnings per share (HK cents)</b>						
	<u>(0.03)</u>	<u>3.97</u>	<u>(0.09)</u>	<u>0.03</u>	<u>(0.70)</u>	<u>3.18</u>
<b>Increase/(decrease) in diluted earnings per share (HK cents)</b>						
	<u>(0.03)</u>	<u>3.83</u>	<u>(0.09)</u>	<u>0.03</u>	<u>(0.67)</u>	<u>3.07</u>
<b>For the six months ended 30 June 2004 (unaudited)</b>						
<b>Increase/(decrease) in profit attributable to shareholders</b>						
Increase in administrative expenses	-	-	(3,336)	-	-	(3,336)
Decrease in tax expense	-	-	1,004	-	-	1,004
	<u>-</u>	<u>-</u>	<u>(2,332)</u>	<u>-</u>	<u>-</u>	<u>(2,332)</u>
<b>Decrease in profit attributable to shareholders</b>						
	<u>-</u>	<u>-</u>	<u>(2,332)</u>	<u>-</u>	<u>-</u>	<u>(2,332)</u>
<b>Decrease in basic earnings per share (HK cents)</b>						
	<u>-</u>	<u>-</u>	<u>(0.15)</u>	<u>-</u>	<u>-</u>	<u>(0.15)</u>
<b>Decrease in diluted earnings per share (HK cents)</b>						
	<u>-</u>	<u>-</u>	<u>(0.15)</u>	<u>-</u>	<u>-</u>	<u>(0.15)</u>

(b) *New accounting policies*

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

**2.1 Acquisition of subsidiaries and associates**

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment.

**2.2 Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### **2.3 Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed at least annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

## **2.4 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## **2.5 Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## **2.6 Investments**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

### *(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.7).

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, and in the case of financial assets not carried at fair value through profit or loss, plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

## **2.7 Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## **2.8 Share-based compensation**

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## **2.9 Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

### 3 Segment information

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

#### *Business segments*

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

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

**Six months ended 30 June 2004**

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

*Notes:*

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the period amounted to HK\$2,147,000 (2004: HK\$2,034,000), which has not been included in the segment results shown above.

The segment assets and liabilities at 30 June 2005 are as follows:

	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	Group HK\$'000
<b>Assets</b>				
Segment assets	462,951	765,515	(143)	1,228,323
Investment in associated companies	32,384	–	–	<u>32,384</u>
				1,260,707
Unallocated assets				<u>706,111</u>
Total assets				<u><u>1,966,818</u></u>
<b>Liabilities</b>				
Segment liabilities	251,580	92,273	(143)	343,710
Unallocated liabilities				<u>1,070</u>
Total liabilities				<u><u>344,780</u></u>

The segment assets and liabilities at 31 December 2004 are as follows:

	Toys HK\$'000 (restated)	Property investment and management HK\$'000 (restated)	Eliminations HK\$'000	Group HK\$'000 (restated)
<b>Assets</b>				
Segment assets	519,913	675,847	(143)	1,195,617
Investment in associated companies	35,531	–	–	<u>35,531</u>
				1,231,148
Unallocated assets				<u>374,391</u>
Total assets				<u><u>1,605,539</u></u>
<b>Liabilities</b>				
Segment liabilities	348,099	78,630	(143)	426,586
Unallocated liabilities				<u>7,255</u>
Total liabilities				<u><u>433,841</u></u>

### Geographical segments

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

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

Segment assets are allocated based on where the assets are located.

	30 June	31 December
	2005	2004
	HK\$'000	HK\$'000
		(restated)
<b>Segment assets</b>		
America		
– USA	354,166	506,775
Asia Pacific	874,157	688,842
	<u>1,228,323</u>	<u>1,195,617</u>

#### 4 Profit before taxation

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

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

## 5 Taxation credit/charge

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

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

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

## 6 Dividend

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

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

## 7 Earnings per share

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

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

## 8 Capital expenditure

	<b>Property, plant and equipment</b>	<b>Investment properties</b>	<b>Prepaid premium on leasehold land held for own use under an operating lease</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book amount as at 1 January 2005	8,031	662,000	–
Reclassification	12,385	(35,700)	23,315
Additions	3,078	19,629	–
Revaluation surplus	–	67,271	–
Depreciation	(1,651)	–	–
Amortisation	–	–	(262)
Disposals	(22)	–	–
	<hr/>	<hr/>	<hr/>
<b>Closing net book amount as at 30 June 2005</b>	<b><u>21,821</u></b>	<b><u>713,200</u></b>	<b><u>23,053</u></b>
Opening net book amount as at 1 January 2004	9,576	542,000	–
Additions	1,232	–	–
Depreciation	(2,731)	–	–
Disposals	(506)	–	–
	<hr/>	<hr/>	<hr/>
Closing net book amount as at 30 June 2004	7,571	542,000	–
Additions	2,255	548	–
Revaluation surplus	–	155,452	–
Depreciation	(1,795)	–	–
Disposal of a subsidiary	–	(36,000)	–
	<hr/>	<hr/>	<hr/>
Closing net book amount as at 31 December 2004	<b><u>8,031</u></b>	<b><u>662,000</u></b>	<b><u>–</u></b>

## 9 Trade receivables

As at 30 June 2005, 99.1% (31 December 2004: 99.6%) of the trade receivables were current to 30 days, 0.1% (31 December 2004: nil) 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 granted to tenants.

## 10 Bank loans

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Secured bank loans payable:		
Within one year	2,964	2,964
In the second year	2,964	2,964
In the third to fifth years	8,892	8,892
After the fifth year	15,529	17,011
	<u>30,349</u>	<u>31,831</u>
Unsecured bank loan payable within one year	–	19,500
	<u>30,349</u>	<u>51,331</u>
Current portion included in current liabilities	<u>(2,964)</u>	<u>(22,464)</u>
	<u><u>27,385</u></u>	<u><u>28,867</u></u>

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

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

## 11 Trade payables

As at 30 June 2005, 91.2% (31 December 2004: 60.4%) of the trade payables were current to 30 days, 8.4% (31 December 2004: 36.6%) were 31 to 60 days and the remaining were over 60 days.

## 12 Share capital

	<b>Authorised Ordinary shares of HK\$0.10 each</b>	
	No. of shares	HK\$'000
<b>At 30 June 2005 and 31 December 2004</b>	<b><u>3,000,000,000</u></b>	<b><u>300,000</u></b>
	<b>Issued and fully paid Ordinary shares of HK\$0.10 each</b>	
	No. of shares	HK\$'000
At 1 January 2004	1,546,417,840	154,642
Exercise of warrants 2004	11,099,771	1,110
Exercise of warrants 2005	62,162	6
Exercise of share options	5,933,000	593
At 1 January 2005	1,563,512,773	156,351
Exercise of warrants 2005 ( <i>Note i</i> )	299,441,936	29,944
Exercise of warrants 2006 ( <i>Note ii</i> )	2,968	–
Exercise of share options	3,698,000	370
<b>At 30 June 2005</b>	<b><u>1,866,655,677</u></b>	<b><u>186,665</u></b>

### *Notes:*

- (i) The warrants were exercisable from 24 May 2004 to 23 May 2005 at an initial subscription price of HK\$1.42 per share (subject to adjustment). On 23 May 2005, 12,327,377 warrants which had not been exercised, were lapsed.
- (ii) On 20 May 2005, 366,793,085 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 28 April 2005 on the basis of the bonus issue of one warrant for every five shares held. These warrants are exercisable from 24 May 2005 to 23 May 2006 at an initial subscription price of HK\$2.03 per share (subject to adjustment). As at 30 June 2005, 366,790,117 warrants issued on 20 May 2005 remained unexercised.

## 13 Contingent liabilities

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

## 14 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 2005 were payable as follows:

	<b>30 June 2005</b>	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>22,430</b>	17,470
In the second to fifth years inclusive	<b>19,586</b>	15,990
	<b>42,016</b>	33,460

## 15 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 2005, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	<b>30 June 2005</b>	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>10,766</b>	10,420
In the second to fifth years inclusive	<b>26,800</b>	29,333
After the fifth year	<b>1,051</b>	2,831
	<b>38,617</b>	42,584

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$6,115,000 (31 December 2004: HK\$6,621,000).

**(b) As lessor**

At 30 June 2005, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	<b>30 June 2005</b>	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>28,840</b>	19,853
In the second to fifth years inclusive	<b>20,530</b>	11,500
	<b>49,370</b>	31,353

**16 Related-party transactions**

**Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Salaries and other short-term employee benefits	<b>5,581</b>	5,233
Share-based payments	<b>1,694</b>	2,107
	<b>7,275</b>	7,340

**17 US dollar equivalents**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Performance Highlights

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

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

### Property Investments and Associated Businesses

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

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

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

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

## Playmates Toys Overview

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

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

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

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

### **Brand Overview:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***2006 and Beyond:***

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

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

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

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

### **Liquidity and Financial Resources**

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

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

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

### **Charges on Group Assets**

Details of charges on group assets are set out in note 10 to the interim accounts.

### **Employees**

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

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

## SHARE OPTIONS

The followings show the particulars of the share options of the Company granted to directors of the Company and employees of the Group, pursuant to the Share Option Plan (“Plan”) and the 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 1 January 2005	Exercised during the period (Note (1) & Note (2))	Lapsed during the period	Balance at 30 June 2005
<b>Plan</b>						
Sidney TO Shu Sing <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
<i>Continuous Contract Employees, excluding Directors</i>	15 May 1998	0.532	1,728,600	500,000	–	1,228,600
	27 May 1999	0.506	512,700	200	–	512,500
	22 July 2000	0.626	1,395,200	137,400	–	1,257,800
	21 May 2001	0.297	2,866,400	424,400	8,500	2,433,500
	28 August 2001	0.294	8,163,000	–	–	8,163,000
<b>Scheme</b>						
Sidney TO Shu Sing <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
	7 January 2004	1.360	1,200,000	–	–	1,200,000
Allen LEE Peng Fei <i>Director</i>	9 August 2002	0.199	500,000	250,000	–	250,000
Anthony LO Kai Yiu <i>Director</i>	9 August 2002	0.199	1,000,000	750,000	–	250,000
TSIM Tak Lung <i>Director</i>	9 August 2002	0.199	250,000	–	–	250,000
David YU Hon To <i>Director</i>	9 August 2002	0.199	500,000	250,000	–	250,000
<i>Continuous Contract Employees, excluding Directors</i>	9 August 2002	0.199	7,424,000	44,500	23,500	7,356,000
	10 March 2003	0.550	9,548,500	957,300	58,000	8,533,200
	7 January 2004	1.360	14,079,600	384,200	467,000	13,228,400
	19 March 2004	1.240	11,000,000	–	–	11,000,000

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were exercised by Mr. Allen Lee Peng Fei, Mr. Anthony Lo Kai Yiu and Mr. David Yu Hon To during the period were HK\$1.69, HK\$1.72 and HK\$1.72 respectively.
- (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\$1.683.

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 granted or cancelled during the period.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 June 2005, the interests of each director 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 Divisions 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 Issuers (“Model Code”) were as follows:

### **Long position in shares**

Name of director	Name of company	Capacity/nature of interest	Number of shares held	Percentage interests held
Thomas CHAN Chun Hoo	Playmates Holdings Limited	Corporate ( <i>Note (a)</i> )	732,000,000 ordinary shares	39.21%
Sidney TO Shu Sing	Playmates Holdings Limited	Personal	8,760,000 ordinary shares	0.47%
Charles IP Shu Wing	Playmates Holdings Limited	Personal	18,400,000 ordinary shares	0.99%
	Nippon Toys Limited	Personal ( <i>Note (b)</i> )	1 share	50%
Allen LEE Peng Fei	Playmates Holdings Limited	Personal	250,000 ordinary shares	0.01%

Name of director	Name of company	Capacity/nature of interest	Number of shares held	Percentage interests held
Anthony LO Kai Yiu	Playmates Holdings Limited	Personal	2,390,000 ordinary shares	0.13%
TSIM Tak Lung	Playmates Holdings Limited	Personal	1,114,000 ordinary shares	0.06%
David YU Hon To	Playmates Holdings Limited	Corporate & Personal (Note (c))	5,050,000 ordinary shares	0.27%

### Long position in underlying shares of the Company

Name of director	Capacity/nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary share)	Percentage interests held
Thomas CHAN Chun Hoo	Corporate (Note (a))	146,400,000 warrants	146,400,000 shares	7.84%
Sidney TO Shu Sing	Personal	1,752,000 warrants	1,752,000 shares	0.09%
	Personal	6,893,000 share options	6,893,000 shares	0.37%
Charles IP Shu Wing	Personal	3,680,000 warrants	3,680,000 shares	0.20%
Allen LEE Peng Fei	Personal	50,000 warrants	50,000 shares	0.003%
		250,000 share options	250,000 shares	0.01%
Anthony LO Kai Yiu	Personal	478,000 warrants	478,000 shares	0.03%
	Personal	250,000 share options	250,000 shares	0.01%
TSIM Tak Lung	Personal	222,800 warrants	222,800 shares	0.01%
	Personal	250,000 share options	250,000 shares	0.01%
David YU Hon To	Corporate & Personal (Note (c))	1,010,000 warrants	1,010,000 shares	0.05%
	Personal	250,000 share options	250,000 shares	0.01%

*Notes:*

- (a) 732,000,000 ordinary shares and 146,400,000 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. Thomas Chan Chun Hoo.
- (b) Mr. Charles Ip Shu Wing has a personal interest of one share in Nippon Toys Limited, an associated company of the Group.
- (c) 4,200,000 ordinary shares and 840,000 warrants of the Company were held by a private company which is 50% owned by Mr. David Yu Hon To and 50% owned by a member of his family.

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 2005.

The warrants are exercisable at any time from 24 May 2005 to 23 May 2006, both dates inclusive, at an initial subscription price of HK\$2.03 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 20 May 2005.

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 2005, none of the directors and chief executive of the Company was 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.

## **SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY REQUIRED TO BE RECORDED UNDER SECTION 336 OF THE SFO**

Apart from the interests disclosed above in respect of directors and chief executive of the Company, as at 30 June 2005, no other party had an interest or a short position 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.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

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

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 two executive directors (one of whom is the Chairman) and five non-executive directors. Of the five non-executive directors, three 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 has full confidence in Mr. Thomas Chan Chun Hoo and 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 unaudited condensed interim accounts for the six months ended 30 June 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 specific enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the period ended 30 June 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

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

On behalf of the Board  
**Thomas CHAN Chun Hoo**  
*Chairman*

Hong Kong, 29 August 2005

## **CORPORATE INFORMATION**

### **Executive Directors**

Thomas CHAN Chun Hoo (*Chairman*)  
Sidney TO Shu Sing

### **Independent Non-executive Directors**

Allen LEE Peng Fei  
Anthony LO Kai Yiu  
David YU Hon To

### **Non-executive Directors**

TSIM Tak Lung (*Deputy Chairman*)  
Charles IP Shu Wing

### **Company Secretary**

Tracy FONG Yuk Yu *FCIS*

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **Principal Office**

21/F., The Toy House  
100 Canton Road  
Tsimshatsui  
Kowloon, Hong Kong

### **Stock Code**

The shares of Playmates Holdings  
Limited are listed for trading on The  
Stock Exchange of Hong Kong  
Limited  
(Stock code: 0635)

### **Website**

[www.playmatestoys.com](http://www.playmatestoys.com)

### **Auditors**

PricewaterhouseCoopers  
*Certified Public Accountants*

### **Legal Advisors**

Conyers Dill & Pearman  
Deacons

### **Principal Bankers**

The Hongkong and  
Shanghai Banking Corporation Limited  
Standard Chartered Bank

### **Principal Share Registrars**

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM11, Bermuda

### **Branch Share Registrars**

Abacus Share Registrars Limited  
G/F., Bank of East Asia Harbour View  
Centre  
56 Gloucester Road  
Wanchai, Hong Kong

The logo features the word "Playmates" in a white, italicized serif font with a registered trademark symbol (®) to its upper right. The text is set against a blue rectangular background with rounded corners, which is accented by a red horizontal bar at the bottom. The entire logo is centered within a dynamic blue background of concentric circles and glowing white dots.

*Playmates*®

[www.playmatestoys.com](http://www.playmatestoys.com)