



2006 INTERIM REPORT

Playmates Holdings Limited

(Incorporated in Bermuda with limited liability)

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MANAGEMENT DISCUSSION AND ANALYSIS

Highlights of Performance

For the six months ended 30 June	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Group turnover	338,837	462,762
– from toys business	317,579	447,816
– from property investment & associated business	21,258	14,946
Gross profit	165,327	240,796
Revaluation surplus on investment properties	167,931	67,271
Operating profit	135,585	91,489
Profit attributable to shareholders	125,105	94,814
Earnings per share	HK cents	HK cents
– Basic	6.69	5.60
– Diluted	6.64	5.41
Interim dividend per share	2.00	2.50

Property Investment & Associated Business

Rental and management income from the portfolio of properties for the period increased by 42.2% from the same period a year ago. Segment operating profit was HK\$181 million, an increase of 135.2% over the comparative period. Overall occupancy rate remained at a high level of 96% during the period under review.

Rental income from both new leases and renewals generated by the principal property at 100 Canton Road recorded significant growth during the period, reflecting robust market demand for commercial premises and benefiting from the enhancement program commenced in 2005. A renowned restaurant and a reputable spa treatment center are scheduled to open in the coming months. The final phase of the enhancement program is expected to be completed by the end of the year at which time the premises will host several more premier retail tenants.

Rental income from the residential properties acquired in January 2006 also contributed to the increase in rental income of the Group during the period. Rental yields from new leases of these properties increased substantially as a direct result of the ongoing refurbishment and upgrade program undertaken since the acquisition earlier in the year.

With the sustained growth of the regional economy, management remains confident of the positive outlook of the property investment and associated business which will continue to form an important and integral part of the activities of the Group.

Toys Business

Playmates Toys worldwide sales during the first half of 2006 were HK\$318 million, a decrease of 29.1% over the same period last year. This decrease was attributable to sluggishness in the U.S. retail sector and specifically within the boys' toy category of action figures. Rising interest rates and higher gas and oil prices negatively impacted consumer spending and when coupled with the continuing inventory reduction by major retailers, resulted in an overall industry decline in U.S. toy retail sales of 3% through 30 June 2006. Despite the first half sales decrease, over the counter U.S. retail sales of Playmates Toys' products accelerated during June, generating positive momentum and assuring continued trade support as we enter the second half of the year with a wide variety of new products and extensions to proven product lines.

Gross profit was 45.4% of toy sales during the first half of 2006 (50.4% during the same period in 2005). The lower gross profit percentage is attributable to increased investment in tooling and R&D, and higher product costs. Consistent with Playmates Toys low overhead operating strategy, recurring operating expenses were within plan and comparable to the same period last year. The division reported an operating loss of HK\$32 million (operating profit of HK\$22 million during the same period in 2005) resulting from decreased sales volume, lower gross margin, and increased spending on the marketing of new brands.

Lower U.S. sales of *Teenage Mutant Ninja Turtles* ("Turtles") reflected the overall market decline in the action figure category as well as fewer retailer promotions for the brand compared to the same period last year. The discontinuation of the *Speedeez* vehicle product line in the U.S. market in late 2005 also contributed to the first half sales decrease. Sales of *King Kong* products remained strong through the first half but will not figure prominently in our second half sales mix. Sales outside the U.S. also decreased during the first half of the year, due primarily to lower *Speedeez* and *Turtles* sales. The launch of several new girls' brands and the *R.E.V.s* vehicle line will strengthen the Company's international distribution in the second half of the year.

Sales of Playmates Toys' girls' brands remain healthy, led by *Disney Princess* and the successful launch of the all new, contemporized *Strawberry Shortcake*.

Although lower than the same period in 2005, sales in the first half of 2006 were within management expectations and consistent with the Company's plans to launch a significant number of new products during the second half of this year. These introductions include: an entirely new line of products inspired by *Disney Fairies*, Disney's latest girl's entertainment and lifestyle franchise, a widely expanded *Amazing* doll and feature plush offering, a broader *Strawberry Shortcake* line that will capitalize on the success of our spring launch campaign, and *Turtles* products inspired by both the all new animated *Fast Forward* television series and the highly anticipated, computer generated *TMNT* feature film.

Brand Overview:

All new animated television episodes and feature film entertainment will expand the ***Turtles*** franchise in the second half of 2006 and throughout 2007. The new ***Fast Forward*** animated series will premier in September in the U.S. and, for the first time in the history of the ***Turtles***, a computer generated feature film will premier worldwide in spring 2007. A DVD release of the feature film in the fall of 2007 will create a full year entertainment platform upon which Playmates Toys will build an entirely new line of products.

This fall, new girls' toy introductions will be led by extensions to the successful, proprietary ***Amazing*** brand of dolls and feature plush. Sales of ***Amazing*** dolls will grow in 2006 with the introduction of ***Amazing Allysen***. ***Allysen*** will extend the age appeal of the ***Amazing*** doll segment and is a complimentary, accretive addition to this proprietary brand. A new special feature plush product will be added to the ***Amazing Pets*** segment in 2006. ***Love 'n Licks Puppy*** will join 2005's ***Cold Nose Puppy*** to expand this realistic, interactive plush segment.

In the spring of this year, Playmates Toys unveiled an entirely new look for ***Strawberry Shortcake***. The new look, new packaging and extensive promotion of these dolls and accessories successfully revitalized the toy segment of this perennial girl's entertainment franchise. The successful spring launch in the U.S. and Canada resulted in significantly expanded retail listings for the line this fall and set the stage for expanded distribution in international markets such as France, Australia, the U.K., Spain and Mexico where ***Strawberry Shortcake*** has a strong toy heritage and loyal following among girls.

Disney Princess dolls and accessories continue to generate stable revenues within Playmates Toys' portfolio. Playmates Toys line will expand in the fall of this year with new dolls inspired by Disney's Platinum Edition DVD re-release of ***The Little Mermaid***.

We have been appointed by Disney Consumer Products as their master toy partner for their latest and most important new girls branding initiative, ***Disney Fairies***. Disney has committed the resources of their various print, television, home video, theatrical, online and theme park divisions to spread the ***Disney Fairies*** message in the years ahead. Additionally, our grant of creative activity rights in this franchise will enable us to build our presence in this strategic growth category as awareness for ***Disney Fairies*** builds throughout 2007.

Playmates Toys enters the second half of the year with broad retail support for its new product offering and remains on track to achieve its 2006 plan. This continued portfolio expansion is further affirmation of our commitment to broaden and diversify our product offering, a central tenet of our long term growth strategy. The 2007 product line will be unveiled in New York during the toy fair of this October, with major extensions to existing brands and significant new introductions. The fundamentals for Playmates Toys' future growth remain firmly in place.

CONDENSED FINANCIAL INFORMATION

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	Note	Unaudited		
		Six months ended 30 June		
		2006	2006	2005
		US\$'000	HK\$'000	HK\$'000
		(Note 16)		
Turnover	2	43,721	338,837	462,762
Cost of sales		(22,388)	(173,510)	(221,966)
Gross profit		21,333	165,327	240,796
Marketing expenses		(11,979)	(92,840)	(104,464)
Selling, distribution and administration expenses		(13,527)	(104,833)	(89,538)
Revaluation surplus on investment properties		21,668	167,931	67,271
Restructuring expenses		–	–	(22,576)
Operating profit		17,495	135,585	91,489
Non-operating income/(expenses)				
Interest expense and bank charges		(260)	(2,012)	(2,717)
Other revenues		981	7,602	6,544
Net gain/(loss) on investments		136	1,056	(1,823)
		18,352	142,231	93,493
Share of profits less losses of associated companies		26	201	(2,147)
Profit before taxation	3	18,378	142,432	91,346
Taxation (charge)/credit	4	(2,235)	(17,327)	3,468
Profit attributable to shareholders		16,143	125,105	94,814
Dividend	5	4,826	37,399	46,666
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6			
Basic		0.86	6.69	5.60
Diluted		0.86	6.64	5.41

Condensed Consolidated Balance Sheet
As at 30 June 2006 and 31 December 2005

		Unaudited	Unaudited	Audited	
		30 June	30 June	31 December	
		2006	2006	2005	
<i>Note</i>		<i>US\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
		<i>(Note 16)</i>			
Non-current assets					
Fixed assets					
	– Investment properties	7	144,258	1,118,000	694,700
	– Other property, plant and equipment	7	5,156	39,963	41,489
	– Prepaid premium on leasehold land held for own use under an operating lease	7	6,280	48,668	49,234
			<hr/>	<hr/>	<hr/>
			155,694	1,206,631	785,423
	Goodwill		771	5,976	5,976
	Investment in associated companies		4,391	34,029	36,328
	Held-to-maturity investments		–	–	33,869
	Deferred tax assets		8,940	69,285	69,732
			<hr/>	<hr/>	<hr/>
			169,796	1,315,921	931,328
Current assets					
	Inventories		6,980	54,093	57,786
	Trade receivables	8	16,231	125,792	371,646
	Deposit for purchase of investment property		–	–	21,835
	Other receivables, deposits and prepayments		7,609	58,973	50,729
	Taxation recoverable		–	–	43
	Financial assets at fair value through profit or loss		37,810	293,031	226,347
	Cash and bank balances		24,196	187,518	443,954
			<hr/>	<hr/>	<hr/>
			92,826	719,407	1,172,340

		Unaudited 30 June 2006 <i>US\$'000</i> <i>(Note 16)</i>	Unaudited 30 June 2006 <i>HK\$'000</i>	Audited 31 December 2005 <i>HK\$'000</i>
	<i>Note</i>			
Current liabilities				
Bank loans	9	128	997	19,957
Trade payables	10	6,810	52,778	92,899
Other payables and accrued charges		11,714	90,782	155,546
Provisions		2,742	21,248	51,775
Taxation payable		3,666	28,411	56,821
		<u>25,060</u>	<u>194,216</u>	<u>376,998</u>
Net current assets		<u>67,766</u>	<u>525,191</u>	<u>795,342</u>
Total assets less current liabilities		237,562	1,841,112	1,726,670
Non-current liabilities				
Bank loans	9	104	808	1,315
Deferred tax liabilities		9,877	76,548	45,262
		<u>9,981</u>	<u>77,356</u>	<u>46,577</u>
Net assets		<u><u>227,581</u></u>	<u><u>1,763,756</u></u>	<u><u>1,680,093</u></u>
Financed by:				
Share capital	11	24,128	186,993	186,766
Reserves		198,627	1,539,364	1,446,635
Proposed dividend	5	4,826	37,399	46,692
Shareholders' funds		<u><u>227,581</u></u>	<u><u>1,763,756</u></u>	<u><u>1,680,093</u></u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Unaudited		Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
				Reserve on consolidation <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>			
At 1 January 2005,								
as restated	156,351	349,127	582	21,082	7,974	-	636,582	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
- shares issued	370	1,415	-	-	-	-	-	1,785
At 30 June 2005	186,665	745,375	582	21,082	10,297	-	658,037	1,622,038
At 1 January 2006	186,766	742,234	1,116	21,082	16,901	-	711,994	1,680,093
Issue of shares	3	61	-	-	-	-	-	64
Share issuing expenses	-	(391)	-	-	-	-	-	(391)
2005 final dividend paid	-	-	-	-	-	-	(46,744)	(46,744)
Profit for the period	-	-	-	-	-	-	125,105	125,105
Exchange fluctuation	-	-	-	-	-	(1,634)	-	(1,634)
Employees share option scheme								
- value of employee services	-	-	-	-	6,572	-	-	6,572
- shares issued	224	567	-	-	(100)	-	-	691
- option lapsed	-	-	-	-	(236)	-	236	-
At 30 June 2006	186,993	742,471	1,116	21,082	23,137	(1,634)	790,591	1,763,756

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Unaudited		
	Six months ended 30 June		
	2006	2006	2005
	US\$'000	HK\$'000	HK\$'000
	(Note 16)		
Net cash generated from operating activities	8,579	66,489	76,334
Net cash used in investing activities	(33,158)	(256,973)	(82,802)
Net cash (used in)/generated from financing activities	(8,496)	(65,847)	332,221
Net (decrease)/increase in cash and cash equivalents	(33,075)	(256,331)	325,753
Cash and cash equivalents at 1 January	57,284	443,954	195,839
Effect of foreign exchange rate changes	(13)	(105)	–
Cash and cash equivalents at 30 June	<u>24,196</u>	<u>187,518</u>	<u>521,592</u>
<i>Analysis of cash and cash equivalents</i>			
Cash and bank balances	<u>24,196</u>	<u>187,518</u>	<u>521,592</u>

Notes to the Condensed Financial Information

1 Basis of preparation and accounting policies

This condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 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 2005 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 2005.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

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 turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2006			
	Toys business HK\$’000	Property investment and associated business HK\$’000	Elimination HK\$’000	Group HK\$’000
Revenue				
Turnover	317,579	21,258	–	338,837
Inter-segment revenue (Note iii)	–	341	(341)	–
	<u>317,579</u>	<u>21,599</u>	<u>(341)</u>	<u>338,837</u>
Results				
Segment results	(31,719)	180,717	–	148,998
Inter-segment transactions	(341)	341	–	–
	<u>(32,060)</u>	<u>181,058</u>	<u>–</u>	<u>148,998</u>
Unallocated costs				(13,413)
Operating profit				<u>135,585</u>

Six months ended 30 June 2005

	Toys business	Property investment and associated business	Elimination	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
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>
Results				
Segment results	22,597	76,694	–	99,291
Inter-segment transactions	(287)	287	–	–
	<u>22,310</u>	<u>76,981</u>	<u>–</u>	<u>99,291</u>
Unallocated costs				(7,802)
Operating profit				<u>91,489</u>

Notes:

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

The segment assets and liabilities as at 30 June 2006 are as follows:

	Toys business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Assets				
Segment assets	427,791	1,212,641	(183)	1,640,249
Unallocated assets				<u>395,079</u>
Total assets				<u><u>2,035,328</u></u>
Liabilities				
Segment liabilities	160,736	106,447	(183)	267,000
Unallocated liabilities				<u>4,572</u>
Total liabilities				<u><u>271,572</u></u>

The segment assets and liabilities as at 31 December 2005 are as follows:

	Toys business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Assets				
Segment assets	631,500	802,274	(143)	1,433,631
Unallocated assets				<u>670,037</u>
Total assets				<u><u>2,103,668</u></u>
Liabilities				
Segment liabilities	351,132	63,416	(143)	414,405
Unallocated liabilities				<u>9,170</u>
Total liabilities				<u><u>423,575</u></u>

Geographical segments

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

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Americas		
– USA	231,030	296,328
– Others	28,049	23,117
Europe	42,707	109,473
Asia Pacific	35,967	32,996
Others	1,084	848
	<u>338,837</u>	<u>462,762</u>

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

	30 June	31 December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
America		
– USA	343,272	589,331
Asia Pacific	1,296,977	844,300
	<u>1,640,249</u>	<u>1,433,631</u>

3 Profit before taxation

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

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	143,563	192,553
Provision for customer concession	2,557	2,785
Staff costs	45,142	38,862
Depreciation of fixed assets	3,794	1,913
Loss on disposal of fixed assets	39	22
	<u> </u>	<u> </u>
Crediting:		
Interest income	6,558	5,174
Dividend income from investments	1,044	1,370
Unutilised provision for customer concession	1,532	13,042
	<u> </u>	<u> </u>

4 Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 (charge)/credit in the condensed consolidated income statement comprises:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	(392)	(1,329)
Overseas taxation	10,793	(7,410)
Over-provision in prior years	–	170
Over-provision for pending tax cases	3,558	–
	<u> </u>	<u> </u>
	13,959	(8,569)
Deferred taxation		
Origination and reversal of temporary differences	(31,286)	12,037
	<u> </u>	<u> </u>
	(17,327)	3,468
	<u> </u>	<u> </u>

5 Dividend

At a meeting held on 2 March 2006 the Directors proposed a final dividend of HK cents 2.5 per share for the year ended 31 December 2005, which was paid on 12 May 2006 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2006.

At a meeting held on 18 August 2006 the Directors declared an interim dividend of HK cents 2.0 (2005: HK cents 2.5) per share for the year ending 31 December 2006 to be paid on 20 September 2006 to shareholders on the Company's Register of Members on 13 September 2006. 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 2006.

6 Earnings per share

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

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>125,105</u>	<u>94,814</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,868,725,000	1,692,825,000
Number of potential ordinary shares issuable under share options and warrants	<u>16,172,000</u>	<u>61,352,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,884,897,000</u>	<u>1,754,177,000</u>

7 Fixed assets

	Investment properties <i>HK'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Prepaid premium on leasehold land held for own use under an operating lease <i>HK\$'000</i>
Opening net book amount as at 1 January 2006	694,700	41,489	49,234
Additions	255,369	1,782	–
Revaluation surplus	167,931	–	–
Depreciation/Amortisation	–	(3,228)	(566)
Disposals	–	(39)	–
Exchange fluctuation	–	(41)	–
	<u> </u>	<u> </u>	<u> </u>
Closing net book amount as at 30 June 2006	<u>1,118,000</u>	<u>39,963</u>	<u>48,668</u>
Opening net book amount as at 1 January 2005	662,000	8,031	–
Reclassification	(35,700)	12,385	23,315
Additions	19,629	3,078	–
Revaluation surplus	67,271	–	–
Depreciation/Amortisation	–	(1,651)	(262)
Disposals	–	(22)	–
	<u> </u>	<u> </u>	<u> </u>
Closing net book amount as at 30 June 2005	713,200	21,821	23,053
Reclassification	(40,800)	14,154	26,646
Additions	14,675	8,264	–
Revaluation surplus	7,625	–	–
Depreciation/Amortisation	–	(2,601)	(465)
Disposals	–	(149)	–
	<u> </u>	<u> </u>	<u> </u>
Closing net book amount as at 31 December 2005	<u>694,700</u>	<u>41,489</u>	<u>49,234</u>

The additions to investment properties represent a number of residential flats situate at Nos. 21 & 21A and Nos. 23 & 23A, MacDonnell Road, Hong Kong. All these properties are held under long term leases.

8 Trade receivables

As at 30 June 2006, 96.8% (31 December 2005: 99.0%) of the trade receivables net of provisions were current to 30 days, 1.3% (31 December 2005: 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 granted to tenants.

9 Bank loans

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Secured bank loans payable:		
Within one year	997	957
In the second year	808	1,041
In the third to fifth years	–	274
	1,805	2,272
Unsecured bank loan payable within one year	–	19,000
	–	21,272
Current portion included in current liabilities	(997)	(19,957)
	808	1,315

As at 30 June 2006, the Group had banking facilities amounting to approximately HK\$658 million (31 December 2005: HK\$363 million), of which HK\$2 million (31 December 2005: HK\$21 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and other fixed assets with net book value of HK\$781 million (31 December 2005: HK\$649 million) of the Group at 30 June 2006.

10 Trade payables

As at 30 June 2006, 98.3% (31 December 2005: 74.7%) of the trade payables were current to 30 days, 1.6% (31 December 2005: 24.7%) were 31 to 60 days and the remaining were over 60 days.

11 Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2006 and 31 December 2005	<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 2005	1,563,512,773	156,351
Exercise of warrants 2005	299,441,936	29,944
Exercise of warrants 2006	5,538	1
Exercise of share options	10,044,000	1,004
Repurchase of shares	(5,344,000)	(534)
	<u>1,867,660,247</u>	<u>186,766</u>
At 1 January 2006	1,867,660,247	186,766
Exercise of warrants 2006 (<i>Note i</i>)	30,650	3
Exercise of warrants 2007 (<i>Note ii</i>)	2,000	–
Exercise of share options	2,234,000	224
	<u>1,869,926,897</u>	<u>186,993</u>
At 30 June 2006	<u>1,869,926,897</u>	<u>186,993</u>

Notes:

- (i) The warrants were exercisable from 24 May 2005 to 23 May 2006 at an initial subscription price of HK\$2.03 per share (subject to adjustment). On 23 May 2006, 366,756,897 warrants which had not been exercised, were lapsed.
- (ii) On 24 May 2006, 373,948,079 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 4 May 2006 on the basis of a bonus issue of one warrant for every five shares held by the shareholders. These warrants are exercisable from 26 May 2006 to 25 May 2007 at an initial subscription price of HK\$1.03 per share (subject to adjustment). As at 30 June 2006, 373,946,079 warrants issued on 24 May 2006 remained unexercised.

12 Contingent liabilities

The Company has provided guarantees in favour of banks with respect to banking facilities made available to subsidiaries amounting to approximately HK\$658 million (31 December 2005: HK\$363 million), of which HK\$2 million (31 December 2005: HK\$21 million) of such banking facilities was utilised as at 30 June 2006.

13 Commitments

(a) Capital commitments

The capital expenditure of HK\$196,515,000 committed for the acquisition of certain investment properties as at 31 December 2005 was fully settled during the period. There was no material capital commitment as at 30 June 2006.

(b) Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute 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 2006 were payable as follows:

	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	29,613	31,220
In the second to fifth years inclusive	38,853	20,475
	<u>68,466</u>	<u>51,695</u>

14 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 2006, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Within one year	9,602	11,071
In the second to fifth years inclusive	18,793	22,969
After the fifth year	34	936
	<u>28,429</u>	<u>34,976</u>

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$4,544,000 (31 December 2005: HK\$5,446,000).

(b) As lessor

At 30 June 2006, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Within one year	33,648	27,990
In the second to fifth years inclusive	55,154	18,970
	<u>88,802</u>	<u>46,960</u>

15 Related party transactions

The Group did not enter into any material related party transaction during the period except the following:

Key management compensation

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	6,122	5,432
Employer's contribution to provident fund	158	149
Share-based compensation	3,623	1,694
	<u>9,903</u>	<u>7,275</u>

16 US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 30 June 2006.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

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 2006, trade receivables related to toys operation were HK\$125,354,000 (31 December 2005: HK\$371,370,000) and inventories were HK\$54,093,000 (31 December 2005: HK\$57,786,000).

The property investment and associated 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 2006. 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 2006 was 0.1% compared to 1.0% at 31 December 2005. The current ratio, calculated as the ratio of current assets to current liabilities, was 3.7 at 30 June 2006 compared to 3.1 at 31 December 2005.

The Group maintains a level of cash that is necessary and sufficient to serve recurring operations as well as further growth and developmental needs. After considering the operating cash flow and liquidity requirements, a portion of cash on hand may be invested from time to time in various types of financial instruments including fixed income, equity, derivatives and managed funds with a view to enhance overall return. The selection and allocation of such yield enhancement investments are regularly reviewed to ensure that an acceptable risk-and-return profile is maintained and the liquidity requirements of the Group are served. As at 30 June 2006, the Group's cash and bank balances were HK\$187,518,000 (31 December 2005: HK\$443,954,000), and the amount invested in various securities was HK\$293,031,000 (31 December 2005: HK\$260,216,000).

Charges on Group Assets

Details of charges on group assets are set out in note 9 to the interim accounts.

Employees

As at 30 June 2006, the Group had a total of 144 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 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 30 June 2006
			Balance at 1 January 2006	Granted during the period (Note (1))	Exercised during the period (Note (2))	Lapsed during the period	
Plan							
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	1,228,600	-	-	-	1,228,600
	27 May 1999	0.506	512,500	-	-	-	512,500
	22 July 2000	0.626	1,257,800	-	22,000	-	1,235,800
	21 May 2001	0.297	1,796,000	-	1,080,200	-	715,800
	28 August 2001	0.294	8,163,000	-	-	-	8,163,000
Scheme							
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
	22 September 2005	1.206	1,500,000	-	-	-	1,500,000
	4 May 2006	0.910	-	750,000	-	-	750,000
Alain CHENG Bing Kin <i>Director</i>	7 January 2004	1.360	590,000	-	-	-	590,000
	22 September 2005	1.206	750,000	-	-	-	750,000
	4 May 2006	0.910	-	750,000	-	-	750,000
Allen LEE Peng Fei <i>Director</i>	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000
Anthony LO Kai Yiu <i>Director</i>	9 August 2002	0.199	250,000	-	-	-	250,000
	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000
David YU Hon To <i>Director</i>	22 September 2005	1.206	1,000,000	-	-	-	1,000,000
	4 May 2006	0.910	-	750,000	-	-	750,000

Participant	Date of grant	Exercise price HK\$	Number of share options				Balance at 30 June 2006
			Balance at 1 January 2006	Granted during the period (Note (1))	Exercised during the period (Note (2))	Lapsed during the period	
Alexander CHOW Yu Chun <i>Director</i>	4 May 2006	0.910	-	750,000	-	-	750,000
TSIM Tak Lung <i>Director</i>	22 September 2005 4 May 2006	1.206 0.910	1,000,000 -	- 750,000	- -	- -	1,000,000 750,000
Charles IP Shu Wing <i>Director</i>	22 September 2005 4 May 2006	1.206 0.910	1,000,000 -	- 750,000	- -	- -	1,000,000 750,000
<i>Continuous Contract</i>	9 August 2002	0.199	3,876,000	-	758,000	32,000	3,086,000
<i>Employees, excluding</i>	10 March 2003	0.550	6,660,000	-	373,800	32,000	6,254,200
<i>Directors</i>	7 January 2004	1.360	11,300,100	-	-	476,000	10,824,100
	19 March 2004	1.240	11,000,000	-	-	-	11,000,000
	22 September 2005	1.206	21,026,000	-	-	450,000	20,576,000
	9 January 2006	1.030	-	500,000	-	-	500,000
	4 May 2006	0.910	-	14,890,000	-	-	14,890,000

Notes:

- (1) The closing prices of the ordinary shares of the Company on 6 January 2006 and 3 May 2006, being the trading days immediately before the dates on which the share options were granted during the period, were HK\$1.04 and HK\$0.87 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\$0.9505.

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 fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model. The expected life of the option is used as an input into this model.

Fair value of share options and assumptions

	2006 (weighted average)	2005
Fair value at measurement date	0.361	0.509
Share price	0.913	1.206
Exercise price	0.913	1.206
Expected volatility	50.33%	51.63%
Expected option life	5 years	5 years
Expected dividend yield	2.59%	2.00%
Risk-free interest rate (based on Exchange Fund Notes)	4.35%	4.17%

The expected volatility is based on the historic volatility (calculated based on the weighted average life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Directors' and Chief Executive's Interests and Short Positions in the Shares and Underlying Shares of Equity Derivatives of the Company or any Associated Corporation

As at 30 June 2006, the interests of each Director and Chief Executive of the Company in the shares and underlying shares of equity derivatives 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") of the Listing Rules were as follows:

Long position in shares of the Company and its associated corporation

Name of Director	Name of company	Nature of interest	Number of shares held	Percentage interests held
Thomas CHAN Chun Hoo	Playmates Holdings Limited	Corporate (Note (a))	730,900,000 ordinary shares	39.09%
Sidney TO Shu Sing	Playmates Holdings Limited	Personal	9,360,000 ordinary shares	0.50%
Alain CHENG Bing Kin	Playmates Holdings Limited	Personal	1,200,000 ordinary shares	0.06%
Allen LEE Peng Fei	Playmates Holdings Limited	Personal	500,000 ordinary shares	0.03%
Anthony LO Kai Yiu	Playmates Holdings Limited	Personal	2,390,000 ordinary shares	0.13%
David YU Hon To	Playmates Holdings Limited	Corporate & Personal (Note (b))	5,300,000 ordinary shares	0.28%
TSIM Tak Lung	Playmates Holdings Limited	Personal	1,364,000 ordinary shares	0.07%
Charles IP Shu Wing	Playmates Holdings Limited	Personal	18,400,000 ordinary shares	0.98%
	Nippon Toys Limited	Personal (Note (c))	1 share	50%

Long position in underlying shares of equity derivatives of the Company

Name of Director	Nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary shares)	Percentage interests held
Thomas CHAN Chun Hoo	Corporate (Note (a))	146,180,000 warrants	146,180,000 shares	7.82%
Sidney TO Shu Sing	Personal	1,872,000 warrants	1,872,000 shares	0.10%
	Personal	9,143,000 share options	9,143,000 shares	0.49%
Alain CHENG Bing Kin	Personal	240,000 warrants	240,000 shares	0.01%
	Personal	2,090,000 share options	2,090,000 shares	0.11%
Allen LEE Peng Fei	Personal	100,000 warrants	100,000 shares	0.005%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
Anthony LO Kai Yiu	Personal	478,000 warrants	478,000 shares	0.03%
	Personal	2,000,000 share options	2,000,000 shares	0.11%
David YU Hon To	Corporate & Personal (Note (b))	1,060,000 warrants	1,060,000 shares	0.06%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
Alexander CHOW Yu Chun	Personal	750,000 share options	750,000 shares	0.04%
TSIM Tak Lung	Personal	272,800 warrants	272,800 shares	0.01%
	Personal	1,750,000 share options	1,750,000 shares	0.09%
Charles IP Shu Wing	Personal	3,680,000 warrants	3,680,000 shares	0.20%
	Personal	1,750,000 share options	1,750,000 shares	0.09%

Notes:

- (a) 730,900,000 ordinary shares and 146,180,000 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) 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.
- (c) Mr. Charles Ip Shu Wing had a personal interest of one share in Nippon Toys Limited, an associated company of the Group.

Unless stated otherwise, 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 of the relevant company as at 30 June 2006.

The warrants are exercisable at any time from 26 May 2006 to 25 May 2007, both dates inclusive, at an initial subscription price of HK\$1.03 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 24 May 2006.

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 2006, none of the Directors and Chief Executive of the Company were interested or deemed to be interested in short positions in the shares and underlying shares of equity derivatives of the Company or any associated corporation.

Shareholders' Interests and Short Positions in the Shares of the Company Required to be Recorded under Section 336 of the SFO

As at 30 June 2006, persons (other than the Directors and Chief Executive of the Company) who had interests or short positions in the 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 held	Percentage interests held
TIAA-CREF Investment Management, LLC	Beneficial Owner	119,150,000 ordinary shares	6.37%
Sansar Capital Management, LLC	Investment Manager	187,302,000 ordinary shares (Note)	10.02%
Sansar Capital Master Fund, LP	Beneficial Owner	152,648,000 ordinary shares	8.16%

Note: These interests include the shares held by Sansar Capital Master Fund, LP.

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 and ensuring 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 2006 except for the deviation from provision A.2.1 of the Code on Corporate Governance in respect of segregation of the roles of chairman and chief executive officer.

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

The Board currently comprises three Executive Directors (one of whom is the Chairman) and six Non-executive Directors. Of the six Non-executive Directors, four of them are Independent Non-executive Directors. Mr. Thomas Chan Chun Hoo is the Chairman and Chief Executive Officer of the Company. He focuses on Group strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner. Whereas responsibilities for running of the business operation of the Group are delegated to different designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed interim accounts for the six months ended 30 June 2006.

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. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the period ended 30 June 2006.

Closure of Register of Members

The Register of Members of the Company will be closed from 12 September 2006 to 13 September 2006, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Abacus Share Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 11 September 2006.

On behalf of the Board
Thomas CHAN Chun Hoo
Chairman

Hong Kong, 18 August 2006

CORPORATE INFORMATION

Executive Directors

Thomas CHAN Chun Hoo (*Chairman*)
Sidney TO Shu Sing
Alain CHENG Bing Kin

Independent Non-executive Directors

Allen LEE Peng Fei
Anthony LO Kai Yiu
David YU Hon To
Alexander CHOW Yu Chun

Non-executive Directors

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

Company Secretary

Tracy FONG Yuk Yu *FCS*

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Hamilton HM11
Bermuda

Principal Office

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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.playmates.net
www.playmatestoy.com

Auditors

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman
Deacons

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (Hong Kong)
Limited

Principal Share Registrars

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

Branch Share Registrars

Abacus Share Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong



Playmates Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock code: 0635)

www.playmates.net
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