

The directors submit their report together with the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries continued to be the creation, design, development, marketing and distribution of toys and family entertainment activity products.

A geographical analysis of the Group's turnover and contribution to operating loss for the year is set out in note 2 to the accounts.

CHANGE OF COMPANY NAME

Pursuant to a resolution passed on 12 May 2000, the name of the Company was changed from Playmates Toys Holdings Limited to Playmates Interactive Entertainment Limited to better reflect and signify the strategic business direction of the Group.

FINANCIAL ANALYSIS

The results for the year are set out in the consolidated profit and loss account on page 18.

Analysis of bank loans, overdrafts and other borrowings

The particulars of the Group's utilised banking facilities are set out in note 23 to the accounts.

Liquidity and financial resources

The Group's business is seasonal in nature. Sales in the second half-year are generally significantly higher than the first half. Accordingly, a disproportionately high balance of receivables is generated during the selling seasons in the fourth quarter of the year. Consistent with trade practices, a significant portion of the sales is not collected until the final weeks of the fourth quarter and the first quarter of the subsequent year, resulting in a seasonal demand for working capital for the peak selling seasons. As at 31 December 2000, trade receivables were HK\$230,911,000 (1999: HK\$493,522,000) and inventories were at a seasonal low level of HK\$19,211,000 or 2.0 percent of turnover (1999: HK\$5,669,000 or 0.5 percent of turnover).

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 31 December 2000 was 9.7 percent compared to 27.5 percent at 31 December 1999. The ratio of current assets to current liabilities i.e. liquidity ratio was 2.0 at 31 December 2000 compared to 1.1 at 31 December 1999. As at 31 December 2000, the Group's cash and bank balances were HK\$376,051,000 compared to HK\$336,251,000 at 31 December 1999.

Employees

As at 31 December 2000, the Group had a total of 111 employees world-wide. This compares to 112 employees as at 31 December 1999.

The Group remunerates its employees largely based on industry practice, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme for all management and staff and a share option plan for its employees with awards under both programmes determined annually based upon the performance of the Group and the individual employee.

Contingent liabilities

Details of the Group's contingent liabilities are set out in note 22 to the accounts.

DIVIDENDS

The directors have declared or now recommend the following dividends in respect of the year ended 31 December 2000:–

	2000	1999
	HK\$'000	HK\$'000
Interim dividend of HK\$0.02 (1999:HK\$ nil) per share	13,454	–
Proposed final dividend of HK\$0.01 (1999:HK\$0.06) per share	10,091	39,912
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	23,545	39,912
Proposed special dividend of HK\$ nil (1999:HK\$0.25) per share	–	166,302
Underprovision for prior year's final and special dividends	2,928	–
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	26,473	206,214
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RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

Distributable reserves of the Company at 31 December 2000, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$435,303,000 (1999: HK\$170,885,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,039,000 (1999: HK\$666,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

In order to assist in any future expansion or any reorganisation of the capital of the Company and to allow a sufficient number of unissued shares to be made available for any of such future purposes, an ordinary resolution will be proposed at the Annual General Meeting to increase the authorised share capital of the Company from HK\$150,000,000 to HK\$300,000,000 by the creation of 1,500,000,000 new shares of HK\$0.10 each as set out in ordinary resolution No.6E of the Notice of Annual General Meeting.

10 Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 49.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 2,350,000 shares of HK\$0.10 each were repurchased by the Company at prices ranging from HK\$0.64 to HK\$0.80 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The particulars of the repurchases are set out in note 19 to the accounts.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

DIRECTORS

The directors who held office during the year and up to the date of this report were:-

Mr. Chan Chun Hoo, Thomas *Chairman*
Mr. Ip Shu Wing, Charles *Vice Chairman*
Mr. To Shu Sing, Sidney
Mr. Cheng Bing Kin, Alain
Mr. Lee Peng Fei, Allen*
Mr. Lo Kai Yiu, Anthony*
Mr. Tsim Tak Lung*
Mr. Yu Hon To, David*

* *Non-executive directors*

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. To Shu Sing, Sidney and Mr. Yu Hon To, David retire by rotation and offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are shown below:-

Executive directors

Chan Chun Hoo, Thomas *Chairman*

Mr. Chan, aged 50, joined the Group in 1967. In 1970 he became responsible for sales and was instrumental in developing the Group's global sales and marketing network. Since 1979, he has been actively involved in all aspects of the Group's operations. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan was appointed as Chairman with effect from 15 October 1997. Mr. Chan is a director of Chansam Investments Limited, the controlling shareholder of the Company.

Ip Shu Wing, Charles *Vice Chairman*

Mr. Ip, aged 50, first joined the Group in 1986, and was involved in the initial development of the promotional toy business of the Group and participated in the transformation of the Group from a manufacturing-based to a marketing-based business group. He left the Group shortly after the launch of the Ninja Turtle products in 1988. He re-joined the Group and was appointed as Vice Chairman with effect from 1 October 1999. Mr. Ip has close to thirty years of experience in business management, and has held a number of key management positions in various multi-national corporations.

To Shu Sing, Sidney *Executive Director*

Mr. To, aged 43, joined the Group in 1986. Mr. To holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Prior to joining the Group, he had worked for a number of multi-national trading and manufacturing companies for nine years. Mr. To is the brother-in-law of Mr. Tsim Tak Lung.

Cheng Bing Kin, Alain *Executive Director*

Mr. Cheng, aged 38, joined the Group in 1999. He holds a bachelor's degree in Economics from the University of Hong Kong and a bachelor's degree in Laws from the University of London. Mr. Cheng is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Cheng was admitted as a solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales. Mr. Cheng was also awarded a master degree with credit in Chinese and Comparative Laws from the City University of Hong Kong in 1998.

Non-executive directors**Lee Peng Fei, Allen**

Mr. Lee, aged 61, was appointed as a director of the Company in November 1993. He is currently a member of the Commission on Strategic Development, Hong Kong SAR and a deputy of HKSAR, the 9th National People's Congress, PRC. He has taken on an active role in public service.

Lo Kai Yiu, Anthony

Mr. Lo, aged 52, was appointed as a director of the Company in November 1993. He has over 20 years of experience in investment banking and serves as a director of a number of public and private companies in Hong Kong and the region. Mr. Lo is a member of the Listing Committee of The Stock Exchange of Hong Kong Limited.

Tsim Tak Lung

Mr. Tsim, aged 54, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed as a director of the Company in January 1997. Mr. Tsim is the brother-in-law of Mr. To Shu Sing, Sidney.

DIRECTORS AND SENIOR MANAGEMENT (CONT'D)

Non-executive directors (cont'd)

Yu Hon To, David

Mr. Yu, aged 53, was appointed as a director of the Company in April 1995. He is a fellow of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is a founder and director of Management Capital Limited, which specializes in direct investment and financial advisory activities and also on the boards of a number of listed companies and private companies in Hong Kong.

Senior management

John Sinclair *Executive Vice President and Acting Chief Operating Officer – Playmates Toys Inc.*

Mr. Sinclair, aged 41, joined the Group in 1989 as Vice President of Sales and Marketing in its Canada office. In 1992, he relocated to the Hong Kong office as Vice President of International Sales and Marketing, and then the US office in 1997 as Senior Vice President of Licensing and Business Development. Prior to joining the Group, he had spent seven years with a reputable Canadian department store in various buying and merchandise management positions.

Paul J. Demty *President – Regarding Play Inc.*

Mr. Demty, aged 47, joined the Group in 1999. He brought with him over 22 years of retail experience and has held senior marketing positions for over 10 years in the US toy industry.

Lam Yin Shing, Donald *Chief Financial Officer*

Mr Lam, aged 37, joined the Group in early 2001. He graduated from the University of Hong Kong with a first class honor in bachelor of Social Sciences and also holds a MBA degree from the Chinese University of Hong Kong. Mr Lam is an associate member of the Hong Kong Institute of Bankers. Prior to joining the Group, he had worked for a major international bank for fourteen years with an extensive experience in branch and trade services operations and corporate and institutional banking. In 1997, he was honored with the Banker of the Year (Employee) Award in Hong Kong.

DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 25(b) to the accounts, no contracts of significance in relation to the Group's business to which the Company, or its subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Share Option Plan of the Company, the directors have been granted rights to acquire shares of the Company. Details of the share options granted are as follows: –

Name of director	Date of grant	Exercise Price HK\$	Number of options				Balance at 31 December 2000
			Balance at 1 January 2000	Granted during the year	Exercised during the year	Lapsed during the year	
Ip Shu Wing, Charles	20 October 1999	0.478	3,000,000	–	600,000	–	2,400,000
	22 July 2000	0.690	–	1,000,000	–	–	1,000,000
To Shu Sing, Sidney	26 August 1998	0.586	800,000	–	320,000	–	480,000
	27 May 1999	0.558	600,000	–	120,000	–	480,000
	20 October 1999	0.478	750,000	–	150,000	–	600,000
	22 July 2000	0.690	–	500,000	–	–	500,000
Cheng Bing Kin, Alain	27 May 1999	0.558	500,000	–	100,000	–	400,000
	20 October 1999	0.478	500,000	–	100,000	–	400,000
	22 July 2000	0.690	–	500,000	–	–	500,000

The options are exercisable in stages in accordance with the terms of the Share Option Plan within ten years after the date of granting.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2000, the interests of the directors and chief executives in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31, or Part I of the Schedule to, the SDI Ordinance), or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (together, "Discloseable Interests") were as follows:

Name of company	Name of director	Type of interest	Number of ordinary shares held
Playmates Interactive Entertainment Limited	Chan Chun Hoo, Thomas	Other (Note (a))	301,107,572
Playmates Interactive Entertainment Limited	Ip Shu Wing, Charles	Personal	11,600,000
Playmates Interactive Entertainment Limited	To Shu Sing, Sidney	Personal	600,000
Playmates Interactive Entertainment Limited	Cheng Bing Kin, Alain	Personal	200,000
Playmates Interactive Entertainment Limited	Lee Peng Fei, Allen	Personal	345,000
Playmates Interactive Entertainment Limited	Lo Kai Yiu, Anthony	Personal	550,000
Playmates Interactive Entertainment Limited	Tsim Tak Lung	Personal Family	200,000 20,000
Playmates Interactive Entertainment Limited	Yu Hon To, David	Corporate (Note (b))	3,500,000
Nippon Toys Limited	Ip Shu Wing, Charles	Personal (Note (c))	1

Note:-

- (a) 301,107,572 shares of the Company were beneficially owned by Chansam Investments Limited ("CIL"). 85.19 percent of the issued share capital of CIL is beneficially owned by a private company which is wholly-owned by the trustees of a discretionary trust established for the benefit of Mr. Chan Chun Hoo, Thomas and his family.
- (b) 3,500,000 shares of the Company were held by a private company in which Mr. Yu Hon To, David and a member of his family have a controlling interest.
- (c) Mr. Ip Shu Wing, Charles has a personal interest of 1 share in Nippon Toys Limited, an associated company of the Group. The 1 share owned by Mr. Ip represents 50 percent of the issued share capital of that company.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

Other than the interests disclosed above in respect of directors and chief executives, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company at 31 December 2000 had been notified by Mr. Chan Chun Wai and a company controlled by him that he was interested, in aggregate, in 123,079,201 shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	41%
– five largest suppliers combined	99%
Sales	
– the largest customer	28%
– five largest customers combined	71%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5 percent of the Company's share capital) had an interest in the major suppliers or customers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors believe that the Code of Best Practice has been complied with by the Company during the year ended 31 December 2000 except that non-executive directors are not appointed for a specific term as recommended under the Listing Rules Appendix 14 Guidelines. According to the Bye-laws of the Company, non-executive directors of the Company will retire by rotation on average every three years and their appointments will be reviewed when they are due for re-election. In the opinion of the Company this meets the same objective as the Code of Best Practice.

CONNECTED TRANSACTIONS

The Group has entered into the following connected transactions during the year and up to the date of this report:

- (a) The Group leased office premises and a storeroom for its own use from subsidiaries of Prestige Properties Holdings Limited which was related to the Company by reason of being held by a common major shareholder. Announcements in respect of these transactions had been made on 5 March 1997 and 26 January 2000.
- (b) An agreement dated 14 September 2000 was made between Playmates Toys Investments Limited ("PTIL"), a wholly-owned subsidiary of the Company and Mr. Ip Shu Wing, Charles ("Mr. Ip"), Vice Chairman and an executive director of the Company, whereby Mr. Ip agreed to sell and the Group agreed to purchase 50 percent of the issued share capital of Nippon Toys Limited together with the benefits of and interests in a shareholder's loan at a total cash consideration of HK\$13,000,000. Announcement in respect of this transaction had been made on 14 September 2000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr. Tsim Tak Lung as chairman, Mr. Lee Peng Fei, Allen and Mr. Lo Kai Yiu, Anthony as members.

SUBSEQUENT EVENTS

Details of the subsequent events are set out in note 26 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Chan Chun Hoo, Thomas
Chairman

Hong Kong, 17 April 2001