



Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries continue to be the creation, design, development, marketing and distribution of toys and family entertainment activity products. The Group is also engaged in property investment and management business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

Distributable reserves of the Company at 31 December 2001, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$453,474,000 (2000: HK\$164,394,000 (as restated)).

FINANCIAL ANALYSIS

Analysis of bank loans, overdrafts and other borrowings

The particulars of the Group's utilised banking facilities are set out in note 18 to the accounts.

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 31 December 2001, trade receivables related to toys operation were HK\$45,013,000 (2000: HK\$182,727,000) and inventories were at a seasonal low level of HK\$14,604,000 or 3.0% of turnover (2000: HK\$19,211,000 or 2.0% of turnover).

The property investment and management business generates a relatively steady income stream throughout the year. Approximately 89% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2001. Accounts receivable were minimal at HK\$447,000 as at the year end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total assets, at 31 December 2001 was 29.5% compared to 10.3% at 31 December 2000. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.2 at 31 December 2001 compared to 2.1 at 31 December 2000. As at 31 December 2001, the Group's cash and bank balances were HK\$230,233,000 compared to HK\$376,051,000 at 31 December 2000.

EMPLOYEES

As at 31 December 2001, the Group had a total of 104 employees world-wide. This compares to 111 employees as at 31 December 2000.

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 24 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$757,000 (2000: HK\$1,039,000).

FIXED ASSETS

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

PRINCIPAL PROPERTY

Details of the principal property held for investment purposes 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 20 to the accounts.

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 55.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold 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. Lam Yin Shing, Donald (appointed on 12 September 2001)

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 86(2) of the Company's Bye-laws, Mr. Lam Yin Shing, Donald retires and offers himself for re-election.

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Lo Kai Yiu, Anthony and Mr. Tsim Tak Lung 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 51, 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 Angers Investments Limited, the controlling shareholder of the Company.

Ip Shu Wing, Charles *Vice Chairman*

Mr. Ip, aged 51, previously 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 soon 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 44, 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 a brother-in-law of Mr. Tsim Tak Lung.

Cheng Bing Kin, Alain *Executive Director*

Mr. Cheng, aged 39, 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.

Lam Yin Shing, Donald *Executive Director*

Mr. Lam, aged 38, 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.

Non-executive directors

Lee Peng Fei, Allen

Mr. Lee, aged 62, 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 53, 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 55, 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 a 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

Lou Novak — *President* — *Playmates Toys Inc.*

Mr. Novak, aged 54, joined the Group in 2001. Prior to joining the Group, he had held senior management positions at three reputable public toy companies and most recently was CEO of an award winning computer animation studio. He brings with him a wealth of diverse business experience and outstanding management skills.

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

Mr. Sinclair, aged 42, 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 48, 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.

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

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.

SHARE OPTIONS

Share options are granted to employees under the Share Option Plan ("Plan") approved by shareholders of the Company at a Special General Meeting held on 4 May 1998. Details of the Plan are as follows:

Purpose	:	To attract, retain and motivate high calibre employees.
Participants	:	Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary).
Total number of ordinary shares available for issue under the Plan and the percentage of issued share capital that it represents as at 21 March 2002	:	52,019,000 ordinary shares, representing 5.16% of the issued capital.
Maximum entitlement of each participant	:	Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan.
The period within which the ordinary shares must be taken up under an option	:	The options are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after its date of grant.
The amount payable on acceptance of the option	:	HK\$10.00.
Period within which payments/calls must/may be made or loans for such purposes must be repaid	:	Not applicable.
The basis for determining the exercise price	:	Determined by the directors at their discretion, but will not be less than the higher of: (i) the nominal value of an ordinary share; and (ii) the average (or, in the case of any person who owns ordinary shares possessing more than 10% of the total combined voting power of the ordinary shares of the Company or the shares of its parent or subsidiary corporations, 110% of the average) of the closing prices of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant.
The remaining life of the Plan	:	The Plan remains in force until 3 May 2008.

Report of the Directors

SHARE OPTIONS (CONT'D)

The following shows the particulars of share options of the Company granted to directors of the Company and employees of the Group that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules:

Participant	Date of grant	Original exercise price HK\$	Adjusted exercise price due to Rights Issue HK\$	Number of options				Balance at 31 December 2001
				Balance at 1 January 2001	Granted during the year	Additions due to Rights Issue adjustment	Lapsed during the year	
Ip Shu Wing, Charles <i>Director</i>	20 October 1999	0.478	0.443	2,400,000	—	189,000	—	2,589,000
	22 July 2000	0.690	0.639	1,000,000	—	80,000	—	1,080,000
	21 May 2001	0.304	—	—	2,000,000	—	—	2,000,000
To Shu Sing, Sidney <i>Director</i>	26 August 1998	0.586	0.543	480,000	—	38,000	—	518,000
	27 May 1999	0.558	0.517	480,000	—	38,000	—	518,000
	20 October 1999	0.478	0.443	600,000	—	47,000	—	647,000
	22 July 2000	0.690	0.639	500,000	—	40,000	—	540,000
	21 May 2001	0.304	—	—	1,000,000	—	—	1,000,000
Cheng Bing Kin, Alain <i>Director</i>	27 May 1999	0.558	0.517	400,000	—	32,000	—	432,000
	20 October 1999	0.478	0.443	400,000	—	32,000	—	432,000
	22 July 2000	0.690	0.639	500,000	—	40,000	—	540,000
	21 May 2001	0.304	—	—	1,000,000	—	—	1,000,000
Lam Yin Shing, Donald <i>Director</i>	21 May 2001	0.304	—	—	1,000,000	—	—	1,000,000
<i>Continuous Contract</i> <i>Employees, excluding</i> <i>Directors</i>	15 May 1998	0.586	0.543	9,782,000	—	758,000	2,835,000	7,705,000
	27 May 1999	0.558	0.517	3,572,000	—	281,000	1,236,000	2,617,000
	17 August 1999	0.462	0.428	6,000,000	—	477,000	—	6,477,000
	20 October 1999	0.478	0.443	400,000	—	29,000	429,000	—
	22 July 2000	0.690	0.639	6,890,000	—	500,000	2,140,000	5,250,000
	21 May 2001	0.304	—	—	10,670,000	—	550,000	10,120,000
	28 August 2001	0.300	—	—	8,000,000	—	—	8,000,000

The closing prices of the ordinary shares of the Company on 18 May 2001 and 27 August 2001, being the trading days immediately before the dates on which the options were granted in 2001, were HK\$0.29 and HK\$0.30 respectively.

The options are exercisable in stages in accordance with the terms of the Plan within ten years after the date of grant. No options were exercised or cancelled during the year.

Report of the Directors

The share options granted are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of options granted during the year as the market price of the Company's shares as at year end date was below the exercise prices of the options granted and any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

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 2001, 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))	500,000,000
Playmates Interactive Entertainment Limited	Ip Shu Wing, Charles	Personal	21,200,000
Playmates Interactive Entertainment Limited	To Shu Sing, Sidney	Personal	1,084,000
Playmates Interactive Entertainment Limited	Cheng Bing Kin, Alain	Personal	300,000
Playmates Interactive Entertainment Limited	Lee Peng Fei, Allen	Personal	517,500
Playmates Interactive Entertainment Limited	Lo Kai Yiu, Anthony	Personal	1,000,000
Playmates Interactive Entertainment Limited	Tsim Tak Lung	Personal Family	300,000 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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (CONT'D)

Notes:

- (a) 500,000,000 shares of the Company were beneficially owned by Angers Investments Limited ("AIL"). All the issued share capital of AIL is beneficially wholly-owned by a private company which is in turn 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 one share in Nippon Toys Limited, an associated company of the Group. The one share owned by Mr. Ip represents 50% 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 2001 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	64%
– five largest suppliers combined	93%
Sales	
– the largest customer	26%
– five largest customers combined	73%

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

USE OF PROCEEDS

The Group raised approximately HK\$105 million after deduction of related expenses from the Rights Issue completed in March 2001. The proceeds were applied to fund the Group's licensing commitments and to reduce bank borrowings and as general working capital of the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in the Listing Rules Appendix 14 Guidelines during the year ended 31 December 2001, with the exception that all non-executive directors of the Company were not appointed for a specific term. Pursuant to article 87(1) of the Bye-laws of Company, non-executive directors are subject to retirement by rotation and re-election (if they offer themselves for re-election) at the Company's annual general meeting.

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.

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, 21 March 2002