

Turnover for the year ended 31 December 2002 was HK\$485,261,000, a 5.7% decrease compared to HK\$514,617,000 for the year ended 31 December 2001. Profit attributable to the shareholders was HK\$1,272,000, compared to a loss of HK\$86,799,000 in 2001.

I am pleased to report that the company has overcome the challenging business environment in 2002 and is well positioned to further enhance profitability in the year ahead.

The year 2002 saw leading economies around the world struggling to emerge from recession. In the US, the major market of our toy business, the real threat of military conflict in the Middle East and the West Coast dock strike conspired to dampen retail performance of all toy manufacturers' products in the important closing months of the year.

In such a difficult environment, we steered a prudent course of managing our businesses while selectively pursuing major strategic initiatives. Determined and sustained actions were taken to enhance bottom line performance through reduction of operating and administrative costs, improvement in supply chain efficiency, development of toy products with long term branding potential and maximization of higher gross margin domestic US distribution.

During 2002, record sales levels were achieved for Playmates Toys' **Disney** and **The Simpsons** brands. The **Disney** brand was successfully extended with the introduction of several new product segments that broadened the scope of our licence agreement with The Walt Disney Company. Additionally, sales increases in the **Waterbabies** brand of dolls were spurred by the introduction of a **Disney** licensed segment which will be expanded in 2003 and enhanced with the addition of **Care Bears** and **Clifford The Big Red Dog**.

In 2003, several innovative and strategically well positioned product lines will be added to Playmates Toys' portfolio of established brands. These new initiatives include **Speedeez**, an extensive line of micro scale vehicles powered by a patented **Turbo Ball** technology and the return of the **Teenage Mutant Ninja Turtles** with an all new line of action figures, vehicles and accessories. These products, inspired by an all new animated television series, are currently performing exceptionally well in the US market.

Trade responses during the international toy fairs held earlier this year have been overwhelmingly positive and the initial retail performance of our Spring product introductions have exceeded our expectations.

The 2002 results also reflected positive contributions from property investments. Property rental and management income in 2002 grew by 8.6% to HK\$30,683,000 compared to the previous year. The property portfolio was enhanced upon completion in July 2002 of the acquisition of the factory building at No. 1 Tin Hau Road, Tuen Mun, New Territories, Hong Kong. Despite the continued downward pressure on rental rates in the Hong Kong market, rental yield of our investment properties during the year was 5.5% (5.2% in 2001). The increase in yield was mainly due to an improvement in the occupancy rate from 89% in 2001 to 95% in 2002. It is expected that contributions from property and other investments will continue to augment our core toy business.

I am grateful to our customers, licensors, suppliers, and other business partners for their loyal support and to all of the company's employees for their dedication, commitment and diligence. I look forward to success in the year ahead as Playmates continues to grow its business.

Chan Chun Hoo, Thomas

Chairman

Hong Kong, 28 February 2003