

The directors submit their report together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL 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.

CHANGE OF COMPANY NAME

Pursuant to a resolution passed on 28 June 2002, the name of the Company was changed from Playmates Interactive Entertainment Limited to Playmates Holdings Limited to better reflect the business composition of the Company.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 21.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 25. Movements in the reserves of the Company during the year are set out in note 21 to the accounts.

Distributable reserves of the Company at 31 December 2002, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$452,030,000 (2001: HK\$453,474,000).

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 2002, trade receivables related to toys operation were HK\$120,656,000 (2001: HK\$45,013,000) and inventories were at a seasonal low level of HK\$22,042,000 or 4.8% of turnover (2001: HK\$14,604,000 or 3.0% of turnover).

The property investment and management business generates a relatively steady income stream throughout the year. Approximately 95% of the total gross floor area of the Group's investment properties were leased out as at 31 December 2002. Account receivables were minimal at HK\$597,000 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 2002 was 33.0% compared to 29.5% at 31 December 2001. The current ratio, calculated as the ratio of current assets to current liabilities, was 1.3 at 31 December 2002 compared to 1.2 at 31 December 2001. As at 31 December 2002, the Group's cash and bank balances were HK\$206,456,000 compared to HK\$230,233,000 at 31 December 2001.

EMPLOYEES

As at 31 December 2002, the Group had a total of 97 employees in Hong Kong and the United States of America. This compares to 104 employees as at 31 December 2001.

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 share option plans 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\$100,000 (2001: HK\$757,000).

FIXED ASSETS

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

PRINCIPAL PROPERTIES

Details of the principal properties 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 53.

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. Tsim Tak Lung* *Deputy Chairman*

Mr. Ip Shu Wing, Charles* (effective from 1 August 2002, changed from executive director to non-executive director)

Mr. Lam Yin Shing, Donald

Mr. Lee Peng Fei, Allen*

Mr. Lo Kai Yiu, Anthony*

Mr. To Shu Sing, Sidney

Mr. Yu Hon To, David*

Mr. Cheng Bing Kin, Alain (resigned on 19 September 2002)

* *Non-executive directors*

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Lee Peng Fei, Allen and Mr. Ip Shu Wing, Charles 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 52, 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 Chairman in 1997. Mr. Chan is a director of Angers Investments Limited, the controlling shareholder of the Company.

To Shu Sing, Sidney *Executive Director*

Mr. To, aged 45, 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.

Lam Yin Shing, Donald *Executive Director*

Mr. Lam, aged 39, joined the Group in 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. Prior to joining the Group, he had worked for a major international bank for fourteen years.

Non-executive directors

Ip Shu Wing, Charles

Mr. Ip, aged 52, was appointed as a director of the Company in 1999. Mr. Ip has thirty years of experience in business management and has held a number of key management positions in various multi-national corporations.

Lee Peng Fei, Allen

Mr. Lee, aged 63, was appointed as a director of the Group since 1984. He is currently a deputy of HKSAR, the 9th and 10th National People's Congress, PRC. He has taken on an active role in public service.

Lo Kai Yiu, Anthony

Mr. Lo, aged 54, was appointed as a director of the Group since 1985. 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 56, 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 1997. Mr. Tsim is the brother-in-law of Mr. To Shu Sing, Sidney.

Yu Hon To, David

Mr. Yu, aged 54, was appointed as a director of the Company in 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

Mr. Novak, aged 55, President of toy division, joined the Group in 2001. Prior to joining the Group, he had held senior management positions at major toy companies including Mattel and Hasbro 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

Mr. Sinclair, aged 43, Executive Vice President and Chief Operating Officer of toy division, 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 U.S. 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.

DIRECTORS AND SENIOR MANAGEMENT (CONT'D)

Senior management (Cont'd)

Donald Sutherland

Mr. Sutherland, aged 58, Chief Financial Officer of toy division, joined the Group in 2002. Prior to joining the Group, he worked in several renowned corporations, including a well-respected management-consulting firm. He has accumulated a broad array of operations, financial planning and information systems expertise as well as a thorough understanding of the toy industry gained during his tenure with Mattel.

Jill Will

Ms. Will, aged 50, Senior Vice President of Marketing of toy division, joined the Group in 2002. She brings with her a wealth of brand management, marketing and promotion experience to the Group. Ms. Will has over 25 years experience in all facets of the toy business and had held senior marketing and management positions in several major toy companies including Mattel and Kenner.

Phil Jacobs

Mr. Jacobs, aged 52, Senior Vice President of Sales of toy division, joined the Group in 2002. He has over 30 years experience in a variety of senior level sales management and business planning positions with a number of major toy companies including Mattel and Hasbro.

Ronnie Soong

Mr. Soong, aged 57, President of toy division's operations in Asia, joined the Group in 2000. Prior to joining the Group, he had over 20 years senior management experience at major toy companies including Hasbro and Ertl. He oversees the product development and production operations of the toy division.

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 a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") approved by shareholders of the Company at Special General Meetings held on 4 May 1998 and 28 June 2002 respectively. Details of the Plan and the Scheme are as follows:

Purpose	:	Plan
		To attract, retain and motivate high calibre employees.

		<p>Scheme</p> <ul style="list-style-type: none"> (i) To motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) To attract and retain or otherwise maintain ongoing business relationship with the eligible participants whose contributions are or will be beneficial to the Group.
Participants	:	<p>Plan</p> <p>Employees of the Company or any subsidiary (including any executive director of the Company or any subsidiary).</p> <p>Scheme</p> <ul style="list-style-type: none"> (i) Directors, employees, consultants, professionals, customers, suppliers, agents, partners or advisers of or contractors to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) The trustees of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any person / party mentioned in (i) above; or (iii) A company beneficially owned by any person / party mentioned in (i) above.
Total number of ordinary shares available for issue under the Plan / Scheme and the percentage of issued share capital that it represents as at 28 February 2003	:	<p>Plan</p> <p>30,858,500 ordinary shares, representing 2.5% of the issued capital.</p> <p>Scheme</p> <p>19,006,500 ordinary shares, representing 1.6% of the issued capital.</p>
Maximum entitlement of each participant	:	<p>Plan</p> <p>Shall not exceed 25% of the aggregate number of ordinary shares in respect of options that may be granted under the Plan.</p> <p>Scheme</p> <p>Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.</p>
The period within which the ordinary shares must be taken up under an option	:	<p>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.</p>

SHARE OPTIONS (CONT'D)

The amount payable on acceptance of the option	:	Plan HK\$10.00
		Scheme HK\$10.00 (or such other nominal sum in any currency as the board may determine).
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	:	Plan Determined by the directors at their discretion, but will not be less than the higher of: <ul style="list-style-type: none">(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 of Hong Kong Limited ("Stock Exchange") as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant.
		Scheme Determined by the directors and shall not be less than the highest of: <ul style="list-style-type: none">(i) the closing price of an ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;(ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and(iii) the nominal value of an ordinary share on the date of grant.
The remaining life of the Plan / Scheme	:	Plan Remains in force until 3 May 2008.
		Scheme Remains in force until 27 June 2012.

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 1 January 2002	Granted during the year	Additions due to Rights Issue adjustment	Lapsed during the year	Balance at 31 December 2002
Plan								
Lam Yin Shing, Donald <i>Director</i>	21 May 2001	0.304	0.297	1,000,000	—	24,000	—	1,024,000
To Shu Sing, Sidney <i>Director</i>	26 August 1998	0.543	0.532	518,000	—	11,000	—	529,000
	27 May 1999	0.517	0.506	518,000	—	11,000	—	529,000
	20 October 1999	0.443	0.434	647,000	—	13,000	—	660,000
	22 July 2000	0.639	0.626	540,000	—	11,000	—	551,000
	21 May 2001	0.304	0.297	1,000,000	—	24,000	—	1,024,000
Ip Shu Wing, Charles <i>Director</i>	20 October 1999	0.443	0.434	2,589,000	—	54,000	2,643,000	—
	22 July 2000	0.639	0.626	1,080,000	—	22,000	1,102,000	—
	21 May 2001	0.304	0.297	2,000,000	—	47,000	2,047,000	—
Cheng Bing Kin, Alain <i>Director</i>	27 May 1999	0.517	0.506	432,000	—	9,000	441,000	—
	20 October 1999	0.443	0.434	432,000	—	9,000	441,000	—
	22 July 2000	0.639	0.626	540,000	—	11,000	551,000	—
	21 May 2001	0.304	0.297	1,000,000	—	24,000	1,024,000	—
<i>Continuous Contract</i>	15 May 1998	0.543	0.532	7,705,000	—	153,000	2,394,000	5,464,000
<i>Employees, excluding</i>	27 May 1999	0.517	0.506	2,617,000	—	55,000	1,103,000	1,569,000
<i>Directors</i>	17 August 1999	0.428	0.419	6,477,000	—	139,000	4,852,000	1,764,000
	22 July 2000	0.639	0.626	5,250,000	—	107,000	2,478,000	2,879,000
	21 May 2001	0.304	0.297	10,120,000	—	225,000	2,288,000	8,057,000
	28 August 2001	0.300	0.294	8,000,000	—	163,000	—	8,163,000
Scheme								
Lam Yin Shing, Donald <i>Director</i>	9 August 2002	0.199	—	—	1,000,000	—	—	1,000,000
To Shu Sing, Sidney <i>Director</i>	9 August 2002	0.199	—	—	1,200,000	—	—	1,200,000
Lee Peng Fei, Allen <i>Director</i>	9 August 2002	0.199	—	—	1,000,000	—	—	1,000,000
Lo Kai Yiu, Anthony <i>Director</i>	9 August 2002	0.199	—	—	1,000,000	—	—	1,000,000
Tsim Tak Lung <i>Director</i>	9 August 2002	0.199	—	—	1,000,000	—	—	1,000,000

SHARE OPTIONS (CONT'D)

Participant	Date of grant	Original exercise price HK\$	Adjusted exercise price due to Rights Issue HK\$	Number of options				
				Balance at 1 January 2002	Granted during the year	Additions due to Rights Issue adjustment	Lapsed during the year	Balance at 31 December 2002
Yu Hon To, David <i>Director</i>	9 August 2002	0.199	—	—	1,000,000	—	—	1,000,000
<i>Continuous Contract</i> <i>Employees, excluding</i> <i>Directors</i>	9 August 2002	0.199	—	—	14,124,000	—	884,000	13,240,000

The closing price of the ordinary shares of the Company on 8 August 2002, being the trading day immediately before the date on which the options were granted in 2002, was HK\$0.197.

The 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 exercised or cancelled during the year.

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.139. The calculation of the weighted average value per option granted during the year does not take into account options granted and forfeited during the year. The weighted average assumptions used are as follows:

Risk-free interest rate	4.44%
Expected life (in years)	10
Volatility	0.562
Expected dividend per share	HK\$nil

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In additions, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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 2002, 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 shares/warrants held
Playmates Holdings Limited	Chan Chun Hoo, Thomas	Other (Note (a))	567,000,000 ordinary shares 94,000,000 warrants
Playmates Holdings Limited	To Shu Sing, Sidney	Personal	1,300,000 ordinary shares 216,000 warrants
Playmates Holdings Limited	Ip Shu Wing, Charles	Personal	21,200,000 ordinary shares
Playmates Holdings Limited	Lee Peng Fei, Allen	Personal	517,500 ordinary shares
Playmates Holdings Limited	Lo Kai Yiu, Anthony	Personal	1,200,000 ordinary shares 200,000 warrants
Playmates Holdings Limited	Tsim Tak Lung	Personal Family Personal	360,000 ordinary shares 20,000 ordinary shares 60,000 warrants
Playmates Holdings Limited	Yu Hon To, David	Corporate (Note (b))	3,500,000 ordinary shares
Nippon Toys Limited	Ip Shu Wing, Charles	Personal (Note (c))	1 share

Notes:

- 567,000,000 ordinary shares and 94,000,000 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. Chan Chun Hoo, Thomas.
- 3,500,000 ordinary 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.
- 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.

The warrants are exercisable at any time from 13 May 2002 to 12 May 2004, both dates inclusive, at an initial subscription price of HK\$0.30 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 7 May 2002.

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 2002 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	30%
– five largest suppliers combined	90%
Sales	
– the largest customer	25%
– five largest customers combined	75%

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.

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 2002, 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 the 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, 28 February 2003

