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## IMPORTANT

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If you are in any doubt about this prospectus or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Playmates Interactive Entertainment Limited, you should at once hand this prospectus to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transferred to the Overseas Shareholders (as defined herein). Please refer to the paragraph headed "Overseas Shareholders" in the "Letter from the Board" in this prospectus.

A copy of this prospectus, together with copies of the PAL and the EAF, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with copies of the PAL and the EAF, has also been filed with the Registrar of Companies in Bermuda. The Securities & Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of these documents.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and Hongkong Clearing take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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### PLAYMATES INTERACTIVE ENTERTAINMENT LIMITED

彩星互動科娛有限公司\*

*(Incorporated in Bermuda with limited liability)*

#### RIGHTS ISSUE

OF

**336,351,836 RIGHTS SHARES OF HK\$0.10 EACH**

**AT HK\$0.32 PER RIGHTS SHARE**

**ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES**

**HELD ON THE RECORD DATE**

**PAYABLE IN FULL ON ACCEPTANCE**

Underwriter

 **TAI FOOK SECURITIES COMPANY LIMITED**

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The latest time for acceptance and payment for the Rights Shares is 4:00 p.m. on 13th March, 2001. The procedure for acceptance and payment of the Rights Shares is set out on pages 16 and 17 of this prospectus and in the PAL.

It should be noted that the Underwriting Agreement (as defined herein) contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events, including without limitation force majeure, or any event showing any of the representations or warranties given in the Underwriting Agreement in favour of the Underwriter being untrue, inaccurate or misleading in any material respect, or a breach of any obligations or undertakings contained in the Underwriting Agreement in any material respect, at any time prior to 4:00 p.m. on the third business day following the last day for acceptance of and payment for provisional allotments made under the Rights Issue (as defined herein). If the Underwriter exercises such right, the obligations of the Underwriter under the Underwriting Agreement shall cease and the Rights Issue will not proceed.

It should be noted that existing Shares have been dealt in on an ex-rights basis from 21st February, 2001 and that dealings in existing Shares and nil-paid Rights Shares will take place whilst the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholder (as defined herein) dealing in existing Shares during the period from 21st February, 2001 up to the date on which all such conditions are fulfilled (which is expected to be 16th March, 2001) and any persons dealing in nil-paid Rights Shares during the period from 28th February, 2001 to 8th March, 2001 (being the first and the last days of dealings in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing existing Shares on an ex-rights basis and/or nil-paid Rights Shares during such period who is in any doubt about his or her position is recommended to consult his or her professional adviser.

\* For identification purpose only

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## DEFINITIONS

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*In this prospectus, the following expressions have the following meanings unless the context requires otherwise:—*

“Associates”	has the meaning ascribed to it in the Listing Rules
“Chansam”	Chansam Investments Limited, an international business company incorporated in the British Virgin Islands with limited liability which owns approximately 44.76% of the issued share capital of the Company and is itself owned as to 85.19% 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, the Chairman of the Company, and his family
“Circular”	the circular issued by the Company to its Shareholders dated 23rd December, 2000 in relation to the acquisition of interests in Pretty Star Limited
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Playmates Interactive Entertainment Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“EAF(s)”	form(s) of application for excess Rights Shares
“Final Acceptance Date”	13th March, 2001 or such other date as the Underwriter and the Company may approve in writing
“Group”	the Company and its Subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	17th February, 2001, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) is/are in a place outside Hong Kong
“PAL(s)”	provisional allotment letter(s) in respect of the Rights Shares
“PRC”	the People’s Republic of China
“Qualifying Shareholder(s)”	Shareholder(s), excluding Overseas Shareholder(s), whose name(s) appear on the register of members of the Company in Hong Kong as at the close of business on the Record Date
“Record Date”	26th February, 2001, being the date by reference to which entitlements under the Rights Issue are determined
“Registrar”	Abacus Share Registrars Limited, the branch share registrar of the Company in Hong Kong, at 2401 Prince’s Building, Central, Hong Kong
“Rights Issue”	the issue by way of rights of not less than 336,351,836 new Shares at a price of HK\$0.32 per Rights Share
“Rights Issue Documents”	this prospectus, PAL and EAF
“Rights Share(s)”	not less than 336,351,836 new Shares to be issued pursuant to the Rights Issue
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Plan”	the share option plan adopted by the Company on 4th May, 1998
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.32 per Rights Share
“Subsidiaries”	has the meaning ascribed to it by section 2(4) of the Companies Ordinance

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## DEFINITIONS

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“Underwriter”	Tai Fook Securities Company Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the underwriter of the Rights Issue
“Underwriting Agreement”	the agreement dated 6th February, 2001 between the Company and the Underwriter relating to the underwriting and other arrangements in respect of the Rights Issue
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

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## EXPECTED TIMETABLE

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*2001*

Book closure period (both dates inclusive).....	from Friday, 23rd February to Monday, 26th February
Record Date .....	Monday, 26th February
Rights Issue Documents despatched on .....	Monday, 26th February
First time of dealings in nil-paid Rights Shares .....	Wednesday, 10:00 a.m. on 28th February
Latest time for splitting nil-paid Rights Shares .....	Monday, 4:00 p.m. on 5th March
Latest time of dealings in nil-paid Rights Shares .....	Thursday, 4:00 p.m. on 8th March
Latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares .....	Tuesday, 4:00 p.m. on 13th March
Underwriting Agreement becomes unconditional .....	Friday, 4:00 p.m. on 16th March
Rights Issue becomes unconditional .....	Friday, 4:00 p.m. on 16th March
Announcement of results of Rights Issue to appear in newspapers on or before .....	Monday, 19th March
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares to be despatched on or before .....	Monday, 19th March
Certificates for fully-paid Rights Shares expected to be despatched on or before .....	Monday, 19th March
Dealings in fully-paid Rights Shares on the Stock Exchange to commence on .....	Wednesday, 10:00 a.m. on 21st March

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events. If at any time on or before 4:00 p.m. on the third business day after the final acceptance date for the provisional allotments:—

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties under the Underwriting Agreement is untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
- (b)
  - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
  - (ii) any change in local, national or international financial, political, industrial or economic conditions;
  - (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
  - (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
  - (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
  - (vi) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) business days;
  - (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of the Underwriter:—

- (x) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group; or
- (y) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or
- (z) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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then and in such case the Underwriter may by notice in writing given to the Company on or before 4:00 p.m. on the third business day after the final acceptance date for the provisional allotments rescind the Underwriting Agreement and thereupon all obligations of the Underwriter thereunder will cease and determine and no party will have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the Rights Issue will not proceed.

It should also be noted that the existing Shares have been dealt in on an ex-rights basis from 21st February, 2001 and that the Rights Shares will be dealt in in their nil-paid form from 28th February, 2001 to 8th March, 2001 (both dates inclusive). Such dealings will take place during a period when the conditions to which the Rights Issue is subject remain unfulfilled. Any persons dealing in the existing Shares during the period up to the date on which all the conditions to which the Rights Issue is subject are to be fulfilled, and any persons dealing in the Rights Shares in their nil-paid form during the period from 28th February, 2001 to 8th March, 2001 (being the first and last days of dealings in the nil-paid Rights Shares respectively), will accordingly bear the risk that the Rights Issue may not become unconditional and may not therefore proceed. Any persons dealing in the existing Shares and/or the Rights Shares in their nil-paid form during such period who are in any doubt about their position are recommended to consult their professional advisers.

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## SUMMARY OF THE TERMS OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with and subject to the full text of, this prospectus:—*

<b>Number of Rights Shares to be issued</b>	not less than 336,351,836 Rights Shares and not more than 340,786,836 Rights Shares
<b>Amount to be raised</b>	Approximately HK\$107,000,000 from the Rights Shares, before expenses
<b>Subscription Price and Acceptance Date</b>	HK\$0.32 per Rights Share payable in full on acceptance at or prior to 4:00 p.m. on Tuesday, 13th March, 2001
<b>Basis of the Rights Issue</b>	One Rights Share for every two existing Shares held
<b>Status of the Rights Shares</b>	The Rights Shares, when issued and fully-paid, will rank pari passu in all respects with the then existing Shares in issue. Holders of Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of issue and allotment
<b>Right of excess applications</b>	Qualifying Shareholders will have the right to apply for Rights Shares in excess of their provisional allotments
<b>Overseas Shareholders</b>	Rights Shares which represent entitlements of Overseas Shareholders will be sold for their benefit in the market, in nil-paid form, as soon as reasonably practicable after dealings in the nil-paid Rights Shares commence, if a premium, net of expenses, can be obtained, except that any amount of HK\$100 or less will be retained for the benefit of the Company. Any such entitlements not sold in the market will be made available for application by Qualifying Shareholders under the excess applications
<b>Subscription by Chansam</b>	Chansam has irrevocably undertaken to take up in full its entitlement under the Rights Issue amounting to 150,553,786 Rights Shares

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## LETTER FROM THE BOARD

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### PLAYMATES INTERACTIVE ENTERTAINMENT LIMITED

彩星互動科娛有限公司\*

(Incorporated in Bermuda with limited liability)

*Directors:*

CHAN Chun Hoo, Thomas (*Chairman*)

IP Shu Wing, Charles

TO Shu Sing, Sidney

CHENG Bing Kin, Alain

LEE Peng Fei, Allen\*\*

LO Kai Yiu, Anthony\*\*

TSIM Tak Lung\*\*

YU Hon To, David\*\*

\*\* *Independent non-executive Director*

*Registered office:*

Clarendon House

Church Street

Hamilton HM11

Bermuda

*Head office and principal  
place of business:*

21st Floor

100 Canton Road

Tsimshatsui

Kowloon

Hong Kong

26th February, 2001

*To the Qualifying Shareholders and,  
for information only, the Overseas Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE  
OF  
336,351,836 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$0.32 PER RIGHTS SHARE  
ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES  
HELD ON THE RECORD DATE  
PAYABLE IN FULL ON ACCEPTANCE**

#### INTRODUCTION

It was announced on 6th February, 2001 that, subject to the satisfaction of the conditions of the Rights Issue mentioned below, the Company proposed to raise approximately HK\$107,000,000, before expenses, by way of a rights issue of not less than 336,351,836 new Shares at a price of HK\$0.32 per Rights Share, payable in full on acceptance. Qualifying Shareholders will be provisionally allotted with Rights Shares on the basis of one Rights Share in nil-paid form for every two Shares held on the Record Date at a subscription price of HK\$0.32 per Rights Share. The Rights Issue is fully underwritten by the Underwriter other than the Rights Shares undertaken to be taken up by Chansam.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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This prospectus sets out the details of the Rights Issue, including information on dealings in and transfers and acceptance of Rights Shares, and certain financial and other information in respect of the Group.

### TERMS OF THE RIGHTS ISSUE

#### Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue as described in the section headed “Conditions of the Rights Issue” below, Shareholders with registered addresses in Hong Kong have been provisionally allotted with Rights Shares at the Subscription Price in the proportion, and in the ratio, of one Rights Share in nil-paid form for every two Shares held by them on the Record Date payable in full on acceptance.

The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional Shares which will be issued and allotted on or before the Record Date, including Shares which will be issued and allotted to holders of share options under the Share Option Plan pursuant to any exercise of their subscription rights attaching to such options. As at the Latest Practicable Date, there were 8,870,000 outstanding share options eligible for exercise on or before the Record Date to subscribe for up to 8,870,000 Shares in the Company. If all of the subscription rights attaching to such share options are exercised and Shares are issued and allotted pursuant to such exercise on or before the Record Date, the number of issued Shares on the Record Date will be increased to 681,573,673 Shares and the number of Rights Shares which may be issued pursuant to the Rights Issue will be increased to 340,786,836 Rights Shares.

No provisional allotment of Rights Shares has been made to the Overseas Shareholders. The Rights Shares representing entitlements of the Overseas Shareholders will be sold as set out in the section headed “Overseas Shareholders” below.

#### Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company at the close of business on the Record Date; and
2. have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

#### Fractions of Rights Shares

Fractions of Rights Shares in nil-paid form have not been provisionally allotted and have been rounded down to the nearest whole number. Rights Shares representing the aggregate of fractions of Rights Shares (rounded down to the nearest whole number) have been provisionally allotted to a nominee appointed by the Company. The Company will sell any Rights Shares created from the aggregation of fractions of Rights Shares in the nil-paid form (if a premium, net of expenses, can be achieved), and will retain the proceeds for the benefit of the Company. Any unsold fractions of Rights Shares will be available for excess applications, as described below.

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## LETTER FROM THE BOARD

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### Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for excess Rights Shares comprising unsold entitlements of the Overseas Shareholders, any unsold Rights Shares created by adding together fractions of Rights Shares, and any Rights Shares provisionally allotted but not accepted.

Application for excess Rights Shares may be made by the Qualifying Shareholders by completing the EAFs. The Directors will allocate the excess Rights Shares, at their discretion, on a fair and reasonable basis so far as practicable.

Applications for excess Rights Shares should be made in accordance with the provisions described under the section headed “Application for excess Rights Shares” below.

**Save in the case of Overseas Shareholders, a PAL and an EAF accompany this prospectus. The provisions of the PAL and EAF form part of the terms on which the Rights Issue is made. The latest time for acceptance of, and payment for, the Rights Shares is 4:00 p.m. on 13th March, 2001.**

### Subscription Price for the Rights Shares

HK\$0.32 per Rights Share is payable in full upon acceptance of the provisional allotments and (where applicable) upon application for excess Rights Shares under the Rights Issue.

The Subscription Price represents:—

1. a discount of approximately 21.95% to the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on 5th February, 2001, being the date immediately before the suspension of trading in the Shares on the Stock Exchange prior to the release of the announcement relating to the Rights Issue;
2. a discount of approximately 11.36% to the average closing price of approximately HK\$0.361 per Share on the 10 trading days up to and including 5th February, 2001;
3. a discount of approximately 15.79% to the theoretical ex-rights price of HK\$0.38 per Share based on the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on 5th February, 2001;
4. a discount of approximately 4.20% to the average closing price of approximately HK\$0.334 per Share on the 10 trading days up to and including the Latest Practicable Date; and
5. a premium of approximately 3.23% to the closing price of HK\$0.31 per Share, on an ex-rights basis, as quoted on 16th February, 2001, being the last trading day of the Shares on the Stock Exchange immediately prior to the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The Directors consider the terms of the Rights Issue to be fair and reasonable and in the interests of the Company and the Shareholders taken as a whole. The Directors also consider it necessary and expedient, having regard to the restrictions and obligations of certain foreign jurisdictions, to limit the Rights Issue to Shareholders who have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

Chansam has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will remain registered in its name from the date of undertaking up to the Record Date and that it will subscribe an aggregate of 150,553,786 Rights Shares (representing approximately 22.38% of the existing issued share capital and approximately 14.92% of the issued share capital of the Company as enlarged by the Rights Issue, assuming no Shares will be allotted subsequent to the Latest Practicable Date and on or before the Record Date as a result of the exercise of the share options), which will be provisionally allotted to it as the holder of 301,107,572 existing Shares (representing approximately 44.76% of the existing issued share capital of the Company). The Rights Issue will be fully underwritten by the Underwriter other than the Rights Shares undertaken to be taken up by Chansam. Upon completion of the Rights Issue, assuming no Rights Shares are allotted to Chansam pursuant to excess application, Chansam will be interested in approximately 44.76% of the issued capital of the Company as enlarged by the Rights Issue (assuming no Shares are allotted pursuant to the exercise of the share options subsequent to the Latest Practicable Date and on or before the Record Date). As at the Latest Practicable Date, Chansam has not indicated to the Company whether it will or will not make any excess application under the Rights Issue.

### UNDERWRITING AGREEMENT

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, the balance of the Rights Shares not subject to the above undertaking by Chansam, amounting up to 190,233,050 Rights Shares (representing approximately 55.82% of the total maximum number of Rights Shares), has been underwritten by the Underwriter at an underwriting commission of 2 per cent. of the total issue price of the Rights Shares underwritten. The Underwriter is an independent third party not connected with the directors, chief executive and substantial shareholders of the Company or any of its Subsidiaries or their respective associates.

### TERMINATION OF THE UNDERWRITING AGREEMENT

**It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events. If at any time on or before 4:00 p.m. on the third business day after the final acceptance date for the provisional allotments:—**

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties under the Underwriting Agreement is untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or**
- (b) (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;**
  - (ii) any change in local, national or international financial, political, industrial or economic conditions;**

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## LETTER FROM THE BOARD

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- (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
- (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
- (vi) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) business days;
- (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of the Underwriter:—

- (x) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group; or
- (y) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or
- (z) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,

then and in such case the Underwriter may by notice in writing given to the Company on or before 4:00 p.m. on the third business day after the final acceptance date for the provisional allotment rescind the Underwriting Agreement and thereupon all obligations of the Underwriter thereunder will cease and determine and no party will have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the Rights Issue will not proceed.

### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon each of the following happening on or before 4:00 p.m. on 16th March, 2001 (or such later date as the Underwriter may at its discretion extend but in any event not later than 31st March, 2001):—

- (i) the Listing Committee of the Stock Exchange granting (subject to allotment) and not revoking listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms;

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## LETTER FROM THE BOARD

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- (ii) the registration of the Rights Issue Documents with the Registrar of Companies in Hong Kong and the filing of the Rights Issue Documents with the Registrar of Companies in Bermuda; and
- (iii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof.

If the conditions are not fulfilled on or before 16th March, 2001 (or such later date as the Underwriter may at its discretion extend but in any event not later than 31st March, 2001), the Underwriting Agreement will lapse and the Rights Issue will not proceed. Please refer to the paragraph headed “Listing and Dealings” in this letter for details of the risks in dealing in the Shares and the Rights Shares in their nil-paid form before the conditions of the Rights Issue are fulfilled.

### OVERSEAS SHAREHOLDERS

Overseas Shareholders have been sent a copy of this prospectus for their information only.

No action (including registration under any applicable legislation of any territory or jurisdiction other than Hong Kong) has been taken to permit the offering of the Rights Shares or the distribution of this document or the PALs or EAFs, in any territory or jurisdiction outside of Hong Kong unless the Directors consider that making the Rights Issue to them is permitted under the laws of such territory or jurisdiction. The offers of Rights Shares pursuant to the Rights Issue are being made only to Qualifying Shareholders.

Receipt of a copy of this document, a PAL and/or an EAF does not and will not constitute an offer to the Overseas Shareholders or any other persons in any territories or jurisdiction in which it would be unlawful to make an offer, and in such circumstances this document, a PAL and/or an EAF is or will be sent for information only. It is the responsibility of any person (including, without limitation, nominees, agents and trustees) receiving a copy of this document, a PAL and/or an EAF outside Hong Kong and wishing to take up Rights Shares under the Rights Issue to satisfy himself as to the full observance of the laws of the relevant territory including the obtaining of any governmental or other consents which may be required for observing any other formalities needed to be observed in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. **Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional advisers.**

Persons (including, without limitation, nominees, agents and trustees) receiving this document, a PAL and/or an EAF should not distribute or send it in or into any territory or jurisdiction where to do so would or might contravene local securities laws or regulations. If a PAL and/or an EAF is received by any person in any such territory or jurisdiction or by the agent or nominee of such a person, he must not seek to take up Rights Shares, or renounce such PAL and/or an EAF except with the express agreement of the Company. Any person who does forward a PAL and/or an EAF into any such territory or jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention to the recipient to the contents of this section.

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## LETTER FROM THE BOARD

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The Company reserves the right to treat as invalid any purported acceptance of the allotment of Rights Shares comprised in a PAL and/or an EAF or to refuse to register any purported renunciation of the rights represented thereby if it appears to the Company or its agents that acceptance of such allotment or renunciation or the registration of such renunciation may involve a breach of the laws or regulations of any territory or jurisdiction or if in respect thereof the Shareholder or its agent has not given the declaration set out in the PAL and/or an EAF in respect of such matters.

This document is being sent for information only to those Shareholders who are unable to comply with the requirements of the laws of the overseas territory or jurisdiction to which they were subject and will not constitute any offer or invitation to such persons to subscribe for or purchase Rights Shares.

The Company nonetheless reserves the right to make Rights Shares, the PALs and/or EAFs available to the Overseas Shareholders and to permit the Overseas Shareholders to transfer rights notwithstanding any statement contained in this document, if the Company deemed it appropriate to do so.

In cases of Shareholders with registered addresses outside Hong Kong or where the Company is apprised in a timely manner that Shareholders are not Qualifying Shareholders, arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to such persons to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK\$100 or more will be paid pro rata to such Shareholders in Hong Kong dollars. The Company will retain individual amounts of less than HK\$100 for the benefit of the Company.

### SUMMARY OF BUSINESS OPERATIONS OF THE GROUP

*The following summary is qualified in its entirety by, and should be read in conjunction with, the financial statements and notes thereto included elsewhere in this document.*

The Group is principally engaged in the creation, design, development, marketing and distribution of toys and family entertainment activity products. The Group's principal operations are located in Hong Kong and the United States of America.

Unaudited turnover for the six months ended 30th June, 2000 was HK\$245,607,000, compared to HK\$299,654,000 of the corresponding six month period ended 30th June, 1999. The Group reported an unaudited profit attributable to Shareholders of HK\$124,444,000, or HK\$0.19 per Share, in the first half of 2000 as compared to a loss of HK\$34,720,000 or HK\$0.05 loss per Share, for the same period in 1999. During the period, the Group realised a portion of its investment in ICG Asia Limited (formerly known as Harbour Ring International Holdings Limited), resulting in a gain which was included in the profit as reported above.

The Group's strategic product focus is on three broad categories: action figures, dolls and novelty toys with unique play features. The creative sources of new product concepts are often found in the multimedia entertainment industry and the professional toy inventors community. Licensing commitments are therefore amongst the most crucial strategic investments of the Group.

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## LETTER FROM THE BOARD

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In 2001, new product licences have been entered into and new product lines will, subject to the market response, be launched in tandem with the following entertainment events: the *Tomb Raider* movie from Paramount Pictures, *The Fellowship of the Ring* (the first episode of *The Lord of the Rings* trilogy) and the Holiday 2001 movie from New Line Cinema. Subject to the execution of the formal licence agreement, new products for *Jurassic Park III*, the latest episode in the popular series from Universal Studios, will also be launched. Entertainment inspired product lines including *The Simpsons*, under licence from Twentieth Century Fox Film Corporation, and *Jackie Chan Adventures*, under a licence agreement with Sony Pictures Consumer Products Inc. will continue to be developed by the Group, subject to the market response. In addition, the Group is in the final stage of entering into a number of major licences that in the opinion of the Directors will have significant long-term positive contributions to the Group.

### ADJUSTMENTS TO EXERCISE PRICE AND NUMBER OF SHARE OPTIONS

Pursuant to the Share Option Plan adopted by the Company on 4th May, 1998, the Company has granted options to the Directors and employees of the Company and as at the Latest Practicable Date, 32,814,000 share options to subscribe for up to 32,814,000 Shares were outstanding. Amongst these 32,814,000 outstanding options, 8,870,000 share options are eligible for exercise on or before the Record Date to subscribe for up to 8,870,000 Shares. Any Rights Shares which may be issued as a result of exercise of any share options on or before the Record Date are fully underwritten by the Underwriter. Pursuant to the provisions of the Share Option Plan, if the Rights Issue becomes unconditional, the Rights Issue will constitute an event giving rise to an adjustment to both the exercise price and the number of Shares the option holders are eligible to subscribe. Details of the respective exercise prices and number of share options and their respective adjustments (assuming no share option has been exercised or lapsed subsequent to the Latest Practicable Date and on or before the Record Date) are set out in the paragraph headed “Share Capital and Share Options” in Appendix I to this prospectus.

The Company’s auditors, PricewaterhouseCoopers, have certified to the Directors that such adjustments have been made on a fair and reasonable basis in accordance with the relevant provisions of the Share Option Plan. The adjustments do not result in giving the participants a higher proportion of equity capital of the Company upon the full exercise of the share options than that they are currently entitled. No adjustment will be made to the method of exercise of the share options.

### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Rights Issue will, upon completion, raise immediate funds to the Company of an aggregate net sum of approximately HK\$105,000,000, after deducting estimated expenses. The proceeds are currently intended to be used as payment of initial costs for the Group’s current and ongoing licensing commitments (which include royalties and development costs of the relevant toy products), and, if there is any remainder after satisfying such commitments, for reducing the bank borrowings of the Group and as general working capital of the Group.

The application of the proceeds from the Rights Issue will allow the Group’s business to grow, improve the liquidity position of the Group as well as enhance the equity base of the Group. The Rights Issue will also allow the Qualifying Shareholders the opportunity to maintain their respective pro rata shareholdings in the Company.

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## LETTER FROM THE BOARD

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### PROCEDURE FOR ACCEPTANCE AND PAYMENT OR TRANSFER

For each Qualifying Shareholder, a PAL is enclosed with this prospectus which entitles the Qualifying Shareholder to subscribe for the number of Rights Shares provisionally allotted to him/her/it as specified thereon.

**If any Qualifying Shareholder wishes to exercise his/her/its right to subscribe for all the Rights Shares provisionally allotted to him/her/it as specified in the PAL, the Qualifying Shareholder must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong by not later than 4:00 p.m. on 13th March, 2001.** All remittances must be made in Hong Kong dollars and cheques or banker's cashier orders must be drawn on a bank account in Hong Kong, and crossed "**Account Payee Only**" and made payable to "**Playmates — Rights Issue Account**". All enquiries in connection with the PALs should be addressed to the Registrar at the address stated on page 2 of this prospectus.

**Unless the PAL, duly completed, together with the appropriate remittance, has been lodged by 4:00 p.m. on 13th March, 2001 whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights to subscribe for Rights Shares thereunder will be deemed to have been declined and will be cancelled. The Company may (at its sole discretion) treat a PAL (lodged as mentioned above) as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions. The Company may require such incomplete PALs to be completed by the relevant Qualifying Shareholder at a later stage.**

If a Qualifying Shareholder wishes to accept only part of his/her/its rights to subscribe for the Rights Shares provisionally allotted, or if the Qualifying Shareholder wishes to transfer all or part of such rights, the entire PAL must be surrendered by no later than 4:00 p.m. on 5th March, 2001 with Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong for cancellation and new PALs will be issued in the denominations required.

All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interests earned on such monies will be retained for the benefit of the Company. Completion and return of a PAL with a cheque and/or the banker's cashier order will be honoured on first presentation. Without prejudice to any other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the accompanying cheque and/or banker's cashier order is dishonoured on first presentation, and, in such event, the relevant provisional allotment and all rights given pursuant to which will be deemed to have been declined and will be cancelled at the discretion of the Company. All documents, including cheques for amounts due, will be sent by ordinary post at the risk of the relevant applicants, or other persons entitled thereto, to their registered addresses.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement at any time prior to 4:00 p.m. on the third business day following the final acceptance day (which such final acceptance date is expected to be Tuesday, 13th March, 2001) and/or if any of the conditions of the Rights Issue is not fulfilled, the monies received in respect of the Rights Shares provisionally allotted

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## LETTER FROM THE BOARD

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and applications for excess Rights Shares will be returned to the applicants, without interest, by means of cheques despatched in ordinary post to the addresses specified in the respective PALs at the risk of such applicants as soon as practicable thereafter.

### APPLICATION FOR EXCESS RIGHTS SHARES

For each Qualifying Shareholder, an EAF is enclosed with this prospectus which entitles the Qualifying Shareholder to apply for excess Rights Shares.

**If any Qualifying Shareholder wishes to apply for any Rights Shares in addition to his/her/its provisional allotment under the Rights Issue, he/she/it must complete and sign the EAF in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong by not later than 4:00 p.m. on 13th March, 2001.** All remittances must be made in Hong Kong dollars and cheques or banker's cashier orders must be drawn on a bank account in Hong Kong, crossed "**Account Payee Only**" and made payable to "**Playmates — Excess Application Account**". All enquiries in connection with the EAFs should be addressed to the Registrar at the address stated on page 2 of this prospectus. The Qualifying Shareholder will be notified of any allotment of excess Rights Shares made to him/her/it, which allocation will be made at the discretion of the Directors, on a fair and reasonable basis as far as practicable.

All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of an EAF with a cheque and/or a banker's cashier order will constitute a warranty that the cheque and/or the banker's cashier order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any EAF in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation.

If no excess Rights Shares are allotted to the relevant applicants, a refund cheque for the full amount tendered on application, without interest, will be posted to the relevant applicants to the addresses specified in the relevant EAFs by ordinary post at their own risk. If the number of excess Rights Shares allotted to the relevant applicants is less than that applied for, a cheque for the surplus application monies, without interest, will be posted to the relevant applicants by ordinary post at their own risk. Such posting is expected to take place on or before 19th March, 2001.

EAFs have only been issued to Qualifying Shareholders and are for use only by the persons to whom they are addressed and are not transferable. All documents, including cheques for amounts due, will be sent by ordinary post at the risk of the relevant applicants or other persons entitled thereto, to their registered addresses. The Company may (at its sole discretion) treat an EAF as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions. The Company may require such incomplete EAFs to be completed by the relevant Qualifying Shareholder at a later stage.

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## LETTER FROM THE BOARD

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If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement at any time prior to 4:00 p.m. on the third business day following the final acceptance day (which such final acceptance day is expected to be Tuesday, 13th March, 2001) and/or if any of the conditions of the Rights Issue are not fulfilled, the monies received in respect of the Rights Shares provisionally allotted and applications for excess Rights Shares will be returned to the applicants, without interest, by means of cheques despatched in ordinary post to the addresses specified in the respective PALs at the risk of such applicants as soon as practicable thereafter.

### LISTING AND DEALINGS

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, the Rights Shares. It is expected that dealings in the nil-paid Rights Shares will take place between 28th February, 2001 and 8th March, 2001 (both dates inclusive). It is expected that dealings in the Rights Shares in fully-paid form will commence on 21st March, 2001. The Rights Shares will rank pari passu in all respects with the existing Shares in issue.

None of the Rights Shares will be listed or dealt in on any other stock exchange outside Hong Kong. Save as disclosed below, none of the securities of the Company is listed or dealt in, nor is any listing of or permission to deal in securities of the Company being or proposed to be sought on any stock exchange other than the Stock Exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares on the Stock Exchange, and subject to compliance with the stock admission requirements of Hongkong Clearing, the Rights Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares, or such other dates as may be determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

**It should be noted that the existing Shares have been dealt in on an ex-rights basis as from 21st February, 2001 and that the Rights Shares will be dealt in in their nil-paid form from 28th February, 2001 to 8th March, 2001 (both dates inclusive). Such dealings will take place during the period when the conditions to which the Rights Issue is subject remain unfulfilled. Any persons dealing in the existing Shares during the period up to 16th March, 2001, the date on which all conditions to which the Rights Issue is subject are expected to be fulfilled, and any persons dealing in the Rights Shares in their nil-paid form from 28th February, 2001 to 8th March, 2001 (being the first and last days of dealings in the nil-paid Rights Shares respectively), will accordingly bear the risk that the Rights Issue may not become unconditionally and may not therefore proceed. Any persons dealing in the existing Shares and/or the Rights Shares in their nil-paid form during such period who are in any doubt about their position are recommended to consult their professional advisers.**

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## LETTER FROM THE BOARD

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Dealings in the Rights Shares, in their nil-paid form and fully-paid form, will be subject to the payment of stamp duty of Hong Kong.

The results of the Rights Issue are expected to be announced on or about 19th March, 2001.

### SHARE CERTIFICATES

Share certificates for all fully-paid Rights Shares are expected to be posted by 19th March, 2001 to the persons who have accepted and paid for the Rights Shares and those successful applicants for the excess Rights Shares.

All documents, including cheques for amounts due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses.

### TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding or disposal of, or dealing in the Rights Shares and, as regards the Overseas Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liability of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices hereto.

Yours faithfully,  
For and on behalf of the Board  
**Chan Chun Hoo, Thomas**  
*Chairman*

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**

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**1. SHARE CAPITAL AND SHARE OPTIONS****Share capital**

The authorised and issued share capital of the Company as at the Latest Practicable Date were and following completion of the Rights Issue (assuming no share option has been exercised or lapsed subsequent to the Latest Practicable Date and on or before the Record Date) will be as follows:

	<i>HK\$</i>
<i>Authorised</i>	
1,500,000,000 Shares as at the Latest Practicable Date	<u>150,000,000</u>
<i>Issued and fully paid</i>	
661,065,673 Shares as at 31st December, 1999	66,106,567
13,988,000 Shares issued on exercise of share options before the Latest Practicable Date	1,398,800
2,350,000 Shares repurchased before the Latest Practicable Date	<u>(235,000)</u>
672,703,673 Shares as at the Latest Practicable Date	67,270,367
336,351,836 Shares to be issued pursuant to the Rights Issue	<u>33,635,184</u>
1,009,055,509 Shares upon completion of the Rights Issue	<u>100,905,551</u>

All Shares presently in issue rank pari passu in all respects as regards voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects.

Save as disclosed herein, as at the Latest Practicable Date, there has been no alteration to the share capital of the Company since 31st December, 1999, the date to which the latest published audited financial statements of the Company were made up.

Save as disclosed herein, no share or loan capital has been issued or is proposed to be issued for cash or otherwise, and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital since 31st December, 1999.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### Share options

Details of the share options granted pursuant to the Share Option Plan of the Company as at the Latest Practicable Date are as follows:—

Date of grant	Exercise price per Share <i>HK\$</i>	Number of Shares to be issued upon exercise of the options
15th May, 1998	0.586	9,692,000
26th August, 1998	0.586	480,000
27th May, 1999	0.558	4,452,000
17th August, 1999	0.462	6,000,000
20th October, 1999	0.478	3,800,000
22nd July, 2000	0.690	8,390,000
		<u>32,814,000</u>

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

Save as disclosed herein, there are currently no options or warrants to subscribe for Shares or securities convertible into Shares outstanding.

Upon the Rights Issue becoming unconditional, the exercise price and the number of Shares to be issued upon exercise of the above options will be adjusted with effect from 16th March, 2001, being the date on which the Rights Issue is expected to become unconditional, as follows (assuming no share option has been exercised or lapsed subsequent to the Latest Practicable Date and on or before the Record Date):

Date of grant	<u>Before the Rights Issue</u>		<u>After the Rights Issue</u>	
	Original exercise price per Share <i>HK\$</i>	Number of outstanding Share Options	Adjusted exercise price per Share <i>HK\$</i>	Adjusted number of outstanding Share Options
15th May, 1998	0.586	9,692,000	0.543	10,457,000
26th August, 1998	0.586	480,000	0.543	518,000
27th May, 1999	0.558	4,452,000	0.517	4,807,000
17th August, 1999	0.462	6,000,000	0.428	6,477,000
20th October, 1999	0.478	3,800,000	0.443	4,097,000
22nd July, 2000	0.690	8,390,000	0.639	9,062,000
Total		<u>32,814,000</u>		<u>35,418,000</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 2. FINANCIAL STATEMENTS OF THE GROUP

Set out below is an extract from the audited financial statements of the Group for the year ended 31st December, 1999 (the date of which the latest audited financial statements were made up), together with the comparative figures for the years ended 31st December, 1998 and 1997 and relevant notes to the annual accounts of the Group.

#### Consolidated profit and loss accounts

	<i>Note</i>	<b>Year ended 31st December,</b>		
		<b>1999</b>	<b>1998</b>	<b>1997</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,081,836	883,995	1,525,501
Cost of sales		<u>(553,448)</u>	<u>(410,503)</u>	<u>(706,709)</u>
Gross profit		528,388	473,492	818,792
Operating expenses				
Marketing		(213,783)	(219,773)	(324,379)
Selling, distribution and administration		<u>(290,811)</u>	<u>(284,990)</u>	<u>(422,573)</u>
Operating profit/(loss)	3	23,794	(31,271)	71,840
Non-operating income/(expenses)				
Interest expense and bank charges	4	(14,552)	(18,042)	(21,028)
Other income, net of expenses	5	9,226	22,553	24,664
Provision for diminution in value of investment securities		—	(11,825)	(45,000)
Costs associated with the rationalisation of the video game business		—	—	(55,396)
Costs incurred in the expansion of licensing activities		—	—	(89,312)
Costs related to the restructuring of the U.S. operations		<u>—</u>	<u>—</u>	<u>(15,267)</u>
Profit/(loss) from ordinary activities		18,468	(38,585)	(129,499)
Share of profit of an associated company		<u>21,134</u>	<u>8,056</u>	<u>11,378</u>
Profit/(loss) before taxation		39,602	(30,529)	(118,121)
Taxation (charge)/credit	6(a)	<u>(33,610)</u>	<u>12,756</u>	<u>4,291</u>
Profit/(loss) after taxation		5,992	(17,773)	(113,830)
Minority interests		<u>2</u>	<u>—</u>	<u>—</u>
Profit/(loss) attributable to shareholders	7	5,994	(17,773)	(113,830)
Retained profits brought forward		393,173	438,785	605,846
Transfer from reserves		<u>6,939</u>	<u>11,825</u>	<u>(290)</u>
Total available for appropriation		406,106	432,837	491,726
Dividends	8	<u>206,214</u>	<u>39,664</u>	<u>52,941</u>
Retained profits carried forward	18	<u>199,892</u>	<u>393,173</u>	<u>438,785</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share	9	<u>0.91</u>	<u>(2.69)</u>	<u>(17.15)</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### Consolidated balance sheets

	<i>Note</i>	<b>1999</b> <i>HK\$'000</i>	<b>1998</b> <i>HK\$'000</i>
Fixed assets	<i>11</i>	34,984	23,589
Investment in an associated company	<i>13</i>	27,683	26,085
Investment securities	<i>14(a)</i>	263,457	344,053
Deferred taxation	<i>6(b)</i>	100	990
Current assets			
Inventories	<i>15, 21</i>	5,669	68,291
Trade receivables	<i>16, 21</i>	493,522	245,986
Other receivables, deposits and prepayments		47,604	66,469
Taxation recoverable		3,984	5,291
Other investments	<i>14(b)</i>	169	11,768
Cash and bank balances		336,251	249,702
		887,199	647,507
Current liabilities			
Notes payable to banks, repayable on demand		334,149	144,845
Trade payables		61,872	23,389
Other payables and accrued charges		165,566	229,412
Taxation payable		44,899	14,710
Proposed dividends		206,214	19,832
		812,700	432,188
Net current assets		74,499	215,319
		400,723	610,036
Financed by:			
Share capital	<i>17</i>	66,107	66,107
Reserves	<i>18(a)</i>	334,616	539,415
Shareholders' funds		400,723	605,522
Non-current liabilities		—	4,514
		400,723	610,036

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**Balance sheets**

	<i>Note</i>	<b>1999</b> <i>HK\$'000</i>	<b>1998</b> <i>HK\$'000</i>
Investment in subsidiaries	<i>12</i>	333,410	466,745
Current assets			
Accounts receivable and prepayments		1,012	120
Dividends receivable from subsidiaries		—	50,000
Cash and bank balances		134,653	33,446
		135,665	83,566
Current liabilities			
Other payables and accrued charges		22,328	—
Proposed dividend		206,214	19,832
		228,542	19,832
Net current (liabilities)/assets		(92,877)	63,734
		240,533	530,479
Financed by:			
Share capital	<i>17</i>	66,107	66,107
Reserves	<i>18(b)</i>	174,426	464,372
Shareholders' funds		240,533	530,479

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**Consolidated cash flow statements**

	<i>Note</i>	<b>Year ended 31st December,</b>	
		<b>1999</b>	<b>1998</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	19(a)	(142,007)	212,465
Returns on investments and servicing of finance			
Interest received		11,599	20,758
Interest paid		(8,786)	(14,149)
Dividends received from an associated company		10,780	9,800
Dividends paid		(19,832)	(59,496)
Dividends received from other investments		4,141	3,455
Net cash outflow from returns on investments and servicing of finance		(2,098)	(39,632)
Taxation			
Hong Kong profits tax paid		(985)	(11,825)
Overseas tax paid		(114)	(5,891)
Hong Kong profits tax refunded		880	2,963
Overseas tax refunded		611	40,944
Net tax refunded		392	26,191
Investing activities			
Purchases of short term investments		—	(25,703)
Purchases of fixed assets			
Moulds and tools		(17,232)	(12,991)
Other fixed assets		(22,954)	(4,870)
Proceeds from disposal of fixed assets		369	1,157
Proceeds from disposal of investment and other securities		85,484	26,463
Net cash inflow/(outflow) from investing activities		45,667	(15,944)
(Decrease)/increase in cash and cash equivalents		(98,046)	183,080
Cash and cash equivalents at 1st January		104,857	(75,603)
Effect of foreign exchange rate changes		(4,709)	(2,620)
Cash and cash equivalents at 31st December	19(b)	2,102	104,857

**Statements of recognised gains and losses**

	<i>Note</i>	<b>Year ended 31st December,</b>	
		<b>1999</b>	<b>1998</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange loss arising on translation of accounts of foreign subsidiaries	<i>18(a)</i>	(4,579)	(2,713)
Profit/(loss) for the year	<i>18(a)</i>	<u>5,994</u>	<u>(17,773)</u>
Total recognised gains/(losses)		<u><u>1,415</u></u>	<u><u>(20,486)</u></u>

**NOTES TO THE ACCOUNTS**
**1. Principal accounting policies**

The principal accounting policies which have been adopted in the preparation of these accounts are set out below.

**(a) Basis of preparation**

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment securities.

**(b) Consolidation**

The group accounts comprise the consolidation of the accounts of the Company and all its subsidiaries made up to the end of the year. Internal transactions are eliminated on consolidation and all figures in the group accounts relate to external transactions only.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half the voting power or issued share capital or of whose board of directors it controls the composition.

The investment in subsidiaries is recorded in the Company's books at cost, being the fair value of the consideration given plus related acquisition costs, or, where appropriate, at directors' estimate of the fair value of the net assets of subsidiaries contributed to the Company, less any provision required for permanent diminution in value.

Discount arising on consolidation represents the excess of fair value of the net assets of subsidiaries acquired over the purchase consideration. Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Any goodwill or discount arising on consolidation is charged or credited, as appropriate, directly to reserves.

The turnover and results of subsidiaries are included in the group accounts from the date of their acquisition. In the case of disposals, turnover and results are included up to the date of disposal.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) **Associated companies**

Associated companies are companies other than subsidiaries in which the Group effectively holds a long term equity investment and over whose management it is able to exercise significant influence. Associated companies are accounted for by the Group using the equity method of accounting.

(d) **Revenue recognition**

Revenue from the sale of toys and video games is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when it is received except dividends from subsidiaries which are recognized when determined by the holding company as the holding company's right to receive payment is established by virtue of its control over the subsidiary.

(e) **Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(f) **Advertising and marketing expenses, advanced royalties and development costs**

Advertising and marketing expenses are written off as incurred, except for the production costs of commercials and related programming costs which are deferred and written off in the year the commercial is first aired.

Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements. All prepayments with respect to these agreements are recoupable against future royalties. Advanced royalties are amortized at the contractual royalty rate based on actual product sales. Management evaluates the future realization of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortized within the term of the licence agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

Expenses relating to product development are deferred and amortized on a straight line basis over the estimated useful life of the products. Substantially all product development costs are amortized within one year of initial product shipment. On an ongoing basis, management reviews the useful lives and carrying value of deferred product development costs based on the projected sales and operating results of the related products. If the facts and circumstances suggest a change in useful lives or an impairment in the carrying value, the useful lives are adjusted and any unamortized costs are written off accordingly.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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**(g) Fixed assets**

- (i) Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the costs of these assets on a straight line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:—

	<i>Percent</i>
Machinery and equipment	20
Office equipment, furniture and fixtures	15 to 20
Motor vehicles	20
Computer equipment	25 to 33
Computer software	20

The Group owns the moulds and tools used in the production of the Group's products by third party manufacturers. Substantially all moulds and tools expenditure is depreciated in full in the year of initial product shipment.

- (ii) *Impairment of fixed assets*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount.

- (iii) *Gain or loss on disposal of fixed assets*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account.

- (iv) *Restoration cost*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

**(h) Investments in securities**

- (i) *Investments securities and investment securities reserve*

Investment securities are stated at cost or, in the case of investments previously treated as investments in associated companies or regarded as trading investments, at their carrying value at the date of change of classification, less any provision for permanent diminution in value considered necessary by the directors.

The carrying value at the date of change was, in the case of investments previously held as investments in associated companies, the carrying value on the equity basis of accounting at that date or, in the case of investments previously held as trading investments, the lower of cost and market value at that date. Any excess in the carrying value over cost at the date of change is carried as investment securities reserve. Profits or losses on disposal of investment securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise. Decreases in valuation, due to additional provisions or disposals, are charged against operating profits and a corresponding transfer is made between the investment securities reserve and retained profits until this investment securities reserve is insufficient to cover a deficit.

(ii) *Trading investments*

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

In prior years, trading investments were stated at the lower of cost and net realisable value. This represents a change in accounting policy in order to comply with Statement of Standard Accounting Practice Number 24 issued by the Hong Kong Society of Accountants. The change in accounting policy does not have any effect on the current year's profit or retained earnings. The impact on the profits of prior years is immaterial and accordingly the comparatives have not been restated.

(iii) *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value.

The carrying amounts of held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account.

(i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) **Accounts receivable**

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(k) **Operating leases**

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the profit and loss account on a straight line basis over the lease term.

(l) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in exchange fluctuation reserve.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

**(m) Retirement benefits**

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the scheme are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

**(n) Borrowing costs**

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

**(o) Comparative figures**

Due to the adoption of the revised SSAP 1 and SSAP 2 during the current year, the presentation of the Group's profit and loss account have been revised to comply with the new disclosure requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

**2. Turnover and revenues**

The group is principally engaged in the design, development, marketing and distribution of toys. Revenues recognised during the year are as follows:

	<b>1999</b> <i>HK\$'000</i>	<b>1998</b> <i>HK\$'000</i>
Turnover:		
Sales of toys and video games	1,081,836	883,995
Other revenues:		
Interest income	11,749	19,026
Dividend income		
— Listed investments	4,137	3,451
— Unlisted investment	4	4
	<u>15,890</u>	<u>22,481</u>
Total revenues	<u><u>1,097,726</u></u>	<u><u>906,476</u></u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 3. Operating profit/(loss)

The operating profit/(loss) is stated after charging and crediting the following:—

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Charging:</b>		
Depreciation of fixed assets	28,814	23,061
Staff costs		
— (Reversal of)/provision for discretionary bonus	(9,510)	5,917
— Others	62,826	65,539
Operating lease expenses		
— Office and warehouse facilities	17,079	16,766
— Hire of equipment	642	728
	17,721	17,494
Auditors' remuneration		
— Current year	2,035	2,208
— Under provision in previous year	193	290
	<u>2,228</u>	<u>2,498</u>
<b>Crediting:</b>		
Net exchange gain	2,286	279
Gain on disposal of fixed assets	262	631
	<u>2,548</u>	<u>910</u>
<b>4. Interest expense and bank charges</b>		
	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	8,786	14,253
Factoring charges	5,766	3,789
	<u>14,552</u>	<u>18,042</u>
<b>5. Other income, net of expenses</b>		
	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from bank deposits	8,908	12,000
Interest income from debt securities	2,841	7,026
Dividend income	4,141	3,455
Net realised loss on disposal of investment and other securities	(6,664)	—
Net realised gain on disposal of equity securities	—	72
	<u>9,226</u>	<u>22,553</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 6. Taxation (charge)/credit

(a) The taxation (charge)/credit in the consolidated profit and loss account comprises:—

	<b>1999</b> <i>HK\$'000</i>	<b>1998</b> <i>HK\$'000</i>
Hong Kong profits tax		
Current year	(1,636)	(3,508)
Prior years ( <i>note i</i> )	(22,692)	—
Transferred to deferred taxation account	(890)	(835)
	(25,218)	(4,343)
Overseas taxation		
Current year	(375)	3,618
Prior years ( <i>note ii</i> )	(5,629)	22,604
Transferred to deferred taxation account	—	(7,440)
	(6,004)	18,782
Share of taxation attributable to an associated company	(2,388)	(1,683)
	(33,610)	12,756

Hong Kong profits tax represents the amount provided at the rate of 16% (1998: 16%) on the estimated assessable profit for current year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries and branch in accordance with the tax laws of the countries in which these entities operate.

(i) The group's offshore income claims for the seven years ended 31st December 1998 had been subject to review by the Hong Kong Inland Revenue Department ("IRD"). The review was finalized in February 2000. Following this, the IRD issued an agreed assessment for additional tax and interest aggregating approximately HK\$23.5 million which has been charged to the profit and loss account for the year ended 31st December 1999.

(ii) For the year ended 31st December 1998, the overseas taxation credit for prior years primarily represents tax refund received in respect of prior years.

(b) The movements in the deferred taxation account are as follows:—

	<b>1999</b> <i>HK\$'000</i>	<b>1998</b> <i>HK\$'000</i>
Balance at 1st January		
Hong Kong	990	1,825
Overseas	—	7,440
	990	9,265
Transferred to profit and loss account		
Hong Kong	(890)	(835)
Overseas	—	(7,440)
	(890)	(8,275)
Balance at 31st December		
Hong Kong	100	990
Overseas	—	—
	100	990

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

- (c) Details of the full potential net deferred tax asset and of the amounts of deferred tax recognized in the accounts are as follows:—

	1999		1998	
	Full potential asset <i>HK\$'000</i>	Amount recognised <i>HK\$'000</i>	Full potential asset <i>HK\$'000</i>	Amount recognised <i>HK\$'000</i>
Differences in depreciation allowances	(115)	—	(358)	—
Other timing differences				
— overseas assessable losses carry forward	77,014	—	68,393	—
— others	64,045	100	54,342	990
	<u>141,059</u>	<u>100</u>	<u>122,735</u>	<u>990</u>
	<u>140,944</u>	<u>100</u>	<u>122,377</u>	<u>990</u>

### 7. Profit/(loss) attributable to shareholders

Included in the profit attributable to shareholders of HK\$5,994,000 (1998: loss of HK\$17,773,000) is a loss of HK\$83,732,000 (1998: loss of HK\$71,718,000) which is dealt with in the Company's own accounts.

### 8. Dividends

	1999		1998	
	HK\$ per share	<i>HK\$'000</i>	HK\$ per share	<i>HK\$'000</i>
Interim	—	—	0.03	19,832
Proposed final	0.06	39,912	0.03	19,832
Proposed special	0.25	166,302	—	—
	<u>0.31</u>	<u>206,214</u>	<u>0.06</u>	<u>39,664</u>

### 9. Earnings/(loss) per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$5,994,000 (1998: loss of HK\$17,773,000) and the number of shares in issue of 661,065,673 (1998: 661,065,673) shares during the year. The options in shares of the Company do not result in a dilution effect on the earnings/loss per share in respect of the years ended 31st December 1999 and 1998.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 10. Emoluments of the directors and the five highest paid employees

The emoluments of the directors and the five highest paid employees have been included in staff costs disclosed in note 3 to the accounts.

#### (a) Directors' emoluments

The aggregate amounts of the directors' emoluments are as follows:—

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	160	160
Basic salaries, housing allowances, other allowances and benefits in kind	4,749	4,369
Discretionary bonuses	—	1,880
Pension contributions	95	131
	5,004	6,540
	5,004	6,540

Directors' fees include HK\$160,000 (1998: HK\$160,000) payable to non-executive directors.

The numbers of directors whose emoluments for the year fell within the designated bands are as follows:—

	<b>Number of directors</b>	
	<b>1999</b>	<b>1998</b>
<i>HK\$</i>		
Up to 1,000,000	7	4
1,000,001 - 1,500,000	1	1
1,500,001 - 2,000,000	—	1
2,000,001 - 2,500,000	1	—
3,000,001 - 3,500,000	—	1

No director waived emoluments in respect of the years ended 31st December 1999 and 1998.

Pursuant to the Company's Share Option Plan, the Company has granted share options to the directors.

#### (b) Five highest paid employees' emoluments

Among the five top-paid employees, one (1998: one) is an executive director whose remuneration is disclosed above. The total remuneration of the other four (1998: four) highest paid employees, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited, is as follows:—

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	8,434	7,915
Pension contributions	232	66
Discretionary bonuses	—	1,160
	8,666	9,141
	8,666	9,141

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

The emoluments of these highest paid employees fell within the following bands:—

<i>HK\$</i>	Number of employees	
	1999	1998
1,500,001 - 2,000,000	2	2
2,000,001 - 2,500,000	1	—
2,500,001 - 3,000,000	1	2

### 11. Fixed assets — Group

	Machinery and equipment <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost							
At 1st January 1999	1,864	35,871	307,664	4,959	17,265	—	367,623
Exchange movement	(10)	59	—	98	(21)	—	126
Additions	9	2,227	17,232	217	3,019	17,482	40,186
Disposals	(126)	(1,122)	—	(544)	(1,187)	—	(2,979)
At 31st December 1999	1,737	37,035	324,896	4,730	19,076	17,482	404,956
Accumulated depreciation							
At 1st January 1999	1,743	18,519	307,664	3,179	12,929	—	344,034
Exchange movement	(8)	(2)	—	38	(32)	—	(4)
Charge for the year	60	5,953	17,232	370	3,268	1,931	28,814
Disposals	(126)	(1,077)	—	(482)	(1,187)	—	(2,872)
At 31st December 1999	1,669	23,393	324,896	3,105	14,978	1,931	369,972
Net book value at							
31st December 1999	68	13,642	—	1,625	4,098	15,551	34,984
Net book value at							
31st December 1998	121	17,352	—	1,780	4,336	—	23,589

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 12. Investment in subsidiaries

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares		
At cost	13,026	10,702
At directors' estimate of fair value on acquisition	530,865	530,865
	543,891	541,567
Less: Provision for permanent diminution in value	(295,685)	(199,155)
	248,206	342,412
Amounts due from subsidiaries	280,814	306,950
Amounts due to subsidiaries	(195,610)	(182,617)
	333,410	466,745

The amounts due from or to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the principal subsidiaries of the Company as at 31st December 1999 are as follows:—

Name of company	Country/ place of incorporation	Total issued and fully paid shares	Effective percentage holding	Nature of business and place of operation
Shares held directly:—				
Playmates Asia Services Limited	The British Virgin Islands	1 share of US\$1.00	100	Provision of services, based in Hong Kong
Playmates Toys (Hong Kong) Limited	Hong Kong	1,000 ordinary shares of HK\$10 each	100	Toys product engineering, development, marketing and sales, based in Hong Kong and Macau
Playmates Inc.	U.S.A.	30,000,000 common stock of US\$0.01 each	100	Investment holding of subsidiaries operating in the U.S.A.
Playmates Toys (U.K.) Limited	U.K.	250,000 ordinary shares of £1.00 each	100	Toys sales and distribution in the U.K.
Profit Point Limited	The British Virgin Islands	1 ordinary share of US\$1	100	Portfolio investments in Hong Kong
Playmates Toys Limited	The British Virgin Islands	100 ordinary shares of US\$1 each	100	Investments holding in Hong Kong

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## APPENDIX I      FINANCIAL INFORMATION RELATING TO THE GROUP

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Name of company	Country/ place of incorporation	Total issued and fully paid shares	Effective percentage holding	Nature of business and place of operation
Shares held indirectly:—				
Playmates Toys Inc.	U.S.A.	120,000 common stock of US\$30 each	100	Toys development, marketing and distribution in the U.S.A.
Next Electronix Inc. (formerly known as Playmates Interactive Entertainment Inc.)	U.S.A.	80 shares of US\$100 each and 199,920 shares of US\$0.01 each	100	Electronics toys development, sales and distribution in and outside the U.S.A.
Regarding Play Inc.	U.S.A.	200,000 shares of US\$0.01 each	90	Toys development, marketing and distribution in the U.S.A.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 13. Investment in an associated company — Group

As at 31st December 1999, the Group held interests in the following associated company:—

Name of company	Place of incorporation	Shares	Held directly %
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	Ordinary shares	49

Analysis of the Group's interest in the associated company:

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Share of net assets	<u>27,683</u>	<u>26,085</u>
Investment at cost, unlisted shares	<u>18,077</u>	<u>18,077</u>

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys and dolls.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 14. Investment in securities — Group

#### (a) Investment securities

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities in Hong Kong		
— at carrying value on the equity basis of accounting at the date the investment ceased to be an associated company ( <i>note (i)</i> )	224,805	235,960
— at carrying value when other investment was reclassified as investment securities ( <i>note (ii)</i> )	49,868	49,868
Listed bonds in Hong Kong		
— at cost	—	70,000
	274,673	355,828
Provision	(11,266)	(11,825)
	263,407	344,003
Unlisted shares, at cost	50	50
	<u>263,457</u>	<u>344,053</u>
Market value of listed shares		
— as at 31st December ( <i>note (iii)</i> )	<u>85,224</u>	<u>136,773</u>
— as at the date of approval of accounts ( <i>note (iii)</i> )	<u>1,208,600</u>	<u>86,158</u>

- (i) At 31st December 1999, the Group held 244,900,000 (1998: 257,052,000) ordinary shares in Harbour Ring International Holdings Limited (“HRIH”), which is incorporated in Bermuda, representing 14.17% (1998: 14.87%) of HRIH’s issued share capital. Subsequent to 31st December 1999, the share capital of HRIH has undergone a restructuring, resulting in a dilution in the Group’s shareholdings in HRIH to approximately 4.3% of its enlarged capital. The amount of the Group’s holding in HRIH exceeded 10% of the total assets of the Group.
- (ii) At 31st December 1999, the Group held 34,156,338 (1998: 34,156,338) shares of Prestige Properties Holdings Limited (“PPHL”) representing 5.1% (1998: 5.1%) of the total issued shares of that company. PPHL and the Company have a common major shareholder. In March 2000, PPHL has conditionally agreed to place additional shares to independent investors. Upon completion of the placing, there will be a dilution in the Group’s shareholdings in PPHL to approximately 4.3%.
- (iii) The investments in listed securities are intended to be held for the long term. Consequently the directors believe that the underlying net asset values of the investments are a better basis than market value for determining whether permanent diminution in value has arisen.

#### (b) Other investments

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong	169	216
Held-to-maturity securities listed outside Hong Kong, at cost	—	11,552
	<u>169</u>	<u>11,768</u>
Market value as at 31st December	<u>169</u>	<u>11,231</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 15. Inventories — Group

At 31st December 1999, the amount of inventories that are carried at net realisable value amounted to HK\$5,437,000 (1998: HK\$16,706,000).

### 16. Trade receivables — Group

As at 31st December 1999, trade receivables of the subsidiaries in the U.S.A. totalling HK\$355,258,000 (1998: HK\$201,305,000) were pledged to financial institutions in return for the provision of credit facilities. The financial institutions assume the credit risk associated with the trade receivables so pledged (note 21).

### 17. Share capital

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
<i>Authorised</i>		
1,500,000,000 shares of HK\$0.10 each	150,000	150,000
<i>Issued and fully paid</i>		
661,065,673 (1998: 661,065,673) shares of HK\$0.10 each	66,107	66,107

Details of the share options granted pursuant to the Share Option Plan of the Company are as follows:—

Date of Grant	Exercise Price <i>HK\$</i>	Number of options				Balance at end of year
		Balance at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	
15th May, 1998	0.5860	29,140,000	—	—	3,100,000	26,040,000
26th August, 1998	0.5860	2,000,000	—	—	1,200,000	800,000
27th May, 1999	0.5580	—	9,100,000	—	470,000	8,630,000
17th August, 1999	0.4620	—	7,500,000	—	—	7,500,000
20th October, 1999	0.4780	—	4,750,000	—	—	4,750,000
		31,140,000	21,350,000	—	4,770,000	47,720,000

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

Additional, pursuant to a Merchandising Licence Agreement (the “Agreement”) entered into between Playmates Inc., an U.S. subsidiary of the Company, and an independent third party licensor (the “Grantee”), an option to acquire shares in the Company has been granted to the Grantee. According to the Agreement, the Company granted an option to the Grantee for the acquisition of 19,831,970 shares at a price of HK\$0.7683 per share exercisable between 27th March 1998 and the expiry date of the term of the Agreement at 31st December 1999. The option lapsed without being exercised.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 18. Reserves

#### (a) The Group

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Investment securities reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>(i) The Company and its subsidiaries</b>							
At 1st January 1998	5,397	347	20,964	158,602	(24,546)	426,323	587,087
Exchange loss on translation of accounts of foreign subsidiaries	—	—	—	—	(2,713)	—	(2,713)
Loss for the year	—	—	—	—	—	(18,266)	(18,266)
Dividends	—	—	—	—	—	(39,664)	(39,664)
Deficit on revaluation of the Group's long term investments <i>(Note 14 (a))</i>	—	—	—	(11,825)	—	11,825	—
At 1st January 1999	5,397	347	20,964	146,777	(27,259)	380,218	526,444
Exchange loss on translation of accounts of foreign subsidiaries	—	—	—	—	(4,579)	—	(4,579)
Profit for the year	—	—	—	—	—	4,396	4,396
Dividends	—	—	—	—	—	(206,214)	(206,214)
Release upon the Group's disposal of investment securities	—	—	—	(6,939)	—	6,939	—
At 31st December 1999	<u>5,397</u>	<u>347</u>	<u>20,964</u>	<u>139,838</u>	<u>(31,838)</u>	<u>185,339</u>	<u>320,047</u>
<b>(ii) Associated company</b>							
Share of post-acquisition reserves							
At 1st January 1998	—	—	—	—	16	12,462	12,478
Share of profit for the year less dividend	—	—	—	—	—	493	493
At 1st January 1999	—	—	—	—	16	12,955	12,971
Share of profit for the year less dividend	—	—	—	—	—	1,598	1,598
At 31st December 1999	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16</u>	<u>14,553</u>	<u>14,569</u>
<b>(i) and (ii) The Group</b>							
At 31st December 1999	<u>5,397</u>	<u>347</u>	<u>20,964</u>	<u>139,838</u>	<u>(31,822)</u>	<u>199,892</u>	<u>334,616</u>
At 1st January 1999	<u>5,397</u>	<u>347</u>	<u>20,964</u>	<u>146,777</u>	<u>(27,243)</u>	<u>393,173</u>	<u>539,415</u>

The share premium of HK\$5,397,000 arose upon the combination of the company and a then fellow subsidiary, accounted for as a merge pursuant to a group restructuring in 1993.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(b) **The Company**

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 1998	3,541	347	171,750	256,680	432,318
Profit for the year	—	—	—	71,718	71,718
Dividends	—	—	—	(39,664)	(39,664)
At 1st January 1999	3,541	347	171,750	288,734	464,372
Loss for the year	—	—	—	(83,732)	(83,732)
Dividends	—	—	(166,302)	(39,912)	(206,214)
At 31st December 1999	<u>3,541</u>	<u>347</u>	<u>5,448</u>	<u>165,090</u>	<u>174,426</u>

(c) **Distributable reserves**

The reserves of the Company available for dividend or distribution comprised the following:—

	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Contributed surplus	5,448	171,750
Retained profits/(loss)	<u>165,090</u>	<u>288,734</u>
	<u>170,538</u>	<u>460,484</u>

Contributed surplus in the amount of HK\$171,750,000 arose on the merger, in 1993, of a then fellow subsidiary with the Company. The amount represents the excess of the consolidated net asset value of the then fellow subsidiary over the nominal value of the Company's shares issued in exchange therefor and is distributable subject to and in accordance with The Companies Act 1981 of Bermuda. In 1999, a special dividend of HK\$166,302,000 was distributed from the contributed surplus account, reducing it to HK\$5,448,000.

(d) **Investment securities reserve**

The investment securities reserve represents the difference between the cost and the carrying value when certain long term investee companies, previously treated as associated companies, were reclassified to other investments. This includes the Group's attributable share of those companies' reserves, including retained profits less accumulated losses, less subsequent provisions.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 19. Notes to the consolidated cash flow statement

#### (a) Reconciliation of operating profit/(loss) to net cash (outflow)/inflow from operating activities

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit/(loss)	18,468	(38,585)
Provision for diminution in value of investment securities	—	11,825
Interest income	(11,749)	(19,026)
Interest on bank loans and overdrafts	8,786	14,253
Dividends received from investments	(4,141)	(3,455)
Depreciation	28,814	23,061
Gain on disposal of fixed assets	(262)	(631)
Net realised loss on disposal of investment and other securities	6,664	—
Net realised gain on disposal of equity securities	—	(72)
Decrease/(increase) in inventories	62,622	(18,346)
Decrease/(increase) in trade receivables, other receivables, deposits and prepayments	(240,701)	377,210
Decrease in trade payables, other payables and accrued charges	(10,508)	(133,769)
	<u>(142,007)</u>	<u>212,465</u>
Net cash (outflow)/inflow from operating activities	<u>(142,007)</u>	<u>212,465</u>

#### (b) Analysis of cash and cash equivalents

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	336,251	249,702
Notes payable to banks	(334,149)	(144,845)
	<u>2,102</u>	<u>104,857</u>
	<u>2,102</u>	<u>104,857</u>

### 20. Contingent liabilities

- (a) The Company has executed guarantees amounting to approximately HK\$592 million (1998: HK\$513 million) with respect to banking facilities made available to subsidiaries. As at 31st December 1999, the borrowings outstanding against the facilities amounted to HK\$338 million (1998: HK\$154 million).
- (b) The Internal Revenue Service (“IRS”) of the United States of America has commenced a review of the US subsidiary companies’ income tax affairs, including transfer pricing and other matters, for the years of 1996 and 1997. The review conducted by the IRS is presently ongoing. It is too early to assess the likely outcome of the review and is, therefore, not practicable to assess whether any additional tax assessment might arise. Hence, no provision has been made in the accounts in respect of this event, taking into account the legal advice received.

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## APPENDIX I      FINANCIAL INFORMATION RELATING TO THE GROUP

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### 21. Banking and other facilities

The inventories and the trade receivables of the subsidiaries in the U.S.A. amounting to HK\$356 million (1998: HK\$269 million) and bank balance of a subsidiary in Hong Kong amounting to HK\$66 million (1998: nil) have been pledged to financial institutions as security for the credit facilities provided to the respective subsidiaries. Total facilities utilised as at the balance sheet date amounted to HK\$296 million (1998: HK\$124 million).

### 22. Commitments

As at 31st December 1999, the Group had the following commitments:—

#### (a) Capital commitments

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	—	7,684
	<u>          </u>	<u>          </u>

#### (b) Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and video games products for future sales. Certain licensing agreements contain financial commitment by the Group to the licensors to be fulfilled during the terms of contract. The amount of financial commitment contracted but not provided for at the end of the year were payable as follows:

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	5,553	9,817
More than one year but not exceeding two years	1,511	2,705
More than two years but not exceeding five years	—	5,706
	<u>          </u>	<u>          </u>
	<u>7,064</u>	<u>18,228</u>

#### (c) Lease commitments

Commitments in respect of operating leases for office and warehouse facilities to make payments in the next year are as follows:—

	<b>1999</b>	<b>1998</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Expiring within one year	668	1,141
Expiring after one year but within five years	8,808	14,799
Expiring over five years	3,092	3,060
	<u>          </u>	<u>          </u>
	<u>12,568</u>	<u>19,000</u>

**23.      Related party transactions**

During the year, the Group leased office premises and a storeroom for its own occupation from subsidiaries of Prestige Properties Holdings Limited (“PPHL”) in the normal course of business. The gross rent paid during the year amounted to HK\$5,619,000 (1998: HK\$4,733,000), being at fair market rent. The Company and PPHL are related parties by reason of their being held by a common major shareholder. As at 31st December, 1999, the Group held 34,156,338 shares of PPHL representing 5.1% of the total issued shares.

**24.      Retirement benefit schemes**

The Group maintains defined contribution retirement benefit schemes for its employees in its Hong Kong and overseas subsidiaries. The schemes require the contribution of the same amount by the Group and its employees at various funding rates up to a maximum of 15% of the monthly salary and in accordance with the terms stipulated in the relevant scheme. The Group’s contributions charged to the profit and loss account for 1999 were HK\$3,240,000 (1998: HK\$3,078,000). In Hong Kong, any forfeited Group contributions relating to employees who leave the scheme prior to such contributions vesting fully are used to reduce future contributions. The forfeited contributions utilised by the Group in 1999 amounted to HK\$127,000 (1998: HK\$416,000).

**25.      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\$1.00 ruling at 31st December, 1999.

**26.      Approval of accounts**

The accounts were approved by the Board of Directors on 23rd March, 2000.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**3. INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH JUNE, 2000**

Set out below is the unaudited interim results of the Group for the six months ended 30th June, 2000, together with the unaudited comparative figures for the corresponding period in 1999 as extracted from the Company's 2000 interim report dated 28th August, 2000:

**Results**

	<b>Six months ended 30th June,</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	245,607	299,654
Cost of sales	(152,970)	(148,490)
Gross profit	<u>92,637</u>	<u>151,164</u>
Operating expenses		
Marketing	(79,037)	(82,274)
Selling, distribution and administration	(101,778)	(111,926)
Operating loss	<u>(88,178)</u>	<u>(43,036)</u>
Non-operating income/(expenses)		
Interest expense and bank charges	(5,765)	(5,487)
Other income	13,242	9,285
Gain/(loss) on disposal of long term investments, net	<u>179,827</u>	<u>(6,665)</u>
Profit/(loss) from ordinary activities	99,126	(45,903)
Share of profit of an associated company	<u>6,364</u>	<u>6,665</u>
Profit/(loss) before taxation	105,490	(39,238)
Taxation ( <i>Note 1</i> )	<u>18,952</u>	<u>4,518</u>
Profit/(loss) after taxation	124,442	(34,720)
Minority interests	<u>2</u>	<u>—</u>
Profit/(loss) attributable to shareholders	<u>124,444</u>	<u>(34,720)</u>
	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share ( <i>Note 2</i> )		
Basic	<u>18.64</u>	<u>(5.25)</u>
Diluted	<u>18.54</u>	<u>N/A</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Notes:

### (1) Taxation

Taxation comprises the following credit and (charges):—

	<b>Six months ended 30th June,</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries:		
Hong Kong profits tax	(335)	(6)
Overseas taxation	20,244	5,568
Deferred taxation	—	(101)
	19,909	5,461
Associated company:		
Hong Kong profits tax	(957)	(943)
	18,952	4,518

Hong Kong profits tax is calculated at the rate of 16% (1999: 16%) on the estimated assessable profits for the period. Overseas taxation is calculated on the results of the overseas operations in accordance with the tax laws of the relevant jurisdictions.

### (2) Earnings/(loss) per share

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit/(loss) for the period for the purpose of basic and diluted earnings per share	124,444	(34,720)
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purposes of basic earnings per share	667,457,288	661,065,673
Effect of dilutive potential ordinary shares-share options	3,631,694	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	671,088,982	N/A

### Dividend

The Directors have declared an interim dividend of 2 cents (1999: Nil) per share in respect of the year ending 31st December, 2000 to be paid on 29th September, 2000 to shareholders on the Company's Register of Members on 21st September, 2000. The total dividend payable will amount to HK\$13,454,073 (1999: Nil).

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 4. FINANCIAL INFORMATION ON RECENT ACQUISITION

Subsequent to 31st December, 1999, the date to which the latest published audited financial statements of the Group were made up, the Group has acquired 100 shares of HK\$1.0 each in Pretty Star Limited (“Pretty Star”) representing the entire issued share capital of Pretty Star, and the benefits of and interest in the loan in the sum of HK\$204,417,383 owing by Pretty Star to Prestige Finance Limited, collectively referred as the “Acquisition”. The principal asset of Pretty Star is the whole of a commercial building at No.100 Canton Road, Tsimshatsui, Kowloon, Hong Kong (the “Property”). Details of the Acquisition are contained in a circular dated and distributed to the Shareholders on 23rd December, 2000 (the “Circular”).

Proposal for the Acquisition was presented to the Shareholders and approved at a special general meeting held on 8th January, 2001. The Acquisition was completed on 16th January, 2001.

Set out below is the audited financial information of Pretty Star for each of the three years ended 31st December, 1999 and the nine months ended 30th September, 2000 extracted from the Circular.

#### Profit and Loss Accounts

		Year ended 31st December,			Nine months ended 30th September,
	Note	1997	1998	1999	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Gross rental income from investment properties		56,191	56,749	49,999	14,831
Outgoings in respect of investment properties		(1,441)	(1,123)	(2,793)	(5,216)
Net rental income		54,750	55,626	47,206	9,615
Interest income		—	2	1	1
Administrative expenses		(8,465)	(7,149)	(6,329)	(1,406)
Other operating expenses		—	(1,745)	(2,322)	(416)
Operating profit	(b)	46,285	46,734	38,556	7,794
Finance costs	(c)	(26,207)	(35,683)	(30,113)	(6,992)
Profit before taxation		20,078	11,051	8,443	802
Taxation	(d)	(500)	(910)	(540)	798
Profit for the period		19,578	10,141	7,903	1,600
Retained profits brought forward		25,378	4,956	15,097	23,000
		44,956	15,097	23,000	24,600
Dividend	(e)	(40,000)	—	—	—
Retained profits carried forward		4,956	15,097	23,000	24,600

The principal activity of Pretty Star during the Relevant Periods was property investment in Hong Kong.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**Balance Sheets**

		<b>31st December,</b>		<b>30th</b>	
		<b>1997</b>	<b>1998</b>	<b>September,</b>	
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2000</i>	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Investment properties	(g)	980,000	700,000	732,000	488,000
Current assets					
Rental receivables and deposits	(h)	6	2,096	5,823	6,687
Bank balances		629	5	5	—
		<u>635</u>	<u>2,101</u>	<u>5,828</u>	<u>6,687</u>
Current liabilities					
Rental deposits received		12,709	11,615	12,821	9,153
Other payables and accrued charges		1,843	1,086	54	2,817
Taxation payable		500	509	869	71
Proposed dividend		40,000	—	—	—
		<u>55,052</u>	<u>13,210</u>	<u>13,744</u>	<u>12,041</u>
Net current liabilities		<u>(54,417)</u>	<u>(11,109)</u>	<u>(7,916)</u>	<u>(5,354)</u>
Total assets less current liabilities		925,583	688,891	724,084	482,646
Amount due to a fellow subsidiary	(i)	(408,967)	(442,068)	(437,358)	(442,417)
Net assets		<u>516,616</u>	<u>246,823</u>	<u>286,726</u>	<u>40,229</u>
Financed by:					
Share capital	(j)	—	—	—	—
Investment properties revaluation reserve	(k)	511,660	231,726	263,726	15,629
Retained profits		4,956	15,097	23,000	24,600
Shareholders' funds		<u>516,616</u>	<u>246,823</u>	<u>286,726</u>	<u>40,229</u>

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**Cash Flow Statements**

	<i>Note</i>	<b>Year ended 31st December,</b>			<b>Nine months</b>
		<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>ended 30th</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>September,</b>
					<b>2000</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	(1)(i)	46,070	42,857	35,001	5,730
Returns on investments and servicing of finance					
Interest paid		—	(108,573)	(35,683)	(30,113)
Interest received		—	2	1	1
Dividend paid		—	(40,000)	—	—
Net cash outflow from returns on investments and servicing of finance		—	(148,571)	(35,682)	(30,112)
Taxation					
Hong Kong profits tax paid		—	(901)	(179)	—
Investing activities					
Additions to fixed assets		—	—	—	(3,803)
Net cash inflow/(outflow) before financing		46,070	(106,615)	(860)	(28,185)
Financing					
(Decrease)/increase in amount due to a fellow subsidiary	(1)(ii)	(46,277)	105,991	860	28,180
Decrease in bank balances		(207)	(624)	—	(5)
Bank balances at the beginning of the period		836	629	5	5
Bank balances at the end of the period		629	5	5	—

**Statements of Recognised Gains and Losses**

		Year ended 31st December,			Nine months ended 30th September,
		1997	1998	1999	2000
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revaluation (deficit)/surplus on investment properties	(k)	(220,000)	(279,934)	32,000	(248,097)
Profit for the period		19,578	10,141	7,903	1,600
Total recognised (losses)/gains		<u>(200,422)</u>	<u>(269,793)</u>	<u>39,903</u>	<u>(246,497)</u>

**Notes to the Financial Information**

**(a) Principal accounting policies**

The principal accounting policies which have been adopted in preparing the Financial Information are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants. The Financial Information is prepared under the historical cost convention as modified by the revaluation of investment properties.

**(i) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. For the purpose of this report, investment properties were valued by independent valuers on 30th September, 2000. The valuations are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

**(ii) Revenue recognition**

Operating lease rental income is recognised on a straight line basis over the period of the leases.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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(iii) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(b) **Operating profit**

	<b>Year ended 31st December,</b>			<b>Nine months ended 30th September,</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit is stated				
after charging the following:				
Auditors' remuneration	14	13	13	6
Provision for doubtful debts	—	1,745	2,322	416
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(c) **Finance costs**

Finance costs represent interest paid and payable to a fellow subsidiary, Prestige Finance Limited, details of which are set out in note (m)(ii) below.

(d) **Taxation**

Hong Kong profits tax has been provided at the rate of 16.5% and 16% on the estimated assessable profits for the year ended 31st December, 1997 and for the two years ended 31st December, 1999 respectively. No provision for Hong Kong profits tax has been made for the nine months ended 30th September, 2000 as there was no assessable profit for the period. The tax credit for this period represents overprovision for prior years.

No provision for deferred taxation has been made for the Relevant Periods as there were no material timing differences.

(e) **Dividend**

The directors of Pretty Star proposed and paid a final dividend of HK\$400,000 per share amounting to HK\$40,000,000 in respect of the year ended 31st December, 1997. No dividend has been declared or paid by Pretty Star in respect of the periods from 1st January, 1998 to 30th September, 2000.

(f) **Emoluments of directors and senior management**

No emoluments were paid or payable to any director of Pretty Star for the Relevant Periods.

No incentive payments or compensation for loss of office was paid or payable to any director of Pretty Star for the Relevant Periods.

Pretty Star has not employed any staff during the Relevant Periods. Prestige Group Management Limited, a fellow subsidiary, provided management, corporate secretarial, treasury, accounting, office and personnel administration services to Pretty Star for management fees which are detailed in note (m)(iii) below.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(g) **Investment properties**

	<b>1997</b>	<b>31st December, 1998</b>	<b>1999</b>	<b>30th September, 2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Valuation				
At the beginning of the period	1,200,000	980,000	700,000	732,000
(Cost adjustments)/additions	—	(66)	—	4,097
Revaluation (deficit)/surplus <i>(note (k))</i>	<u>(220,000)</u>	<u>(279,934)</u>	<u>32,000</u>	<u>(248,097)</u>
At the end of the period	<u><u>980,000</u></u>	<u><u>700,000</u></u>	<u><u>732,000</u></u>	<u><u>488,000</u></u>

The investment properties are situated in Hong Kong and are held under long term leases of over 50 years.

The investment properties were revalued at the balance sheet dates on an open market value basis by independent firms of chartered surveyors.

The investment properties have been mortgaged to a bank to secure bank loans and general banking facilities granted to a fellow subsidiary, Prestige Finance Limited.

(h) **Rental receivables and deposits**

These include rental receivables with ageing analysis as follows:

	<b>1997</b>	<b>31st December, 1998</b>	<b>1999</b>	<b>30th September, 2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due				
(less provision) for:				
— less than one year	—	2,094	5,821	2,672
— more than one year	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,013</u>
	<u><u>—</u></u>	<u><u>2,094</u></u>	<u><u>5,821</u></u>	<u><u>6,685</u></u>

The amounts due for more than one year were receivables from a defaulted tenant and were fully covered by the corresponding rental deposits received.

Rental is due upon the issue of demand notes.

(i) **Amount due to a fellow subsidiary**

The amount due to Prestige Finance Limited is unsecured, repayable on demand and interest bearing (see note (m)(ii) for the basis of interest calculation).

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(j) Share capital

		31st December,		30th September,
	1997	1998	1999	2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<i>Authorised</i>				
10,000 ordinary shares of HK\$1 each	10,000	10,000	10,000	10,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Issued and fully paid</i>				
100 ordinary shares of HK\$1 each	100	100	100	100
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(k) Investment properties revaluation reserve

		31st December,		30th September,
	1997	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the period	731,660	511,660	231,726	263,726
Revaluation (deficit)/ surplus <i>(note (g))</i>	(220,000)	(279,934)	32,000	(248,097)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At the end of the period	511,660	231,726	263,726	15,629
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(l) Notes to the cash flow statements

(i) Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31st December,			Nine months ended 30th September,
	1997	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit	46,285	46,734	38,556	7,794
Interest income	—	(2)	(1)	(1)
Decrease/(increase) in accounts receivable and deposits	84	(2,090)	(3,727)	(864)
(Decrease)/increase in accounts payable, accrued charges and rental deposits received	(299)	(1,785)	173	(1,199)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash inflow from operating activities	46,070	42,857	35,001	5,730
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(ii) Analysis of changes in financing during the periods

	Year ended 31st December,			Nine months ended 30th September,
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Amount due to a fellow subsidiary				
At the beginning of the period	429,037	408,967	442,068	437,358
Increase/(decrease) in interest payable	26,207	(72,890)	(5,570)	(23,121)
Cash (outflow)/inflow from financing	<u>(46,277)</u>	<u>105,991</u>	<u>860</u>	<u>28,180</u>
At the end of the period	<u>408,967</u>	<u>442,068</u>	<u>437,358</u>	<u>442,417</u>

**(m) Related party transactions**

The directors of Pretty Star have identified the following companies as related parties with whom Pretty Star has had significant transactions during the Relevant Periods:

Prestige Group Management Limited (“PGM”)  
Prestige Finance Limited (“PF”)  
Playmates Toys (Hong Kong) Limited (“PTHK”)  
Playmates Asia Services Limited (“PAS”)

PGM and PF are wholly owned subsidiaries of Prestige Properties Holdings Limited (“Prestige Holdings”), the ultimate holding company of Pretty Star.

PTHK and PAS are wholly owned subsidiaries of Playmates Interactive Entertainment Limited (“Playmates”).

Mr Chan Chun Hoo, Thomas, was the Chairman, executive director and substantial beneficial shareholder of Prestige Holdings during the Relevant Periods up to 28th September, 2000. He has been and is also the Chairman, executive director and substantial beneficial shareholder of Playmates throughout the Relevant Periods and as at the date of this report.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

The following is a summary of significant related party transactions which were carried out by Pretty Star in the normal course of its business during the Relevant Periods:

	Note	Year ended 31st December,			Nine months ended 30th September,
		1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Rental income received and receivable from					
PTHK	(i)	4,755	4,707	3,078	—
PAS	(i)	—	—	2,515	2,437
PGM	(i)	3,911	3,871	3,871	1,164
Interest paid and payable to PF	(ii)	26,207	35,683	30,113	6,992
Management fees paid and payable to PGM	(iii)	8,429	7,094	6,250	1,351

(i) During the Relevant Periods, Pretty Star entered into agreements with these companies for leasing some of Pretty Star's investment properties. The terms of the leases were comparable to those contracted with other third party tenants of Pretty Star.

(ii) Interest was charged on amount due to PF. Interest was calculated based on borrowing costs of PF which were recharged to its fellow subsidiaries, including Pretty Star, to which PF has granted loans, with reference to the rental income generated by each fellow subsidiary.

The effective interest rate per annum calculated based on the average balance outstanding during the years ended 31st December, 1997, 1998, 1999 and the nine months ended 30th September, 2000 was 6.3%, 8.4%, 6.9% and 2.1% respectively.

(iii) During the Relevant Periods, PGM provided management, corporate secretarial, treasury, accounting, office and personnel administration services to Pretty Star. Fees for these services were calculated at 15% and 12.5% of Pretty Star's rental income for the year ended 31st December, 1997 and for the two years ended 31st December, 1999 respectively. Fees for the nine months ended 30th September, 2000 were determined based on the costs incurred by PGM in providing such services and with reference to Pretty Star's rental income for the period.

(iv) The directors of Pretty Star have confirmed that none of the above related party transactions will continue after completion of the Proposed Acquisition of Pretty Star by Playmates except that the existing leases with PAS will continue until the expiry of the respective lease agreements on 31st December, 2002.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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**(n) Pledge of assets**

At 30th September, 2000, the bank loans and general banking facilities granted to and utilised by a fellow subsidiary, Prestige Finance Limited, amounting to HK\$227,500,000 were secured by the following:

- (i) An all monies legal charge over and assignment of rental and other income on the investment properties of Pretty Star;
- (ii) A pledge of all the issued shares of Pretty Star;
- (iii) An irrevocable and unconditional guarantee given by the ultimate holding company, Prestige Properties Holdings Limited;
- (iv) Subordination and assignment of all inter-company and/or shareholders' loans (including principal and interest) advanced to Pretty Star; and
- (v) A floating charge over all the assets and undertakings of Pretty Star.

**(o) Commitments**

Pretty Star had no commitments as at 31st December, 1997, 1998 and 1999. As at 30th September, 2000, Pretty Star had commitments of approximately HK\$1,016,000 in respect of renovation works on the investment properties, which were contracted but not provided for in the accounts.

**(p) Contingent liabilities**

Pretty Star had no significant contingent liabilities as at the balance sheet dates.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**5. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET ASSETS OF THE GROUP**

The following is a statement of the pro forma unaudited adjusted consolidated net assets of the Group. It is based on the audited net assets of the Group as at 31st December, 1999 adjusted to reflect the effect of certain events including the Acquisition which have taken place since 31st December, 1999 and assuming that 336,351,836 Rights Shares are issued.

	<i>Notes</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31st December, 1999		400,723
Add: Unaudited profit attributable to shareholders of the Group		
for the six months ended 30th June, 2000	<i>1</i>	124,444
Net proceeds from Shares issued on exercise of share options	<i>2</i>	7,860
Less: Interim dividend for the year ended 31st December, 2000	<i>3</i>	(13,454)
Underprovision for 1999 final dividend	<i>4</i>	(2,928)
Consideration for repurchase of the Company's Shares	<i>5</i>	(1,732)
Amortisation of goodwill on acquisition of an associated company	<i>6</i>	<u>(1,300)</u>
		513,613
Effects of the Acquisition:		
Add: Audited net assets of Pretty Star as at 30th September, 2000	<i>7</i>	40,229
Excess of the negotiated value of the Property at HK\$498 million over the value of the Property at HK\$488 million as at 30th September, 2000		10,000
The debt acquired from Prestige Finance Limited	<i>8</i>	204,417
Less: Consideration paid and payable for the Acquisition	<i>9</i>	<u>(254,646)</u>
Pro forma unaudited adjusted consolidated net assets of the Group before the Rights Issue		513,613
Estimated net proceeds of the Rights Issue		<u>105,000</u>
Pro forma unaudited adjusted consolidated net assets of the Group after the Rights Issue		<u><u>618,613</u></u>
<b>Pro forma unaudited adjusted consolidated net assets per share</b>		
— <i>before the Rights Issue</i> (based on 672,703,673 shares in issue)		HK\$0.76
— <i>after the Rights Issue</i> (based on 1,009,055,509 shares which comprise 672,703,673 shares in issue and 336,351,836 Rights Shares to be issued pursuant to the Rights Issue)		<u><u>HK\$0.61</u></u>

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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*Notes:*

1. The unaudited profit attributable to shareholders of the Group for the six months ended 30th June, 2000 is extracted from the interim report of the Company dated 28th August, 2000 set out in section 3 of this appendix.
2. This represents net proceeds from the issue of shares of the Company on exercise of share options pursuant to the Company's Share Option Plan during the period from 1st January, 2000 to the Latest Practicable Date.
3. The interim dividend was declared by the Directors of the Company on 28th August, 2000.
4. This represents 1999 final dividend on shares issued on exercise of share options after the approval of the Company's accounts for the year ended 31st December, 1999 and before the closure of the Company's Register of Members.
5. This represents the aggregate amount of consideration paid for repurchase of the Company's shares during the period from 1st January, 2000 to the Latest Practicable Date.
6. This represents the amortisation of goodwill of approximately HK\$12,298,000 arising from the acquisition of 50% equity interest in Nippon Toys Limited on 18th September, 2000 over a period of ten years which is in accordance with the relevant Hong Kong Statements of Standard Accounting Practice issued in January 2001 and the Exposure Draft on "Accounting for Investments in Associates" issued in February 2001.
7. This is based on the audited balance sheet of Pretty Star as at 30th September, 2000 set out in section 4 of this appendix.
8. This represents the debt owing from Pretty Star to Prestige Finance Limited based on the audited balance sheet of Pretty Star as at 30th September, 2000. The amount of the debt to be assigned to the Group upon completion of the Acquisition will be based on the audited balance sheet of Pretty Star as at 16th January, 2001 (the "Completion Date").
9. The consideration is calculated in accordance with the basis set out in the sale and purchase agreement for the Acquisition and based on the audited balance sheet of Pretty Star as at 30th September, 2000. The consideration is subject to adjustments based on the audited assets and liabilities of Pretty Star as at the Completion Date in accordance with the terms of the sale and purchase agreement for the Acquisition.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP**


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**6. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED ASSETS AND LIABILITIES OF THE GROUP**

The following is a summary of the pro forma statement of unaudited adjusted assets and liabilities of the Group. The statement has been prepared based on the audited consolidated net assets of the Group as at 31st December, 1999 extracted from the 1999 annual report of the Company as set out in section 2 of this appendix, and the audited net assets of Pretty Star as at 30th September, 2000 as set out in section 4 of this appendix, adjusted to reflect the effect of the Rights Issue and certain events including the Acquisition which have taken place since 31st December, 1999.

	<b>The Group as at 31st December, 1999</b>	<b>Pretty Star as at 30th September, 2000</b>	<b>Adjustments</b>	<i>Notes</i>	<b>The Group after the Rights Issue</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Fixed assets	34,984	488,000	10,000	<i>1</i>	
			24,000	<i>2</i>	556,984
Investments in associated companies	27,683	—	11,700	<i>3</i>	39,383
Investment securities	263,457	—	—		263,457
Deferred taxation	100	—	—		100
Current assets	887,199	6,687	(24,000)	<i>2</i>	
			(23,254)	<i>3</i>	
			(254,646)	<i>4</i>	
			105,000	<i>5</i>	696,986
<b>Total assets</b>	<u>1,213,423</u>	<u>494,687</u>	<u>(151,200)</u>		<u>1,556,910</u>
Current liabilities	(812,700)	(12,041)	(238,000)	<i>6</i>	(1,062,741)
Long term liabilities	—	(442,417)	238,000	<i>6</i>	
			204,417	<i>6</i>	—
<b>Total liabilities</b>	<u>(812,700)</u>	<u>(454,458)</u>	<u>204,417</u>		<u>(1,062,741)</u>
	<u>400,723</u>	<u>40,229</u>	<u>53,217</u>		494,169
Unaudited profit attributable to Shareholders of the Group for the six months ended 30th June, 2000					<u>124,444</u>
Pro forma unaudited adjusted consolidated net assets of the Group after the Rights Issue					<u>618,613</u>

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## APPENDIX I      FINANCIAL INFORMATION RELATING TO THE GROUP

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*Notes:*

1. This is to restate the Property of Pretty Star at the negotiated value of HK\$498,000,000 as stated in the relevant sale and purchase agreement.
2. This represents consideration for the purchase of an investment property in October 2000.
3. These represent the net effects on the Group's assets and liabilities as a result of the transactions detailed in notes 2 to 6 in section 5 of this appendix.
4. This represents consideration for the Acquisition calculated on the basis set out in note 9 in section 5 of this appendix.
5. This represents the estimated net proceeds of the Rights Issue.
6. Pursuant to the relevant sale and purchase agreement, Pretty Star has arranged a bank mortgage loan facility of HK\$238,000,000 which is repayable within one year after drawdown. The proceeds from the loan has been used to partially repay a debt owing from Pretty Star to Prestige Finance Limited, leaving a balance of HK\$204,417,000 to be assigned to the Group as described in note 8 in section 5 of this appendix.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

### 7 PRO FORMA COMBINED PROFIT AND LOSS ACCOUNTS OF THE GROUP

Set out below is a summary of pro forma combined profit and loss accounts of the Group for the three years ended 31st December, 1997, 1998 and 1999. The summary has been prepared on a pro forma basis as if Pretty Star had been a subsidiary company of the Group throughout those years; and any transactions between Pretty Star and other companies within the Group have been eliminated.

The summary has been prepared based on the audited consolidated profit and loss accounts of the Group and the audited profit and loss accounts of Pretty Star as set out in sections 2 and 4 of this appendix, respectively.

#### Pro forma combined profit and loss accounts

	Year ended 31st December,		
	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000
Turnover	1,081,836	883,995	1,525,501
Cost of sales	(553,448)	(410,503)	(706,709)
Gross profit	528,388	473,492	818,792
Operating expenses			
Marketing	(213,783)	(219,773)	(324,379)
Selling, distribution and administration	(285,218)	(280,283)	(417,818)
Operating profit/(loss)	29,387	(26,564)	76,595
Non-operating income/(expenses)			
Rental income from investment properties, net of direct outgoings	41,613	50,919	49,995
Interest expense and bank charges	(44,665)	(53,725)	(47,235)
Other income, less expenses	576	13,661	16,199
Provision for diminution in value of investment securities	—	(11,825)	(45,000)
Costs associated with the rationalisation of the video game business	—	—	(55,396)
Costs incurred in the expansion of licensing activities	—	—	(89,312)
Costs related to the restructuring of the U.S. operations	—	—	(15,267)
Profit/(loss) from ordinary activities	26,911	(27,534)	(109,421)
Share of profit of an associated company	21,134	8,056	11,378
Profit/(loss) before taxation	48,045	(19,478)	(98,043)
Taxation (charge)/credit	(34,150)	11,846	3,791
Profit/(loss) after taxation	13,895	(7,632)	(94,252)
Minority interests	2	—	—
Profit/(loss) attributable to shareholders	13,897	(7,632)	(94,252)

**8. STATEMENT OF INDEBTEDNESS ON THE GROUP**

At the close of business on 18th January, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding bank loans and borrowings totalling approximately HK\$352,450,000 comprising a bank mortgage loan of HK\$238,000,000 and other bank loans of HK\$114,450,000.

The bank mortgage loan was secured by a mortgage on the Property acquired from the Acquisition as described in section 4 of this appendix. Other bank loans were secured by inventories, trade receivables and bank deposits of the Group with aggregate net book values as at 18th January, 2001 of approximately HK\$19,469,000, HK\$84,646,000 and HK\$66,300,000 respectively.

The Internal Revenue Service of the United States of America (“IRS”) is examining the income tax returns of the US subsidiaries for the tax years 1995, 1996 and 1997. Such examination includes review of transfer pricing methodology and timing of certain deductions, and is currently ongoing. The subsidiaries have been advised by their legal counsel that the positions taken by them in respect of the matters under IRS review are based upon substantial authority, and that the examination is unlikely to result in a material unfavourable adjustment. Accordingly, no provision has been made in the accounts in respect of this event.

Save as disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, the Group did not have any outstanding mortgages, charges, debentures, or other capital or bank overdrafts, loans or other similar indebtedness or acceptance of credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 18th January, 2001.

The Directors have confirmed that there has been no material change in indebtedness and contingent liability of the Group since 18th January, 2001.

**9. WORKING CAPITAL STATEMENT ON THE GROUP**

The Directors are of the opinion that, after taking into account the internal resources, the available banking facilities of the Group and the estimated net proceeds from the Rights Issue and barring any unforeseen circumstances, the Group has sufficient working capital for its present requirements.

**10. MATERIAL ADVERSE CHANGE**

Saved as disclosed in this appendix, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 1999, the date to which the latest audited financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. PARTICULARS OF DIRECTORS

**Mr. Chan Chun Hoo, Thomas**, aged 50, joined the Group in 1967 and is the Chairman of the Company. 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 15th October 1997.

**Mr. Ip Shu Wing, Charles**, aged 50, previously joined the Group in 1986, 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 1st 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.

**Mr. To Shu Sing, Sidney**, aged 43, joined the Group in 1986 and is an executive director of the Company. 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 multinational trading and manufacturing companies for nine years.

**Mr. Cheng Bing Kin, Alain**, aged 38, joined the Group in 1999 and is an executive director of the Company. 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 also admitted as a solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales.

**Mr. Lee Peng Fei, Allen**, aged 60, 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.

**Mr. Lo Kai Yiu, Anthony**, aged 52, is an investment banker and a director of a number of public and private companies in Hong Kong and overseas. Mr. Lo was appointed as a director of the Company in November 1993.

**Mr. Tsim Tak Lung**, 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. Yu Hon To, David**, aged 52, 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 specialises in direct investment and financial advisory activities and also on the boards of a number of listed companies and private companies in Hong Kong.

### 3. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

<b>Registered office</b>	Clarendon House Church Street Hamilton HM11 Bermuda
<b>Head office and principal place of business</b>	21st Floor 100 Canton Road Tsimshatsui Kowloon Hong Kong
<b>Underwriter</b>	Tai Fook Securities Company Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
<b>Hong Kong legal advisers to the Company</b>	Deacons 3rd - 7th and 18th Floors Alexandra House 16-20 Chater Road Central Hong Kong
<b>Bermuda legal advisers to the Company</b>	Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong

<b>Auditors</b>	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22nd Floor, Prince's Building Central Hong Kong
<b>Principal bankers</b>	The Hongkong and Shanghai Banking Corporation Limited The Chase Manhattan Bank
<b>Hong Kong branch share registrar and transfer office</b>	Abacus Share Registrars Limited 2401 Prince's Building Central Hong Kong
<b>Authorised representatives</b>	Mr. Chan Chun Hoo, Thomas Mr. To Shu Sing, Sidney
<b>Company secretary</b>	Ms. Fong Yuk Yu, Tracy, <i>ACIS</i>

#### 4. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the 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 of, 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:

<b>Name of company</b>	<b>Name of Director</b>	<b>Type of interest</b>	<b>Number of ordinary shares</b>
Playmates Interactive Entertainment Limited	Chan Chun Hoo, Thomas	Other ( <i>Note (a)</i> )	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

Name of company	Name of Director	Type of interest	Number of ordinary shares
Playmates Interactive Entertainment Limited	Yu Hon To, David	Corporate (Note (b))	3,500,000
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
Nippon Toys Limited	Ip Shu Wing, Charles	Personal (Note (c))	1

## Notes:

- (a) 301,107,572 Shares of the Company were beneficially owned by Chansam. 85.19% of the issued share capital of Chansam 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 Company. The 1 share owned by Mr. Ip represents 50% of the issued share capital of that company.

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 Directors	Date of grant	Exercise price per Share of the Company HK\$	Number of Shares in the Company to be issued under the share options
Ip Shu Wing, Charles	20th Oct. 1999	0.478	2,400,000
	22nd Jul. 2000	0.690	1,000,000
To Shu Sing, Sidney	26th Aug. 1998	0.586	480,000
	27th May 1999	0.558	480,000
	20th Oct. 1999	0.478	600,000
	22nd Jul. 2000	0.690	500,000
Cheng Bing Kin, Alain	27th May 1999	0.558	400,000
	20th Oct. 1999	0.478	400,000
	22nd Jul. 2000	0.690	500,000

The options are exercisable in stages in accordance with the provisions of the Share Option Plan after the date of granting and expire ten years after the date of granting.

Save as disclosed above, none of the Directors had any Discloseable Interests as at the Latest Practicable Date.

## 5. SUBSTANTIAL SHAREHOLDERS

Save as disclosed, the Directors are not aware of any person (not being a Director or chief executive of the Company) who as at the Latest Practicable Date was, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (excluding, for the avoidance of doubt, interests held by the Company or any of its Subsidiaries):

<b>Name of company</b>	<b>Name of shareholder</b>	<b>Number of ordinary shares</b>
Playmates Interactive Entertainment Limited	Waddington Limited	121,599,201
Playmates Interactive Entertainment Limited	Chan Chun Wai	123,079,201*

\* Chan Chun Wai's interest in 123,079,201 Shares includes the interest of Waddington Limited in 121,599,201 Shares. Waddington Limited is a company controlled by Chan Chun Wai.

## 6. DISCLOSURE OF INTERESTS

- (a) None of the Directors has a service contract with any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).
- (b) Since 31st December, 1999 (being the date to which the latest published audited consolidated accounts of the Company were made up), none of the Directors or any proposed Director has had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Save as disclosed in paragraphs (d) and (e) under the section headed "Material Contracts" in this Appendix, no Director is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which is subsisting at the date of this prospectus and which is significant in relation to the business of the Group.

- (d) The Underwriter does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## **7. MINIMUM SUBSCRIPTION**

There is no minimum subscription which must be raised by the Rights Issue in order to provide the sums referred to in section 28 of the Companies Act 1981 of Bermuda.

## **8. LITIGATION**

In July 2000, a wholly-owned subsidiary of the Company was being claimed by the owner of a property in California of the United States of America (“US Property”) in the Los Angeles Superior Court for an unquantified amount alleging that it, being the former owner of the US Property, had caused or allowed to cause the release of refuses, wastes and hazardous substances (“Hazardous Substances”) into and upon the US Property. The US Property was disposed of by the Group to the plaintiff in 1986. As the plaintiff’s legal adviser has indicated to the Group that the relevant government authority does not require remedial action to the US property to be carried out by the plaintiff, the plaintiff has indicated that it would consider the dismissal of the current action and that each of the parties retains the right to claim from the others in the event damages are sought by a third party or remediation is ordered by the relevant authorities. A settlement agreement is being negotiated with the plaintiff to this effect. The Group has been advised by its legal advisers that it has a good defence against the allegation.

Save as disclosed above, no litigation or claims of material importance are pending or threatened against any member of the Group.

## **9. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Group within the two years preceding the date of this prospectus and are or may be material:—

- (a) A letter of undertaking dated 6th March, 2000 made between the Company, its wholly-owned subsidiary and ICG Asia Limited, formerly known as Harbour Ring International Holdings Limited (“ICG”), whereby an undertaking was given by the Company and the aforesaid subsidiary in respect of certain restrictions on the disposal of the Group’s shareholding in ICG for the period from the date of the aforesaid agreement to 4th November, 2000.
- (b) A provisional agreement for sale and purchase dated 26th August, 2000 made between Parway Development Limited (“PDL”) and a wholly-owned subsidiary of the Company, whereby PDL agreed to sell and the Group agreed to purchase the property of Flat No. D on the 57th & 58th floors and a car parking space of Tower 3, Tregunter, No.14 Tregunter Path, Hong Kong at a consideration of HK\$35,000,000.

- (c) An agreement for sub-sale and sub-purchase dated 12th September, 2000 made between Cheng Yiu Hung and Lam Kwan Ching (collectively “the Property Vendors”) and a wholly-owned subsidiary of the Company, whereby the Property Vendors agreed to sell and the Group agreed to purchase the property of Flat B on the 17th Floor and Car Parking Space No.20 on the 2nd Basement Floor of The Colonnade, No.152 Tai Hang Road, Hong Kong at a consideration of HK\$17,800,000 subject to and with the benefit of the principal agreement of the said premises made between World Glory Properties Limited as vendor of the first part, Asean Resources Holdings Limited, Guoco Land Limited, Regal Trophy Limited, Asean Resources Limited, Reunification Properties Limited and Land Resources International Limited of the second part and the Property Vendors as purchaser of the other part. Completion of the transaction is expected to take place in or around April 2001.
- (d) An agreement dated 14th September, 2000 relating to the sale and purchase of one share in the issued share capital of and interests in the shareholder’s loan to Nippon Toys Limited (formerly known as Super-Pro Technology Limited) (“NTL”) made between 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 one share in the issued share capital of NTL together with the benefit of the shareholder’s loan at a total cash consideration of HK\$13,000,000. This transaction constituted a connected transaction of the Group under the Listing Rules and an announcement had been made on 14th September 2000.
- (e) A shareholders’ agreement dated 18th September, 2000 was made between Mr. Ip, a wholly-owned subsidiary of the Company and NTL in relation to NTL, whereby the parties agreed on their respective rights and obligations in respect of NTL and the conduct of business of NTL.
- (f) An assignment dated 17th October, 2000 made between the China State Bank Limited (“the Bank”) and a wholly-owned subsidiary of the Company, whereby the Bank assigned the property of House No.17 and the Garden appurtenant thereto and Car Parking Spaces No.17A and 17B of Las Pinadas, No. 33 Shouson Hill Road, Hong Kong to the Group at a consideration of HK\$24,000,000.
- (g) The sale and purchase agreement dated 1st December, 2000 between the Company, Autoestate Properties Limited, a wholly-owned subsidiary of the Company, on one part, Prestige Properties International Limited, Prestige Finance Limited and Prestige Properties Holdings Limited on the other part in relation to the sale and purchase of the entire issued share capital in and the benefits of and interests in a debt owing by Pretty Star Limited at an aggregate consideration of HK\$252,065,866.
- (h) The Underwriting Agreement.

**10. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration and to the Registrar of Companies in Bermuda for filing were copies of the PAL and EAF.

**11. LEGAL EFFECT**

This prospectus, the PAL and EAF and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by all the provisions, other than the penal provisions, of sections 44A and 44B of the Companies Ordinance, so far as applicable.

**12. GENERAL**

- (a) The Secretary of the Company is Fong Yuk Yu, Tracy, *ACIS*.
- (b) The principal share registrar and transfer office of the Company is the Bank of Bermuda Limited, 6 Front Street, Hamilton HM11, Bermuda. The Hong Kong share registrar and transfer office of the Company is Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong.
- (c) The English language text of this document shall prevail over the Chinese language text.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of Deacons at 5th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours until Monday, 12th March, 2001:—

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company in respect of the two years ended 31st December, 1999;
- (c) the interim report of the Company for the six months ended 30th June, 2000; and
- (d) the material contracts referred to in paragraph 9 of this Appendix.