
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 together with any enclosed PAL (as defined herein) and EAF (as defined herein) 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 the listing of, and permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) and the Warrants (as defined herein) on the Stock Exchange (as defined herein), as well as compliance with the stock admission requirements of Hongkong Clearing (as defined herein), the Rights Shares (in their nil-paid and fully-paid forms) and the Warrants 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 (in the nil-paid and fully-paid forms) and the Warrants on the Stock Exchange and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

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.



PLAYMATES INTERACTIVE ENTERTAINMENT LIMITED

彩星互動科娛有限公司*

(Incorporated in Bermuda with limited liability)

**RIGHTS ISSUE OF 201,811,101 RIGHTS SHARES OF HK\$0.10 EACH
AT HK\$0.26 PER RIGHTS SHARE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY FIVE SHARES
HELD ON THE RECORD DATE PAYABLE IN FULL ON ACCEPTANCE
WITH WARRANTS IN THE PROPORTION OF ONE WARRANT
FOR EVERY ONE FULLY-PAID RIGHTS SHARE**

Underwriter



TAI FOOK SECURITIES COMPANY LIMITED

The latest time for acceptance and payment for the Rights Shares is 4:00 p.m. on 2 May, 2002. The procedure for acceptance and payment of the Rights Shares is set out on pages 19 and 20 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 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 as from 12 April, 2002 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 12 April, 2002 up to the date on which all such conditions are fulfilled (which is expected to be 7 May, 2002) and any persons dealing in nil-paid Rights Shares during the period from 19 April, 2002 to 26 April, 2002 (being the first and the last days of dealing 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.

17 April, 2002

* For identification purpose only

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DEFINITIONS

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
“Angers”	Angers Investments Limited, an international business company incorporated in The British Virgin Islands with limited liability which owns approximately 49.55% of the issued share capital of the Company and is itself beneficially wholly-owned by a private company which in turn 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
“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 (which is proposed, subject to obtaining the relevant shareholders and regulatory approvals, to be renamed as Playmates Holdings 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
“Exercise Price”	HK\$0.30 per Share in respect of each Warrant
“Final Acceptance Date”	2 May, 2002 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

DEFINITIONS

“Instrument”	the deed poll constituting the Warrants to be executed by the Company, a summary of the principal terms of which is set out in Appendix II to this Prospectus
“Latest Practicable Date”	8 April, 2002, 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
“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(s) 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”	17 April, 2002, 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 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong
“Rights Issue”	the issue by way of rights of 201,811,101 new Shares at a price of HK\$0.26 per Rights Share, with Warrants at no additional costs in the proportion of one Warrant for every one fully-paid Rights Share
“Rights Issue Documents”	this Prospectus, PAL and EAF
“Rights Share(s)”	201,811,101 new Shares to be issued pursuant to the Rights Issue

DEFINITIONS

“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 4 May, 1998
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.26 per Rights Share
“Subsidiaries”	has the meaning ascribed to it by section 2(4) of the Companies Ordinance
“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 27 March, 2002 between the Company and the Underwriter relating to the underwriting and other arrangements in respect of the Rights Issue
“Warrant Certificate(s)”	certificate(s) to be issued by the Company to Warrantholder(s) to evidence the holding of the Warrants
“Warrants”	201,811,101 warrants constituted by the Instrument to be issued by the Company in registered form in units of subscription rights entitling the holder(s) thereof to subscribe in cash from the date on which trading in the Warrants commences on the Stock Exchange and expiring 2 years thereafter, both days inclusive, up to an aggregate amount of approximately HK\$60,543,330 (before expenses) for new Shares at the Exercise Price
“Warrantholders”	holders of Warrants
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

EXPECTED TIMETABLE

2002

Book closure period (both dates inclusive)	from Tuesday, 16 April to Wednesday, 17 April
Record Date	Wednesday, 17 April
Rights Issue Documents despatched on	Wednesday, 17 April
First day of dealings in nil-paid Rights Shares	Friday, 9:30 a.m. on 19 April
Latest time for splitting nil-paid Rights Shares	Tuesday, 4:00 p.m. on 23 April
Latest time of dealings in nil-paid Rights Shares	Friday, 4:00 p.m. on 26 April
Latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares	Thursday, 4:00 p.m. on 2 May
Underwriting Agreement becomes unconditional	Tuesday, 4:00 p.m. on 7 May
Rights Issue becomes unconditional	Tuesday, 4:00 p.m. on 7 May
Announcement of results of Rights Issue to appear in newspapers on or before	Wednesday, 8 May
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares to be despatched on or before	Thursday, 9 May
Certificates for fully-paid Rights Shares and Warrants expected to be despatched on or before	Thursday, 9 May
Dealings in fully-paid Rights Shares and Warrants on the Stock Exchange to commence on	Monday, 9:30 a.m. on 13 May

Note: All times refer to Hong Kong time

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) there is any change in local, national or international financial, political, industrial or economic conditions;
 - (iii) there is any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (iv) there is any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
 - (v) there is any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
 - (vi) there is any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) business days;
 - (vii) there is 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

TERMINATION OF THE UNDERWRITING AGREEMENT

- (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.

It should also be noted that the existing Shares have been dealt in on an ex-rights basis as from 12 April, 2002 and that the Rights Shares will be dealt in in their nil-paid form from 19 April, 2002 to 26 April, 2002 (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 19 April, 2002 to 26 April, 2002 (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.

SUMMARY OF THE RIGHTS ISSUE

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

Number of Rights Shares to be issued	201,811,101 Rights Shares
Amount to be raised	Approximately HK\$52,470,886 from the Rights Shares, before expenses
Subscription Price and Acceptance Date	HK\$0.26 per Rights Share payable in full on acceptance at or prior to 4:00 p.m. on 2 May, 2002
Basis of the Rights Issue	One Rights Share for every five existing Shares held, with Warrants at no additional costs in the proportion of one Warrant for every one fully-paid Rights Share
Status of the Rights Shares	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
Right of excess applications	Qualifying Shareholders will have the right to apply for Rights Shares in excess of their provisional allotments
Overseas Shareholders	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
Subscription by Angers	Angers has irrevocably undertaken to take up in full its entitlement under the Rights Issue amounting to 100,000,000 Rights Shares



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 (*Vice-Chairman*)

TO Shu Sing, Sidney

CHENG Bing Kin, Alain

LAM Yin Shing, Donald

LEE Peng Fei, Allen**

LO Kai Yiu, Anthony**

TSIM Tak Lung**

YU Hon To, David**

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Office:

21st Floor

The Toy House

100 Canton Road

Tsimshatsui

Kowloon

Hong Kong

17 April, 2002

** *Independent non-executive Director*

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

Dear Sir or Madam,

**RIGHTS ISSUE OF 201,811,101 RIGHTS SHARES OF HK\$0.10 EACH
AT HK\$0.26 PER RIGHTS SHARE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY FIVE SHARES
HELD ON THE RECORD DATE PAYABLE IN FULL ON ACCEPTANCE
WITH WARRANTS IN THE PROPORTION OF ONE WARRANT
FOR EVERY ONE FULLY-PAID RIGHTS SHARE**

INTRODUCTION

It was announced on 2 April, 2002 that, subject to the satisfaction of the conditions of the Rights Issue mentioned below, the Company proposed to raise approximately HK\$52,470,886, before expenses, by way of a rights issue of 201,811,101 new Shares at a price of HK\$0.26 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 five Shares held on the Record Date at a subscription price of HK\$0.26 per Rights Share. Warrants will be issued, at no additional costs, to the first registered holders of the fully-paid Rights Shares in the proportion of one Warrant for every one fully-paid Rights Share held.

LETTER FROM THE BOARD

The Rights Issue is fully underwritten by the Underwriter other than the Rights Shares undertaken to be taken up by Angers.

This Prospectus sets out the details of the Rights Issue, including information on dealings in and transfers and acceptance of Rights Shares, the principal terms of the Warrants 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, Qualifying Shareholders 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 five 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 are issued and allotted on or before the Record Date, including Shares which are 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 20,378,800 outstanding share options eligible for exercise on or before the Record Date to subscribe up to 20,378,800 Shares in the Company. If all of the subscription rights attaching to the 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 would be increased to 1,029,434,309 Shares and the number of Rights Shares which may be issued pursuant to Rights Issue would be increased to 205,886,861 Rights Shares.

No provisional allotment of Rights Shares has been made to Overseas Shareholders. The Rights Shares representing entitlements of 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 or an address which is not in a jurisdiction where, in the Directors’ opinion, the making of the Rights Issue is not permitted under the laws of such jurisdiction.

LETTER FROM THE BOARD

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.

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 2 May, 2002.

Subscription Price for the Rights Shares

HK\$0.26 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 11.86% to the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on 27 March, 2002, 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 10.65% to the average closing price of approximately HK\$0.291 per Share on the 10 trading days up to and including 27 March, 2002;

LETTER FROM THE BOARD

3. a discount of approximately 10.03% to the theoretical ex-rights price of approximately HK\$0.289 per Share based on the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on 27 March, 2002;
4. a discount of approximately 7.14% to the average closing price of approximately HK\$0.280 per Share on the 10 trading days up to and including the Latest Practicable Date; and
5. a discount of approximately 3.70% to the closing price of HK\$0.270 per Share, on an ex-rights basis, as quoted on the Stock Exchange on the Latest Practicable Date.

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 on the Record Date.

Angers 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 100,000,000 Rights Shares, which will be provisionally allotted to it as the holder of 500,000,000 existing Shares. The Rights Issue will be fully underwritten by the Underwriter other than the Rights Shares undertaken to be taken up by Angers. As at the Latest Practicable Date, Angers has indicated to the Company that it will not make any excess application under the Rights Issue.

TERMS OF THE WARRANTS

The Warrants, which confer upon the holders thereof the right to subscribe in cash for new Shares at the Exercise Price of HK\$0.30 per Share, subject to adjustments, at any time from the date of commencement of dealings in the Warrants on the Stock Exchange (which is expected to be on 13 May, 2002) and expiring 2 years thereafter (both days inclusive), will be issued in registered form to the first registered holders of Rights Shares in the proportion of one Warrant for every one Rights Share held and fully-paid under the Rights Issue. Fractional entitlements of the Warrants will not be issued but will be aggregated and sold and the proceeds of sale will be retained for the benefit of the Company. On the basis of 201,811,101 Rights Shares, 201,811,101 Warrants will be issued. The total number of new Shares to be issued upon the full exercise of the subscription rights attaching to the Warrants at the Exercise Price (subject to adjustments) will be 201,811,101 Shares, which represents approximately 14.29% of the Company's issued share capital comprising 1,412,677,711 Shares as enlarged by the issue of 201,811,101 Rights Shares pursuant to the Rights Issue and the 201,811,101 new Shares to be issued upon the full exercise of the subscription rights attaching to the Warrants at the Exercise Price (subject to adjustments). Exercise in full of the Warrants will result in the receipt by the Company of approximately HK\$60,543,330 before expenses. Save for the outstanding options granted under the Share Option Plan and the proposed issue of the Warrants, the Company has no other securities in issue which are convertible into Shares.

LETTER FROM THE BOARD

The Warrants will not be registered or authorised under any securities legislation of any jurisdiction outside Hong Kong and therefore the Warrants may not be offered or sold to or subscribed by any person(s) whose registered address(es), as shown on the register of members of the Company on the Record Date, is outside Hong Kong. Accordingly, no allotment of the Warrants will be made to the Overseas Shareholders.

New Shares to be issued upon the exercise of the subscription rights attaching to the Warrants will rank *pari passu* in all respects with the then existing Shares in issue on the relevant subscription date. **If the Rights Issue does not proceed, no Warrants will be issued.**

Your attention is drawn to the information contained in Appendix II to this Prospectus which sets out a summary of the principal terms of the Warrants.

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 Angers, amounting up to 105,886,861 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) there is any change in local, national or international financial, political, industrial or economic conditions;**

LETTER FROM THE BOARD

- (iii) there is any change of an exceptional nature in local, national or international equity securities or currency markets;
- (iv) there is any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) there is any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
- (vi) there is any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) business days;
- (vii) there is 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.

LETTER FROM THE BOARD

CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon each of the following happening on or before 4:00 p.m. on 7 May, 2002 (or such later date as may be agreed between the Company and the Underwriter but in any event not later than 31 May, 2002):—

- (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), the Warrants and any Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants;
- (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 4:00 p.m. on 7 May, 2002 (or such later date as may be agreed between the Company and the Underwriter but in any event not later than 31 May, 2002), the Underwriting Agreement will lapse and the Rights Issue and the issue of the Warrants will not proceed.

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 and Bermuda unless the Directors consider that making the Rights Issue to them is permitted under the laws of such jurisdiction. As the Directors are of the view that the offer of Rights Shares together with the Warrants to Overseas Shareholders would or might, in the absence of compliance with registration or other special formalities in other jurisdictions, be unlawful or impracticable, the Company will send the Prospectus to the Overseas Shareholders for their information only but no provisional allotment of Rights Shares or Warrants has been made to the Overseas Shareholders and no PAL or EAF has been sent to the Overseas Shareholders. The offers of Rights Shares pursuant to the Rights Issue are being made only to Qualifying Shareholders.

LETTER FROM THE BOARD

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 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.

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.

LETTER FROM THE BOARD

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. The Group focuses on three broad toy product categories: action figures, dolls and novelty toys with unique play features. Each product is designed with specific aspirations of kids and collectors in mind.

Turnover for the year ended 31 December 2001 was HK\$514,617,000, a 47% decrease compared to HK\$971,243,000 for the year ended 31 December 2000. Loss attributable to the shareholders was HK\$86,799,000, compared to a profit of HK\$114,046,000 in 2000.

Acquisition of the commercial building that houses the Group's global headquarters at 100 Canton Road, Kowloon, Hong Kong, named *The Toy House* during 2001, was completed in January 2001. Rental yield of investment properties during 2001 was approximately 5.2%. It is expected that contributions from property and other investments will continue to augment the core toy business of the Group.

The Group has the following business plan in 2002, the development of each of these products shall be subject to market conditions and customer responses:

1. In 2002, the Group will introduce new products featuring **Disney Princesses** and other classic characters to build upon its line of **Disney** products launched last year to immediate popularity. Following the successful debut in 2001 of *My Interactive Princess Cinderella*, *My Interactive Princess Belle* (inspired by *Disney's Beauty and the Beast*) will be telling her own interactive story. The new *Before Once Upon A Time* doll collection features the first ever assortment of large companion dolls in the likeness of the **Disney Princesses** as toddlers. This first series features the ever-popular *Cinderella*, *Ariel* and *Belle*. A new line of **Disney Magic Talk Princess** playsets feature the **Disney Princesses** as small dolls who come to life for the first time in their own character voices in highly detailed, interactive playsets. More **Disney Waterbabies** will join the highly popular collection that combines the unique, warm and wiggly feel of *Waterbabies* with the lovable personalities of the classic **Disney** characters.

LETTER FROM THE BOARD

2. The series of *World of Springfield* figures and their interactive environments featuring *The Simpsons* characters, under license from *20th Century Fox*, continues to be eagerly sought after by collectors and fans alike. All new series of figures and environments will be released at various times during the year. The many celebrity talents who had played cameo parts in the shows over the years will be featured in a new *All Star Voices Celebrity* series. A number of other innovative extensions will be introduced throughout the year. They include new extendable platforms designed to expand the world of *The Simpsons* line of collectible merchandise. By 2002, new products are expected to be available with the premier of *The Two Towers*, the second movie of box office hit *The Lord of the Rings* trilogy from *New Line Cinema*.
3. In addition, the Group has showcased a number of new and extended product lines at major trade fairs in early 2002. These new product offerings appeal to a wide range of consumers. Little girls everywhere will be introduced to the *Little Cousins*, an adorable family of trendy collectible dolls at highly attractive prices. New entries will be added to the brands of the ever-so-popular *Waterbabies* and the *Amazing* family of interactive dolls. As the newest chapter in the US\$100 million *Amazing* brand, the *Amazing Little Friends* focuses on what is important technology with a purpose and simple, fun play patterns that are truly amazing to little girls. Each *Amazing Little Friend* embodies her own distinct personality and involves little girls to engage in imaginative open-ended play that emphasises sharing, learning and the building of friendship.
4. The *Z-Keez* and *Whirl Top Wonders* are the coolest-looking, 21st century spinners that literally give new twists to the timeless tops at affordable mass market prices. The *P.O.D.Z. (Planetary Orbs of Downright Zaniness)* are “Asteriods with Attitudes”. These unique characters are programmed with state-of-the-art voice recognition technology to accurately identify speech of any human user and respond appropriately with a variety of outrageous rejoinders tempered by their individual oddball personalities. The *Real Heroes* honor the true heroes in everyday life: policemen, firefighters, and other members of rescue and civil peacekeeping services in a line of authentically detailed, collectible quality action figures.
5. The Group works closely and continually with the multimedia entertainment industry and professional toy inventors to identify new trends, applications of cutting-edge technologies and innovative product concepts. Development efforts are on going for new concepts and expansions to established product lines to be launched in 2003 and beyond. The Group is actively planning for a full-scale re-launch of the *Teenage Mutant Ninja Turtles* in the near future. Although a decade has passed since the peak of the last *Turtles* phenomenon, many still have fond recollections of the must-have toys for boys all over the world for many years. The *Teenage Mutant Ninja Turtles* is one of the most successful toy brands of all times. With the all new TMNT comic book series recently launched by Mirage Studios and original creator Peter Laird, and plans for a multitude of new entertainment on the horizon, the market and a new generation of kids are ready to be re-introduced to the green heroes.

LETTER FROM THE BOARD

ADJUSTMENTS TO EXERCISE PRICE AND NUMBER OF THE 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, 52,019,000 share options to subscribe for up to 52,019,000 Shares were outstanding. Amongst these 52,019,000 outstanding options, 20,378,800 share options are eligible for exercise on or before the Record Date to subscribe for up to 20,378,800 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 for. 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 sum of approximately HK\$52,470,886 (before expenses). Exercise in full of the Warrants will result in the receipt by the Company of approximately HK\$60,543,330 (before expenses). The Company intends to use the proceeds from the Rights Issue and the exercise of Warrants (if any) for general working capital purposes, in particular, should suitable opportunities arise, to commit any major toy licences which the Group may be able to obtain in 2002.

The Rights Issue will allow the Group’s business to grow, to improve its liquidity position as well as enhancing its equity base, whilst allowing the Qualifying Shareholders the opportunity to maintain their respective pro rata shareholdings in the Company. The Directors also consider that the issue of Warrants is an appropriate means to raise further capital of the Group in the future, particularly where the market price of the Shares should improve without any dilution effect on the shareholding of the existing shareholders, to augment the growth and to further enhance the equity base of the Company.

LETTER FROM THE BOARD

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, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong by not later than 4:00 p.m. on 2 May, 2002. All remittances must be made in Hong Kong dollars by means of cheques or banker's cashier orders drawn on a bank account in Hong Kong and "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 above address.

Unless the PAL, duly completed, together with the appropriate remittance, has been lodged by 4:00 p.m. on 2 May, 2002 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 23 April, 2002 with Abacus Share Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road 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 interest 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.

LETTER FROM THE BOARD

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement at any time prior to the third business day following the Final Acceptance Day (which such Final Acceptance Date is expected to be Thursday, 2 May, 2002) 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 the ordinary post 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, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong by not later than 4:00 p.m. on 2 May, 2002. 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 above address. 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 basis.

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 preserves 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 9 May, 2002.

LETTER FROM THE BOARD

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.

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 Date (which such Final Acceptance Date is expected to be Thursday, 2 May, 2002) 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 application 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, the Warrants and any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants. It is expected that dealings in the nil-paid Rights Shares will take place between 19 April, 2002 and 26 April, 2002 (both dates inclusive). It is expected that dealings in the Rights Shares in fully-paid form and the Warrants will commence on 13 May, 2002. The Rights Shares will rank pari passu in all respects with the existing Shares in issue.

None of the Rights Shares, the Warrants and any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants 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 (in both their nil-paid and fully-paid forms), the Warrants and any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants on the Stock Exchange, and subject to compliance with the stock admission requirements of Hongkong Clearing, the Rights Shares (in both their nil-paid and fully-paid forms), the Warrants and any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants 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 (in both their nil-paid and fully-paid forms), the Warrants and any Share which

LETTER FROM THE BOARD

may fall to be issued upon the exercise of the subscription rights attaching to the Warrants, 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 12 April, 2002 and that the Rights Shares will be dealt in in their nil-paid form from 19 April, 2002 to 26 April, 2002 (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 7 May, 2002, 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 19 April, 2002 to 26 April, 2002 (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.

The board lot for trading in the Rights Shares (in both their nil-paid and fully-paid forms) is 2,000 Rights Shares, and the board lot for trading in the Warrants is 40,000 units conferring subscription rights to subscribe for 40,000 Shares.

Dealings in the Rights Shares (in their nil-paid form and fully-paid form), the Warrants and any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants, will be subject to the payment of stamp duty in Hong Kong.

The results of the Rights Issue are expected to be announced on or about 8 May, 2002.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been received from the Bermuda Monetary Authority in respect of the issue of the Rights Shares and Warrants to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting this Prospectus, the PAL and the EAF for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies of Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in this Prospectus, the PAL or the EAF.

LETTER FROM THE BOARD

SHARE AND WARRANT CERTIFICATES

Share certificates for all fully-paid Rights Shares and the Warrant Certificates are expected to be posted by 9 May, 2002 to the persons who have accepted and paid in full 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, the Warrants and/or any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants 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, the Warrants and/or any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants resulting from the purchase, holding or disposal of, or dealing in the Rights Shares, the Warrants and/or any Share which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants.

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

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:

HK\$

Authorised

3,000,000,000	Shares as at the Latest Practicable Date	<u>300,000,000</u>
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Issued and fully-paid

1,009,055,509	Shares in issue as at the Latest Practicable Date	100,905,551
201,811,101	Shares to be issued pursuant to the Rights Issue	<u>20,181,110</u>

1,210,866,610	Shares upon completion of the Rights Issue	<u>121,086,661</u>
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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 31 December, 2001, 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 31 December, 2001.

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 HK\$	Number of Shares to be issued upon exercise of the options
15 May 1998	0.543	7,619,000
26 August 1998	0.543	518,000
27 May 1999	0.517	3,567,000
17 August 1999	0.428	6,477,000
20 October 1999	0.443	3,668,000
22 July 2000	0.639	7,410,000
21 May 2001	0.304	14,760,000
28 August 2001	0.300	8,000,000
		<u>52,019,000</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 in respect of the Warrants or as disclosed herein, there are currently no options or warrants to subscribe for Shares or securities convertible into Shares outstanding.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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 7 May, 2002, 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	Before the Rights Issue		After the Rights Issue	
	Original	Number of	Adjusted	Adjusted
	exercise price	outstanding	exercise	number of
	per Share	Share Options	price	outstanding
	per Share	Share Options	per Share	Share Options
	<i>HK\$</i>		<i>HK\$</i>	
15 May 1998	0.543	7,619,000	0.532	7,776,000
26 August 1998	0.543	518,000	0.532	529,000
27 May 1999	0.517	3,567,000	0.506	3,644,000
17 August 1999	0.428	6,477,000	0.419	6,616,000
20 October 1999	0.443	3,668,000	0.434	3,744,000
22 July 2000	0.639	7,410,000	0.626	7,564,000
21 May 2001	0.304	14,760,000	0.297	15,108,000
28 August 2001	0.300	8,000,000	0.294	8,163,000
Total		<u>52,019,000</u>		<u>53,144,000</u>

2. FINANCIAL STATEMENTS OF THE GROUP

Set out below is an extract from the audited financial statements of the Group for the year ended 31 December 2001 (the date of which the latest audited financial statements were made up), together with the comparative figures for the years ended 31 December 2000 and 1999 and relevant notes to the annual accounts of the Group.

Consolidated profit and loss accounts

	<i>Note</i>	Year ended 31 December,		
		2001	As restated	As restated
		2000	2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	514,617	971,243	1,081,836
Cost of sales		(276,014)	(508,849)	(553,448)
Gross profit		238,603	462,394	528,388
Operating expenses				
Marketing		(124,209)	(200,647)	(213,783)
Selling, distribution and administration		(211,687)	(298,325)	(290,811)
Operating (loss)/profit	3	(97,293)	(36,578)	23,794
Non-operating income/(expenses)				
Interest expense and bank charges	4	(18,514)	(14,191)	(14,552)
Other revenues	2	8,049	26,461	15,890
Net gain/(loss) on investment in securities	5	12,290	121,497	(6,664)
		(95,468)	97,189	18,468
Share of profits less losses of associated companies		3,511	21,293	21,134
(Loss)/profit before taxation		(91,957)	118,482	39,602
Taxation credit/(charge)	6(a)	5,158	(4,436)	(33,610)
(Loss)/profit after taxation		(86,799)	114,046	5,992
Minority interests		—	—	2
(Loss)/profit attributable to shareholders	7	(86,799)	114,046	5,994
Dividends	8	10,091	222,596	19,832
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	9			
Basic		(9.23)	17.02	0.91
Diluted		N/A	16.97	N/A

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated balance sheets

		2001	As restated
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	12	554,367	49,429
Investment in associated companies	14	45,554	53,974
Other investments	15	35,650	50,473
		635,571	153,876
Current assets			
Inventories	16	14,604	19,211
Trade receivables	17	45,460	182,727
Deposit for purchase of investment property		—	3,617
Deposit for purchase of a subsidiary		—	25,300
Other receivables, deposits and prepayments		35,800	28,959
Taxation recoverable		318	2,668
Other investments	15	12,923	28,013
Cash and bank balances		230,233	376,051
		339,338	666,546
Current liabilities			
Bank loans	18	120,827	84,096
Trade payables	19	27,382	49,292
Other payables and accrued charges		128,242	158,986
Taxation payable		17,459	20,732
		293,910	313,106
Net current assets		<u>45,428</u>	<u>353,440</u>
Total assets less current liabilities		680,999	507,316
Non-current liability			
Bank loans	18	166,454	—
Net assets		<u>514,545</u>	<u>507,316</u>
Financed by:			
Share capital	20	100,906	67,270
Reserves	21(a)	413,639	429,955
Proposed dividends	21(a)	—	10,091
Shareholders' funds		<u>514,545</u>	<u>507,316</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Balance sheets

		2001	As restated
	<i>Note</i>	<i>HK\$'000</i>	<i>2000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Investment in subsidiaries	<i>13</i>	626,807	240,731
Current assets			
Other receivables and prepayments		7,910	39
Cash and bank balances		22	2
		7,932	41
Current liabilities			
Other payables and accrued charges		352	—
Taxation payable		—	590
		352	590
Net current assets/(liabilities)		7,580	(549)
Net assets		<u>634,387</u>	<u>240,182</u>
Financed by:			
Share capital	<i>20</i>	100,906	67,270
Reserves	<i>21(b)</i>	533,481	162,821
Proposed dividends	<i>21(b)</i>	—	10,091
Shareholders' funds		<u>634,387</u>	<u>240,182</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated cash flow statements

		Year ended 31 December,	
		As restated	
		2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	<i>22(a)</i>	28,324	259,412
Returns on investments and servicing of finance			
Interest received		7,851	25,401
Interest paid		(15,995)	(11,186)
Dividends received from an associated company		12,250	17,640
Dividends paid		(10,091)	(222,596)
Dividends received from other investments		198	1,060
Net cash outflow from returns on investments and servicing of finance		(5,787)	(189,681)
Taxation			
Hong Kong profits tax paid		(1,930)	(26,480)
Overseas tax paid		(94)	(1,926)
Hong Kong profits tax refunded		2,563	—
Overseas tax refunded		3,806	3,769
Net tax refunded/(paid)		4,345	(24,637)
Investing activities			
Purchases of other investments		—	(103,261)
Purchase of a subsidiary	<i>23</i>	(231,560)	—
Purchases of fixed assets		(42,199)	(28,596)
Deposit paid for purchase of an investment property		—	(3,617)
Deposit paid for purchase of a subsidiary		—	(25,300)
Investment in and advance to an associated company		—	(13,000)
Proceeds from disposal of investment securities		—	343,034
Proceeds from disposal of other investments		30,233	66,864
Proceeds from disposal of fixed assets		—	1,251
Net cash (outflow)/inflow from investing activities		(243,526)	237,375
Net cash (outflow)/inflow before financing		(216,644)	282,469
Financing			
Repurchase of own shares		—	(1,720)
Issue of shares		107,633	7,860
Shares issuing expenses		(2,508)	—
New bank loans		178,180	—
Repayment of bank loans		(238,223)	—
Net cash inflow from financing	<i>22(b)</i>	45,082	6,140
(Decrease)/increase in cash and cash equivalents		(171,562)	288,609
Cash and cash equivalents at 1 January		291,955	2,102
Effect of foreign exchange rate changes		516	1,244
Cash and cash equivalents at 31 December	<i>22(c)</i>	<u>120,909</u>	<u>291,955</u>

Consolidated statement of recognised gains and losses

	<i>Note</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(Deficit)/surplus on revaluation of investment properties	<i>21(a)</i>	(1,718)	1,718
Exchange gain arising on translation of accounts of foreign subsidiaries	<i>21(a)</i>	<u>509</u>	<u>1,071</u>
Total (losses)/gains not recognised in the consolidated profit and loss account		(1,209)	2,789
(Loss)/profit for the year		(86,799)	114,046
Exchange deficit released upon liquidation of subsidiaries	<i>21(a)</i>	<u>85</u>	<u>—</u>
Total recognised (losses)/gains		<u>(87,923)</u>	<u>116,835</u>

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investment in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events After The Balance Sheet Date
SSAP 14 (revised):	Leases (effective for period commencing on or after 1 July 2000)
SSAP 26:	Segment Reporting
SSAP 30:	Business Combinations

The changes to the Group’s accounting policies and the effect of adopting these new standards are set out in the accounting policies below.

(b) *Group accounting*

(i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31 December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

Investments in subsidiaries are recorded in the Company's books at cost, being the fair value of the consideration given plus related acquisition costs, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Negative goodwill 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/negative goodwill on acquisition of subsidiaries occurring on or after 1 January 2001 is included as an intangible asset and amortised over its estimated useful economic life in accordance with the provisions in SSAP 30. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/negative goodwill arising prior to 1 January 2001 has not been retroactively restated.

In prior years, any goodwill or negative goodwill on acquisition of subsidiaries was charged or credited, as appropriate, directly to reserves on consolidation.

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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserve on consolidation which was not previously charged or recognised in the consolidated profit and loss account.

(ii) 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.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of associated companies.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of associated companies, is recognised as an asset and amortised through the consolidated profit and loss account over their estimated economic lives to the Group of between three and fifteen years as deemed appropriate.

(c) *Fixed assets*

(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. The valuations are incorporated in the annual 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

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.

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

(ii) Other fixed assets

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. 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:—

	Revised Per cent.	Original Per cent.
Land	Over lease term	N/A
Buildings	2.5	N/A
Machinery, equipment, furniture and fixtures	10 to 13	12.5 to 20
Motor vehicles	20	20
Computers	20 to 25	20 to 33

Effective from 1 January 2001, the estimated useful lives of certain machinery, equipment, furniture and fixtures and computers were changed. This change in accounting estimates has been made to reflect the expected patterns of economic benefits from these assets. The effect of this change was not material to the current year.

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.

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

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount.

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

(d) 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.

SSAP 14 (revised) prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of SSAP 14 (revised) by the Group does not have any impact on the financial statements except that certain comparative figures and disclosures on operating lease commitments have been adjusted and extended to conform with the current year's presentation.

(e) Other investments

Other 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 other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) 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.

(g) Accounts receivable

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

(h) 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.

(i) Revenue recognition

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment.

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

Dividend income is recognised when the right to receive payment is established.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight line basis over the lease term.

Property management income is recognised when services are rendered.

(j) *Advertising and marketing expenses, advanced royalties and product 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 recouable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recouable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license 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 charged to the profit and loss account in the year of initial product shipment.

(k) *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 schemes 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 the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

(l) *Borrowing costs*

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

(m) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank deposits, bank loans with original maturity within three months and bank overdrafts.

(n) *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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

(o) Segment Reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical one as the secondary reporting format.

Unallocated costs represent mainly corporate and inactive subsidiaries' expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude other investments. Segment liabilities comprise bank loans and operating liabilities. Capital expenditure comprises additions to fixed assets (Note 12), including additions resulting from acquisition of a subsidiary (Note 23).

In respect of geographical segment reporting, turnover and results are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(p) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform with the changed policy.

As detailed in Note 21, opening retained profits of the Group at 1 January 2000 have increased by HK\$206,214,000 which is the reversal of the provision for the 1999 proposed final and special dividends previously recorded as liabilities as at 31 December 1999 and not declared until after the balance sheet date. Opening retained profits of the Group at 1 January 2001 have increased by HK\$10,091,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31 December 2000 and not declared until after the balance sheet date.

A corresponding decrease in current liabilities by HK\$10,091,000 has been reflected in the comparative 31 December 2000 balance sheet.

2. Turnover, Revenues And Segment Information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management. Revenues recognised during the year are as follows:

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Turnover		
Sales of goods	490,022	971,030
Rental income from investment properties	22,839	213
Property management income	1,756	—
	514,617	971,243
Other revenues		
Interest income from bank deposits	7,851	25,401
Dividend income from listed investments	198	1,060
	8,049	26,461
Total revenues	522,666	997,704

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Business segment

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2001			
	Toys	Property		
	management	investment	Elimination	Group
	<i>HK\$'000</i>	<i>and</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
Turnover	490,022	24,595	—	514,617
Inter-segment revenue (<i>Note iii</i>)	—	3,657	(3,657)	—
	<u>490,022</u>	<u>28,252</u>	<u>(3,657)</u>	<u>514,617</u>
Results				
Segment results	(109,321)	13,500	—	(95,821)
Inter-segment transactions	(3,657)	3,657	—	—
	<u>(112,978)</u>	<u>17,157</u>	<u>—</u>	<u>(95,821)</u>
Unallocated costs				<u>(1,472)</u>
Operating loss				<u>(97,293)</u>
Assets				
Segment assets	126,892	553,047	(852)	679,087
Investment in associated companies	45,554	—	—	<u>45,554</u>
Unallocated assets				<u>724,641</u> <u>250,268</u>
Total assets				<u>974,909</u>
Liabilities				
Segment liabilities	266,986	190,905	(852)	457,039
Unallocated liabilities				<u>3,325</u>
Total liabilities				<u>460,364</u>
Other Information				
Capital expenditure	27,106	516,710		
Depreciation	33,639	1,954		

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	Year ended 31 December 2000		
	Toys	Property Investment and management	Group
	HK\$'000	HK\$'000	HK\$'000
Revenue			
Turnover	<u>971,030</u>	<u>213</u>	<u>971,243</u>
Results			
Segment results	<u>(35,706)</u>	<u>24</u>	(35,682)
Unallocated costs			<u>(896)</u>
Operating loss			<u>(36,578)</u>
Assets			
Segment assets	304,807	56,944	361,751
Investment in associated companies	53,974	—	<u>53,974</u>
			415,725
Unallocated assets			<u>404,697</u>
Total assets			<u>820,422</u>
Liabilities			
Segment liabilities	288,794	1,355	290,149
Unallocated liabilities			<u>22,957</u>
Total liabilities			<u>313,106</u>
Other Information			
Capital expenditure	3,594	25,002	
Depreciation	12,872	—	

Notes:

- (i) Toys business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) Property investment and management business refers to the leasing of office and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net profit after taxation of associated companies for the year amounted to HK\$3,849,000 (2000: HK\$18,681,000), which has not been included in the segment results shown above.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Geographical segments

A geographical analysis of the Group's turnover, segment results, segment assets and capital expenditure is as follows:

	Turnover 2001 <i>HK\$'000</i>	Segment results 2001 <i>HK\$'000</i>	Segment assets 2001 <i>HK\$'000</i>	Capital expenditure 2001 <i>HK\$'000</i>
North America	432,413	(106,934)	111,250	26,389
Europe	47,842	(1,792)	—	—
Asia Pacific	32,888	12,891	567,837	517,427
Others	1,474	14	—	—
	<u>514,617</u>	<u>(95,821)</u>	<u>679,087</u>	<u>543,816</u>
	Turnover As restated 2000 <i>HK\$'000</i>	Segment results As restated 2000 <i>HK\$'000</i>	Segment assets 2000 <i>HK\$'000</i>	Capital expenditure 2000 <i>HK\$'000</i>
North America	866,079	(49,023)	246,374	2,654
Europe	88,407	12,669	—	—
Asia Pacific	12,867	1,068	115,377	25,942
Others	3,890	(396)	—	—
	<u>971,243</u>	<u>(35,682)</u>	<u>361,751</u>	<u>28,596</u>

Note: Operating profit from the Asia Pacific market in 2001 is generated mainly from property investment and management business in Hong Kong.

3. Operating Loss

The operating loss is stated after charging the following:—

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cost of inventories sold	222,853	443,958
Depreciation of fixed assets	35,593	12,872
Staff costs	81,719	86,127
Operating lease expenses		
— Office and warehouse facilities	10,886	12,820
— Hire of equipment	27	286
Loss on disposal of fixed assets	59	1,635
Loss on liquidation of subsidiaries	203	—
Product development costs	25,533	25,176
Revaluation deficit on investment properties not covered by previous surplus (<i>Note 12</i>)	1,558	—
Outgoings in respect of investment properties	1,708	22
Auditors' remuneration	<u>1,350</u>	<u>1,436</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

4. Interest Expense And Bank Charges

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	15,995	11,186
Other incidental borrowing costs	2,519	3,005
	<u>18,514</u>	<u>14,191</u>

5. Net Gain On Investment In Securities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net realised gain on disposal of investment securities	—	186,269
Net realised gain on other investments	13,862	937
Net unrealised loss on other investments	(1,572)	(65,709)
	<u>12,290</u>	<u>121,497</u>

6. Taxation Credit/(Charge)

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong profits tax		
Current year	(1,373)	(1,589)
Prior years	6,084	(135)
Transferred to deferred taxation account	—	(100)
	4,711	(1,824)
Overseas taxation		
Current year	(94)	—
Prior years	203	—
	109	—
Share of taxation attributable to associated companies	338	(2,612)
	<u>5,158</u>	<u>(4,436)</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January	—	100
Transferred from profit and loss account	—	(100)
	—	—
Balance at 31 December	—	—

(c) Details of unprovided deferred tax assets/(liabilities) as at the year end are as follows:—

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Differences in depreciation allowances	(106)	367
Unutilised tax losses	106,585	92,536
Other timing differences	56,082	106,726
	162,561	199,629
	162,561	199,629

Unutilised tax losses of HK\$17,063,000 as at 31 December 2001 will expire within five years from that date.

7. (Loss)/Profit Attributable To Shareholders

The consolidated loss/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$299,171,000 (2000 (restated): a profit of HK\$9,891,000) as set out in Note 21(b).

8. Dividends

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
2000 final dividend paid of HK\$0.01 (2000: 1999 final and special dividends paid of HK\$0.31) per share	10,091	206,214
Underprovision for 1999 final and special dividends	—	2,928
2001 interim dividend paid of HK\$ nil (2000: HK\$ 0.02) per share	—	13,454
	10,091	222,596
	10,091	222,596

The previously recorded final and special dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 December 1999 and 2000 amounted to HK\$206,214,000 and HK\$10,091,000 respectively. Under the Group's new accounting policy as described in Note 1(p), these have been written back against opening reserves as at 1 January 2000 and 2001 respectively in Note 21 and are now charged in the period in which they are proposed.

The Directors do not recommend the payment of final dividend for the current year.

9. (Loss)/Earnings Per Share

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(Loss)/profit attributable to shareholders for the purpose of calculating basic and diluted (loss)/earnings per share	<u>(86,799)</u>	<u>114,046</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	940,863,630	670,094,815
Number of potential ordinary shares issuable under share options	<u>N/A</u>	<u>2,057,637</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	<u>N/A</u>	<u>672,152,452</u>

No diluted loss per share has been presented for the current year as the exercise of share options would be anti-dilutive.

The basic and diluted earnings per share for the prior year has not been adjusted for the rights issue completed on 16 March 2001 as the rights issue does not give rise to a bonus element.

10. Retirement Benefit Costs

The amounts of retirement benefit costs charged and forfeited contributions utilised by the Group during the year amounted to HK\$2,912,000 (2000: HK\$2,795,000) and HK\$368,000 (2000: HK\$570,000) respectively. There was no unutilised forfeited contributions as at 31 December 2001 (2000: Nil).

Contributions totalling HK\$nil (2000: HK\$97,000) were payable to the schemes at the year end and are included in other payables and accrued charges.

11. Emolument Of The Directors And The Five Highest Paid Employees

(a) *Directors' emoluments*

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	200	200
Basic salaries, housing allowances, other allowances and benefits in kind	6,710	6,724
Pension contributions	<u>282</u>	<u>276</u>
	<u>7,192</u>	<u>7,200</u>

Directors' emoluments include directors' fees of HK\$200,000 (2000: HK\$200,000) and other emoluments of HK\$150,000 (2000: HK\$ 150,000) payable to the non-executive directors.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

HK\$	Number of directors	
	2001	2000
up to 1,000,000	6	5
1,000,001 — 1,500,000	—	1
1,500,001 — 2,000,000	2	—
2,000,001 — 2,500,000	—	2
2,500,001 — 3,000,000	1	—

No director has waived emoluments in respect of the years ended 31 December 2001 and 2000.

(b) *Five highest paid employees' emoluments*

Among the five top-paid employees, two (2000: one) are executive directors whose remuneration during the period of directorship is disclosed above. Total remuneration of the director before appointment and the other three (2000: four) highest paid employees, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited, are as follows:—

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	7,800	9,218
Pension contributions	297	231
Compensation for loss of office	—	3,523
	8,097	12,972

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

HK\$	Number of employees	
	2001	2000
1,000,001 — 1,500,000	1	—
2,000,001 — 2,500,000	3	1
2,500,001 — 3,000,000	—	1
3,000,001 — 3,500,000	—	1
4,500,001 — 5,000,000	—	1

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

12. Fixed Assets - Group

	Investment properties <i>HK\$'000</i>	Other furniture and properties <i>HK\$'000</i>	Machinery, equipment, fixtures	Moulds and tools	Motor vehicles	Computers	Total <i>HK\$'000</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Cost or valuation							
At 1 January 2001	26,720	—	35,795	326,343	2,565	33,777	425,200
Exchange movement	—	—	63	4	—	67	134
Additions	18,710	—	526	26,003	—	577	45,816
Purchase of a subsidiary	411,717	86,283	—	—	—	—	498,000
Reclassification	84,329	(86,283)	—	—	—	—	(1,954)
Deficit on revaluation	(3,276)	—	—	—	—	—	(3,276)
Disposals	—	—	(2,936)	(265)	—	(673)	(3,874)
At 31 December 2001	538,200	—	33,448	352,085	2,565	33,748	960,046
Accumulated depreciation							
At 1 January 2001	—	—	28,273	326,343	2,115	19,040	375,771
Exchange movement	—	—	47	4	—	33	84
Charge for the year	—	1,954	2,974	26,003	100	4,562	35,593
Reclassification	—	(1,954)	—	—	—	—	(1,954)
Disposals	—	—	(2,876)	(265)	—	(674)	(3,815)
At 31 December 2001	—	—	28,418	352,085	2,215	22,961	405,679
Net book value							
At 31 December 2001	538,200	—	5,030	—	350	10,787	554,367
At 31 December 2000	26,720	—	7,522	—	450	14,737	49,429

The Group's interests in investment properties at their net book values are analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
In Hong Kong, held on:		
Lease of over 50 years	17,700	—
Leases of between 10 to 50 years	520,500	26,720
	<u>538,200</u>	<u>26,720</u>

The investment properties were revalued by B.I. Appraisals, an independent professional valuer, on an open market value basis as at 31 December 2001. The deficit arising on revaluation is first set off against the investment properties revaluation reserve of HK\$1,718,000 (Note 21 (a)) and the remaining amount of HK\$1,558,000 is charged to the profit and loss account (Note 3).

Other fixed assets are stated at cost.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Details of the principal property of the Group as at 31 December 2001 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's Interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq. ft.	100 %

13. Investment In Subsidiaries - Company

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	10,702	543,891
Less: Provision for impairment losses	<u>(7,525)</u>	<u>(298,995)</u>
	3,177	244,896
Amounts due from subsidiaries, net of provisions	825,850	196,985
Amounts due to subsidiaries	<u>(202,220)</u>	<u>(201,150)</u>
	<u><u>626,807</u></u>	<u><u>240,731</u></u>

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for the amounts due from subsidiaries of HK\$307,596,000 (2000: HK\$nil) which bear interest at Hong Kong Interbank Money Market Offer Rate.

Details of the principal subsidiaries of the Company as at 31 December 2001 are as follows:—

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities and place of operation
Shares held directly:—				
Playmates International Limited	The British Virgin Islands	5 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
Shares held indirectly:—				
Playmates Asia Services Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Provision of services, based in Hong Kong
Belmont Limited (formerly known as Pretty Star Limited)	Hong Kong	100 ordinary shares of HK\$ 1 each	100%	Property investment in Hong Kong
Cityway Properties Limited	The British Virgin Islands	1 ordinary share of US\$ 1	100%	Property investment in Hong Kong
Supreme Base Properties Limited	The British Virgin Islands	1 ordinary share of US\$ 1	100%	Property investment in Hong Kong

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Name of company	Place of incorporation	Total issued and fullypaid shares	Effective percentage holding	Principal activities and place of operation
Pacific Management Group Limited	Hong Kong	2 ordinary shares of HK\$ 1 each	100%	Property management in Hong Kong
Playmates Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Profit Point Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
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.
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 for 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.

14. Investment In Associated Companies — Group

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Share of net assets other than goodwill	21,732	28,799
Share of goodwill	10,823	12,176
	<u>32,555</u>	<u>40,975</u>
Loan to an associated company	12,999	12,999
	<u>45,554</u>	<u>53,974</u>
Investment at cost, unlisted shares	<u>18,078</u>	<u>18,078</u>

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

As at 31 December 2001, the Group held interests in the following associated companies:—

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	Ordinary shares of US\$1 each	49%
Nippon Toys Limited ("NTL")	Hong Kong	Ordinary shares of HK\$1 each	50%

The associated companies are held indirectly by the Company and operate in Hong Kong.

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

The principal business of NTL is to develop and act as sourcing and purchasing agent of finished products such as toys, novelties, sales promotion items, premiums and gift products.

15. Other Investments — Group

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Equity securities listed in Hong Kong, at market value		
— Non-current	35,650	50,473
— Current	12,923	28,013
	<u>48,573</u>	<u>78,486</u>

16. Inventories — Group

At 31 December 2001, inventories that are carried at net realisable value amounted to HK\$14,604,000 (2000: HK\$19,211,000).

17. Trade Receivables — Group

As at 31 December 2001, 88% (2000: 98%) of the trade receivables net of provisions were current to 30 days, 1% (2000: 1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is normally granted to tenants.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

18. Bank Loans

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans payable:		
Within one year	108,827	84,096
In the second year	12,326	—
In the third to fifth year	41,915	—
After the fifth year	112,213	—
	275,281	84,096
Unsecured bank loan payable within one year	12,000	—
	287,281	84,096
Current portion included in current liabilities	(120,827)	(84,096)
	166,454	—

As at 31 December 2001, the Group has banking facilities amounting to approximately HK\$534 million (2000: HK\$517 million), of which HK\$287 million (2000: HK\$84 million) were utilised.

The banking facilities of certain subsidiaries are secured by inventories of HK\$14 million (2000: HK\$19 million), gross trade receivables of HK\$48 million (2000: HK\$216 million), bank balance of HK\$64 million (2000: HK\$66 million) and investment properties with aggregate net book value of HK\$538 million (2000: HK\$ nil) of the Group at 31 December 2001.

19. Trade Payables — Group

As at 31 December 2001, 57% (2000: 25%) of the trade payables were current to 30 days, 37% (2000: 73%) were 31 to 60 days and the remaining were over 60 days.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

20. Share Capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2000 and 2001	1,500,000,000	150,000
Increase in authorised ordinary share capital (<i>Note i</i>)	1,500,000,000	150,000
	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully-paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2000	661,065,673	66,107
Exercise of options	13,988,000	1,398
Repurchase of shares	(2,350,000)	(235)
	<u>672,703,673</u>	<u>67,270</u>
At 1 January 2001	672,703,673	67,270
Issue of shares (<i>Note ii</i>)	336,351,836	33,636
	<u>1,009,055,509</u>	<u>100,906</u>

Notes:

- (i) By an ordinary resolution passed on 22 May 2001, the authorised share capital of the Company was increased from HK\$150 million to HK\$300 million through the creation of 1,500,000,000 ordinary shares of HK\$0.10 each.
- (ii) The Group raised net proceeds of approximately HK\$105 million by way of a rights issue of one rights share at HK\$0.32 per share for every two existing shares held on 26 February 2001. The issue became unconditional on 16 March 2001 and 336,351,836 shares were issued and allotted accordingly. The share capital and share premium were then increased by HK\$33,636,000 and HK\$71,489,000 respectively after setting off issuing expenses of HK\$2,508,000.

Share Options

Pursuant to the Share Option Plan approved and adopted on 4 May 1998, options to subscribe for 23,670,000 ordinary shares of the Company have been granted to selected employees during the year. The grantees are entitled to exercise their options at a price of HK\$0.300 or HK\$0.304 per share. At 31 December 2001 there were 52,465,000 options outstanding which are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after the date of grant.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

21 Reserves

(a) The Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Reserve on consolidation HK\$'000	Investment properties revaluation reserve HK\$'000	Investments reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2000, as previously reported	5,397	347	20,964	—	139,838	(31,822)	199,892	334,616
Effect of adopting SSAP 9 (revised) (Note 1 (p))	—	—	—	—	—	—	206,214	206,214
At 1 January 2000, as restated	5,397	347	20,964	—	139,838	(31,822)	406,106	540,830
1999 final and special dividends paid	—	—	—	—	—	—	(209,142)	(209,142)
2000 interim dividend paid	—	—	—	—	—	—	(13,454)	(13,454)
Exchange differences	—	—	—	—	—	1,071	—	1,071
Profit for the year	—	—	—	—	—	—	114,046	114,046
Exercise of share options	6,462	—	—	—	—	—	—	6,462
Shares repurchased	(1,485)	235	—	—	—	—	(235)	(1,485)
Release upon disposal of investment securities and reclassification to other investments	—	—	—	—	(83,619)	—	83,619	—
Deficit on revaluation of other investments	—	—	—	—	(56,219)	—	56,219	—
Surplus on revaluation of investment property	—	—	—	1,718	—	—	—	1,718
At 31 December 2000	<u>10,374</u>	<u>582</u>	<u>20,964</u>	<u>1,718</u>	<u>—</u>	<u>(30,751)</u>	<u>437,159</u>	<u>440,046</u>
Representing:								
Reserves at 31 December 2000								429,955
2000 final dividend proposed								<u>10,091</u>
At 31 December 2000								<u>440,046</u>
Retained in (as restated):								
Company and subsidiaries	10,374	582	20,964	1,718	—	(30,767)	409,315	412,186
Associated companies	—	—	—	—	—	16	27,844	27,860
	<u>10,374</u>	<u>582</u>	<u>20,964</u>	<u>1,718</u>	<u>—</u>	<u>(30,751)</u>	<u>437,159</u>	<u>440,046</u>

In accordance with the revised SSAP 9, the Group recognised dividend income from associated companies in the year dividends were declared. This change in accounting policy has been applied retrospectively and reserves retained in “company and subsidiaries” and “associated companies” as at 31 December 2000 have decreased and increased respectively by HK\$12,250,000.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(a) *The Group*

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001, as previously reported	10,374	582	20,964	1,718	(30,751)	427,068	429,955
Effect of adopting SSAP 9 (revised) (<i>Note 1 (p)</i>)	—	—	—	—	—	10,091	10,091
At 1 January 2001, as restated	10,374	582	20,964	1,718	(30,751)	437,159	440,046
2000 final dividends paid	—	—	—	—	—	(10,091)	(10,091)
Exchange differences	—	—	—	—	509	—	509
Loss for the year	—	—	—	—	—	(86,799)	(86,799)
Release upon liquidation of subsidiaries	—	—	118	—	85	—	203
Issue of shares (<i>Note 20(ii)</i>)	73,997	—	—	—	—	—	73,997
Shares issuing expenses (<i>Note 20(ii)</i>)	(2,508)	—	—	—	—	—	(2,508)
Deficit on revaluation of investments properties (<i>Note 12</i>)	—	—	—	(1,718)	—	—	(1,718)
Transfer between reserves	—	—	—	—	30,157	(30,157)	—
At 31 December 2001	<u>81,863</u>	<u>582</u>	<u>21,082</u>	<u>—</u>	<u>—</u>	<u>310,112</u>	<u>413,639</u>
Retained in:							
Company and subsidiaries	81,863	582	21,082	—	—	290,672	394,199
Associated companies	—	—	—	—	—	19,440	19,440
	<u>81,863</u>	<u>582</u>	<u>21,082</u>	<u>—</u>	<u>—</u>	<u>310,112</u>	<u>413,639</u>

Included in the share premium was HK\$1,856,000 which arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(b) *The Company*

	Share premium <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 1 January 2000, as previously reported	3,541	347	5,448	165,090	174,426
Effect of adopting SSAP 9 (revised) (<i>Note 1 (p)</i>)	—	—	166,302	39,912	206,214
At 1 January 2000, as restated	3,541	347	171,750	205,002	380,640
1999 final and special dividends paid	—	—	(166,302)	(42,840)	(209,142)
2000 interim dividend paid	—	—	(5,448)	(8,006)	(13,454)
Profit for the year	—	—	—	9,891	9,891
Exercise of share options	6,462	—	—	—	6,462
Shares repurchased	(1,485)	235	—	(235)	(1,485)
As 31 December 2000	<u>8,518</u>	<u>582</u>	<u>—</u>	<u>163,812</u>	<u>172,912</u>
Representing:					
Reserves at 31 December 2000					162,821
2000 final dividend proposed					10,091
At 31 December 2000					<u>172,912</u>
At 1 January 2001, as previously reported	8,518	582	—	434,721	443,821
Effect of adopting SSAP 9 (revised) (<i>Note 1 (p)</i>)	—	—	—	10,091	10,091
Effect of adopting SSAP 9 (revised) in respect of recognising 2000 final dividend proposed by a subsidiary	—	—	—	(281,000)	(281,000)
At 1 January 2001, as restated	8,518	582	—	163,812	172,912
2000 final dividend paid	—	—	—	(10,091)	(10,091)
Profit for the year	—	—	—	299,171	299,171
Issue of shares (<i>Note 20(ii)</i>)	73,997	—	—	—	73,997
Shares issuing expenses (<i>Note 20(ii)</i>)	(2,508)	—	—	—	(2,508)
At 31 December 2001	<u>80,007</u>	<u>582</u>	<u>—</u>	<u>452,892</u>	<u>533,481</u>

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

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Capital redemption reserve	582	582
Retained profits	452,892	163,812
	<u>453,474</u>	<u>164,394</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

22. Notes To The Consolidated Cash Flow Statement

(a) *Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities*

	2001	As restated
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation	(91,957)	118,482
Interest income	(7,851)	(25,401)
Interest on bank loans and overdrafts	15,995	11,186
Dividends received from other investments	(198)	(1,060)
Depreciation	35,593	12,872
Deficit on investment properties revaluation	1,558	—
Loss on disposal of fixed assets	59	1,635
Loss on liquidation of subsidiaries	203	—
Net gain on investment in securities	(12,290)	(121,497)
Share of profits less losses of associated companies	(3,511)	(21,293)
Decrease/(increase) in inventories	4,607	(13,542)
Decrease in trade receivables, other receivables, deposits and prepayments	133,534	302,121
Decrease in trade payables, other payables and accrued charges	(47,418)	(4,091)
Net cash inflow from operating activities	<u>28,324</u>	<u>259,412</u>

(b) *Analysis of changes in financing during the year*

	Bank loans with maturity longer than three months		Share capital including premium	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	—	—	77,644	71,504
Acquisition of a subsidiary (Note 23)	238,000	—	—	—
Net cash inflow/(outflow) from financing activities	<u>(60,043)</u>	<u>—</u>	<u>105,125</u>	<u>6,140</u>
At 31 December	<u>177,957</u>	<u>—</u>	<u>182,769</u>	<u>77,644</u>

(c) *Analysis of cash and cash equivalents*

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	230,233	376,051
Bank loans	(287,281)	(84,096)
Non-cash equivalents	177,957	—
	<u>(109,324)</u>	<u>(84,096)</u>
Cash and cash equivalents	<u>120,909</u>	<u>291,955</u>

23. Acquisition

On 16 January 2001 the Group acquired the entire share capital and shareholder’s loan of Belmont Limited (“Belmont”) (formerly known as Pretty Star Limited) which is engaged in property investment and is incorporated in Hong Kong (the “Acquisition”). The total consideration for the Acquisition was approximately HK\$257 million and was satisfied by cash.

The assets and liabilities arising from the acquisition are as follows:

	<i>HK\$’000</i>
Property (<i>Note 12</i>)	498,000
Bank loan (<i>Note 22(b)</i>)	(238,000)
Other liabilities less assets	(3,140)
Shareholder’s loan	<u>(203,602)</u>
Fair value of net assets acquired	53,258
Shareholder’s loan acquired	<u>203,602</u>
Total consideration	<u><u>256,860</u></u>

Analysis of the net cash outflow in respect of the purchase of Belmont:

Cash consideration	256,860
Less: Deposit for purchase of a subsidiary paid in prior year	<u>(25,300)</u>
Net cash outflow	<u><u>231,560</u></u>

During the year, Belmont contributed HK\$24 million to the Group’s net operating cash flows, paid HK\$11 million in respect of the net returns on investments and servicing of finance and utilised HK\$83 million for financing.

24. Contingent Liabilities

- (a) The Company has executed guarantees amounting to approximately HK\$461 million (2000: HK\$517 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2001, the borrowings outstanding against the facilities amounted to HK\$264 million (2000: HK\$84 million).
- (b) 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 adverse effect on the financial position of the Group.
- (c) The Group has discounted bills of HK\$3,706,000 as at 31 December 2001 (2000: Nil).

25. Commitments

As at 31 December 2001, the Group had the following commitments:—

(a) *Capital commitments*

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Contracted but not provided for in respect of		
— purchase of a subsidiary	—	231,560
— purchase of investment properties	—	14,184
	<u>—</u>	<u>245,744</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 family entertainment activity products for future sales. Certain licensing agreements contain financial commitment by the Group to the licensors to be fulfilled during the terms of the contracts. The amount of financial commitment contracted but not provided for at the end of the year were payable as follows :

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	7,457	4,776
In the second to fifth year inclusive	18,330	3,313
After the fifth year	—	447
	<u>25,787</u>	<u>8,536</u>

26. Operating Lease Arrangements

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) *Lessee*

At 31 December 2001, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:—

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Within one year	11,004	14,832
In the second to fifth year inclusive	25,458	32,393
After the fifth year	3,545	6,159
	<u>40,007</u>	<u>53,384</u>

The Group has a non-cancellable sublease with future minimum sublease receipts of HK\$12,180,000 (2000: HK\$6,922,000).

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(b) *Lessor*

At 31 December 2001, the future aggregate minimum lease payments under non-cancellable operating leases for office and residential premises receivable by the Group were as follows:—

	2001	As restated 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	24,704	1,020
In the second to fifth year inclusive	13,817	553
	<u>38,521</u>	<u>1,573</u>

27. US Dollar Equivalent

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1.00 ruling at 31 December 2001.

28. Comparative Amounts

Certain comparative amounts have been reclassified to conform with current year's presentation.

29. Approval Of Accounts

The accounts were approved by the Board of Directors on 21 March 2002.

3. 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 31 December, 2001 adjusted to reflect the effect of the issue of the Rights Shares and the full exercise of the Warrants.

	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31 December, 2001	514,545
Estimated net proceeds of the Rights Issue	<u>50,271</u>
Pro forma unaudited adjusted consolidated net assets of the Group after the Rights Issue	564,816
Estimated net proceeds from the exercise in full of the Warrants to subscribe for 201,811,101 new Shares	<u>60,326</u>
Pro forma unaudited adjusted consolidated net assets of the Group after the Rights Issue and the full exercise of the Warrants	<u><u>625,142</u></u>
Pro forma unaudited adjusted consolidated net assets per Share	
— before the Rights Issue (based on 1,009,055,509 Shares in issue)	HK\$0.51
— after the Rights Issue (based on 1,210,866,610 Shares which comprise 1,009,055,509 Shares in issue and 201,811,101 Rights Shares to be issued pursuant to the Rights Issue)	HK\$0.47
— after the Rights Issue and the full exercise of the Warrants (based on 1,412,677,711 Shares which comprise 1,009,055,509 Shares in issue and 201,811,101 Shares and 201,811,101 Shares to be issued pursuant to the Rights Issue and the full exercise of the Warrants respectively)	<u><u>HK\$0.44</u></u>

4. 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, 2001 extracted from the 2001 annual report of the Company as set out in section 2 of this appendix, adjusted to reflect the effect of the Rights Issue and the full exercise of the Warrants.

	The Group as at 31 December 2001 HK\$'000	Adjustments HK\$'000	<i>Notes</i>	The Group after the Rights Issue HK\$'000
Fixed assets	554,367			554,367
Investment in associated companies	45,554			45,554
Other investments	35,650			35,650
Current assets	339,338	50,271	<i>1</i>	
		60,326	<i>2</i>	449,935
Total assets	<u>974,909</u>	<u>110,597</u>		<u>1,085,506</u>
Current liabilities	(293,910)			(293,910)
Long term liability	<u>(166,454)</u>			<u>(166,454)</u>
Total liabilities	<u>(460,364)</u>			<u>(460,364)</u>
	<u>514,545</u>	<u>110,597</u>		<u>625,142</u>

Notes:

1. This represents the estimated net proceeds on the Rights Issue.
2. This represents the estimated net proceeds on the full exercise of the Warrants.

5. STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 28 February, 2002, 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\$314,133,000 comprising bank mortgage loans of HK\$175,148,000 and other bank loans of HK\$138,985,000.

The bank mortgage loans and other bank loans were secured by inventories, trade receivables, bank deposits and investment properties of the Group with aggregate net book values as at 28 February, 2002 of approximately HK\$18,435,000, HK\$38,274,000, HK\$72,930,000 and HK\$538,200,000 respectively.

The Group also has discounted bills of HK\$4,585,000 as at the close of business on 28 February, 2002.

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 adverse effect on the financial position of the Group.

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 28 February, 2002.

The Directors have confirmed that there has been no material change in indebtedness and contingent liability of the Group since 28 February, 2002.

6. 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.

7. 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 31 December, 2001, the date to which the latest audited financial statements of the Group were made up.

The Warrants will be issued subject to and with the benefit of the Instrument, which will be executed by the Company by way of deed poll. The Warrants will be issued in registered form and will form one class and rank *pari passu* in all respects with each other.

The principal terms and conditions of the Warrants will be set out in the Warrant Certificates and will include provisions to the effect set out below. Warrantholders will be entitled to the benefit of, be bound by and be deemed to have notice of, all terms and conditions to, and all provisions of, the Instrument, copies of which will be available from the principal place of business in Hong Kong of each of the Company and the Registrar.

1. SUBSCRIPTION RIGHTS

- (a) The registered holder for the time being of a Warrant will have the right (the **“Subscription Right”**), which may be exercised in whole or in part but not in respect of any fraction of a Share, to subscribe in cash the whole or part (in units of HK\$0.30 each, subject to adjustment) of the amount stated on the certificate for such Warrant as being the amount which such Warrantholder is entitled to subscribe for Shares upon exercise of the Subscription Rights represented thereby (the **“Exercise Moneys”**), for fully-paid Share(s) at a price (subject to adjustment as described below) of HK\$0.30 per Share (the **“Exercise Price”**). The Subscription Rights may be exercised at any time after the commencement date of the trading of the Warrants on the Stock Exchange and expiring 2 years thereafter (the **“Subscription Period”**). Save as provided below, the date on which such rights or any part thereof are exercised is referred to in these particulars as a **“Subscription Date”**. Any Subscription Rights which have not been exercised on or before 4:00 p.m. (Hong Kong time) on the expiry date of the Subscription Period will lapse and the Warrants and Warrant Certificates will automatically cease to be valid for any purpose whatsoever. References in this summary to “Shares” are to the existing Shares and all other (if any) shares from time to time and for the time being ranking *pari passu* therewith and references to share capital shall be construed accordingly.
- (b) The entitlement of the Warrantholders to their Warrants will be evidenced by the Warrant Certificates. Each Warrant Certificate will contain a subscription form (the **“Subscription Form”**). In order to exercise in whole or in part the Subscription Rights, a Warrantholder must complete and sign the Subscription Form (which will be irrevocable) and deliver the Warrant Certificate (and, if the Subscription Form used is not the form endorsed on the Warrant Certificate, the separate Subscription Form duly completed) to the Registrar, together with a remittance for the whole or the relevant portion of the Exercise Moneys, being the amount of the Exercise Price for the Shares in respect of which the Subscription Rights are being exercised. In each case, compliance must also be made by the exercising Warrantholder with any exchange control, fiscal or other laws or regulations for the time being applicable.

- (c) No fraction of a Share will be allotted but, if a Warrantholder remits subscription moneys in excess of the aggregate Exercise Price due for the Shares in respect of which he/she/it is exercising his/her/its Subscription Rights, any excess will be retained by the Company for its own benefit, provided always that, for the purpose of determining whether any (and if so what) fraction of a Share arises, if the Subscription Rights represented by any one or more Warrant Certificates are exercised on the same Subscription Date by the same Warrantholder, then the Subscription Rights represented by such Warrant Certificates will be aggregated.
- (d) Shares falling to be issued upon the exercise of the Subscription Rights will be allotted and issued not later than 21 business days (or such shorter period as may from time to time be required by the Listing Rules or the applicable laws and regulations) after the relevant Subscription Date and will rank *pari passu* with the fully-paid Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Subscription Date, unless an adjustment in respect thereof has been made as described in paragraph 2 below and other than any dividend or other distribution previously declared or recommended or resolved to be paid or made and the record date therefor is before the relevant Subscription Date and notice of the amount and record date has been given to the Stock Exchange prior to the relevant Subscription Date.
- (e) As soon as reasonably practicable after the relevant allotment of Shares (and not later than 21 business days (or such shorter period as may from time to time be required by the Listing Rules or the applicable laws and regulations) after the relevant Subscription Date) there will be issued free of charge to the relevant Warrantholder(s) upon his/her/its exercise of any Subscription Rights:
- (i) a certificate (or certificates) for the relevant Shares in the name(s) of such Warrantholder(s);
 - (ii) (if applicable) a balancing Warrant Certificate in registered form in the name(s) of such Warrantholder(s) in respect of any Subscription Rights represented by the Warrant Certificate but remaining unexercised; and
 - (iii) (if applicable) the certificate mentioned in Clause 6(A)(4) of the Instrument.

The certificate(s) for Shares arising on the exercise of Subscription Rights, the balancing Warrant Certificate (if any) and the certificate mentioned in Clause 6(A)(4) of the Instrument (if any) will be sent by post at the risk of such Warrantholder(s) to the address of such Warrantholder(s), or, in the case of a joint holding, to that one of them whose name stands first in the register of Warrantholders (which shall be deemed to be a sufficient despatch to all of them). If the Company agrees, such certificates may by prior arrangement be retained by the Registrar to await collection by the relevant Warrantholder(s).

2. ADJUSTMENTS TO EXERCISE PRICE

The Instrument contains provisions relating to the adjustment of the Exercise Price. The following is a summary of, and is subject to, the adjustment provisions in the Instrument:

- (a) The Exercise Price shall (except as mentioned in sub-paragraphs (b), (c) and (d) below) be adjusted (as defined in the Instrument) as provided in the Instrument in each of the following cases:
 - (i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;
 - (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully-paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve);
 - (iii) a Capital Distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise except pursuant to a purchase by the Company of any Shares, to holders of its Shares in their capacity as such;
 - (iv) a grant by the Company to the holders of Shares (in their capacity as such) of rights to acquire for cash assets of the Company or any of its Subsidiaries (as defined in the Instrument);
 - (v) an offer of new Shares to holders of Shares for subscription by way of rights, or a grant to holders of Shares of rights to subscribe for new Shares, at a price per new Share which is less than 90 per cent. of the Market Price (calculated as provided in the Instrument);
 - (vi) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights to acquire or subscribe for new Shares if in any case the Total Effective Consideration (as defined in the Instrument) per new Share is less than 90 per cent. of the Market Price or the terms of any such issue being altered so that the said Total Effective Consideration is less than 90 per cent. of the Market Price;
 - (vii) an issue being made wholly for cash of new Shares, other than pursuant to a rights issue, at a price per new Share which is less than 90 per cent. of the Market Price;

- (viii) a repurchase by the Company of Shares in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Exercise Price, if in any case the Total Effective Consideration per Share is more than 110% of the Market Price; and
 - (ix) a repurchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (other than on the Stock Exchange or any other stock exchange recognised for such purpose) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Exercise Price.
- (b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraphs (a) (ii) to (vii) above will be made in respect of:
- (i) an issue of fully-paid Shares upon the exercise of any conversion rights attached to securities convertible into or exchangeable for Shares or upon the exercise of any rights (including the Subscription Rights) to acquire or subscribe for Shares;
 - (ii) an issue by the Company of Shares or other securities of the Company or any Subsidiary which are wholly or partly convertible into or exchangeable for, or otherwise having the rights to subscribe for or otherwise acquire, new Shares to any of the directors, employees of and/or other persons related to the Company and/or any Subsidiaries or their personal representatives pursuant to a Share Option Scheme (as defined in the Instrument);
 - (iii) an issue by the Company of Shares or by the Company or any Subsidiary of securities which are convertible into or exchangeable for or otherwise having the rights to acquire or subscribe for Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
 - (iv) an issue of fully-paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) to be established in certain circumstances pursuant to the Instrument (or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or otherwise having the rights to acquire or subscribe for, Shares); or

- (v) an issue of Shares in lieu of a cash dividend where an amount not less than the nominal amount of the Shares so issued is capitalised and the Market Value (calculated as provided in the Instrument) of such Shares is not more than 110 per cent. of the amount of dividends which holders of Shares could elect to or would otherwise receive in cash.
- (c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Directors consider that an adjustment to the Exercise Price provided for under the said provisions should not be made or should be calculated on a different basis, or that an adjustment to the Exercise Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take place on a different date or with a different time from that provided for under the said provisions, the Directors may appoint an Approved Financial Adviser or the Auditors (both as defined in the Instrument) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such Approved Financial Adviser or the Auditors shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation, making an adjustment calculated on a different basis) or the adjustment shall take effect from other date and time as shall be certified by such Approved Financial Adviser or the Auditors to be in its opinion appropriate.
- (d) Any adjustment to the Exercise Price will be made to the nearest one cent so that any amount under half a cent will be rounded down and any amount of half a cent or more will be rounded up. No adjustment will be made to the Exercise Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required will not be carried forward. No adjustment may be made (except on a consolidation or repurchase of Shares) which would increase the Exercise Price.
- (e) Every adjustment to the Exercise Price will be certified by an Approved Financial Adviser or the Auditors and notice of each adjustment (giving the relevant particulars) will be given to Warrantheolders. In giving any certificate or making any adjustment hereunder, the Approved Financial Adviser or the Auditors shall be deemed to be acting as experts and not as arbitrators and, in the absence of manifest error, its decision will be conclusive and binding on the Company and the Warrantheolders and all persons claiming through or under them respectively. Any such certificates of the Approved Financial Adviser and/or Auditors will be available for inspection at the principal place of business for the time being of the Company in Hong Kong, and copies thereof may be obtained without charge.

3. REGISTERED WARRANTS, TRANSFER AND TRANSMISSION

- (a) The Warrants will be issued in registered form. The Company shall be entitled to treat the registered holder(s) of any Warrant as the absolute owner(s) thereof and accordingly will not, except as ordered by a court of competent jurisdiction or required by law, be bound to recognise any equitable or other claim to or interest in such Warrants on the part of any other person, whether or not it has express or other notice thereof.
- (b) The Warrants will be transferable, in whole amounts or integral multiples of HK\$0.30, by instrument of transfer in any usual or common form or in any other form which may be approved by the Directors. The Company will maintain a register of Warrantholders in Hong Kong accordingly (or such other place as the Directors consider appropriate, having regard to the applicable rules governing the listing of Warrants). Transfers of Warrants must be executed by both the transferor and the transferee. Where the transferor or the transferee is HKSCC Nominees Limited (or such other company as may from time to time be approved by the Directors for this purpose), the transfers may be executed under the hands of authorised person(s) or by machine imprinted signature(s) on its behalf or of such person(s) as the case may be. The provisions of the Company's bye-laws from time to time in force relating (inter alia) to the registration, transfer and transmission of Shares, the maximum number of holders of a Share and the register of members shall, mutatis mutandis and subject to the Instrument and the terms and conditions of the Warrants, apply to the registration, transfer and transmission of the Warrants, the maximum number of holders of a Warrant and the register of Warrantholders, save that the Company shall not be obligated (but may if the Directors so resolve) to maintain any branch register of Warrantholders at any place outside Hong Kong.

Persons who hold Warrants and have not registered the Warrants in their own names and wish to exercise the Warrants should note that they may incur additional costs and expenses in connection with any expedited re-registration of the Warrants prior to the transfer or exercise of the Warrants, in particular during the period commencing ten business days prior to and including the last day for subscription.

Since the Warrants will be admitted to CCASS, so far as applicable laws and regulations of relevant regulatory authorities, terms of the Instrument and/or circumstances permit, the Company may determine the last dealing date of the Warrants to be a date at least 3 dealing days before the expiry date of the Warrants.

4. CLOSURE OF REGISTER OF WARRANTHOLDERS

In accordance with the bye-laws of the Company as they apply to the transfer of Warrants, the registration of transfers of Warrants may be suspended and the register of Warrantholders may be closed for such period as the Directors may from time to time direct, provided that registration may not be suspended or such register of Warrantholders may not be closed for a period of more than 30 days, or, with the approval of an ordinary resolution of a meeting of the Warrantholders (being a resolution passed by simple majority), for a longer period not exceeding 60 days, in any one year. Any transfer or exercise of the Subscription Rights attached to the Warrants made while the register of Warrantholders is closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the Warrantholder who has so exercised the Subscription Rights attached to his/her/its Warrant (but not otherwise), be considered as made immediately after the re-opening of the register of Warrantholders.

5. PURCHASE AND CANCELLATION

The Company or any of the Subsidiaries may at any time purchase Warrants:

- (a) in the open market or by tender (available to all Warrantholders alike) at any price; or
- (b) by private treaty at a price, exclusive of expenses, not exceeding 110 per cent. of the closing price prior to the date of purchase of the Warrants on the Stock Exchange, but not otherwise.

All Warrants purchased as aforesaid will be cancelled forthwith and may not be re-issued or re-sold.

6. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS

- (a) The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by Special Resolution (as defined in the Instrument) of the provisions of the Instrument and/or of the terms and conditions of the Warrants. At any such meeting two or more persons holding Warrants and/or being proxies and being or representing in the aggregate the holders of not less than 10 per cent. of the Subscription Rights of all Warrants for the time being outstanding and exercisable shall (except for the purpose of passing a Special Resolution) form a quorum for the transaction of business. The quorum at any such meeting for the passing of a Special Resolution shall be two or more persons holding Warrants or being proxies

and being or representing in the aggregate holders of not less than one third of the Subscription Rights of all Warrants for the time being outstanding and exercisable. A Special Resolution duly passed at any such meeting will be binding on all of the Warrantheolders, whether present or not. The Instrument also contains provisions which incorporate by reference certain provisions of the Company's bye-laws from time to time in force to regulate (inter alia) the appointment of proxies, attorneys and corporate representatives by Warrantheolders, the signing and delivery of instruments appointing the same and the quorum for and voting and rights to speak at meetings of Warrantheolders.

- (b) All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up) be altered or abrogated (including but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the conditions of the Warrants and/or the Instrument) and the sanction of a Special Resolution shall be necessary and sufficient to effect such alteration or abrogation, provided that the same may only be effected by deed poll executed by the Company and expressed to be supplemental to the Instrument.
- (c) Where the Warrantheolder is a recognised clearing house (within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the laws of Hong Kong)) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantheolders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as the clearing house or its nominee(s) could exercise as if such person were an individual Warrantheolder.

7. OVERSEAS WARRANTHOLDERS

The Instrument contains provisions restricting the rights of Warrantheolders who are resident in or nationals of a Restricted Jurisdiction from exercising the Subscription Rights attaching to any Warrants held by such Warrantheolders. **"Restricted Jurisdiction"** is defined as the United States of America, any of its territories or possessions, the United Kingdom, Canada, any jurisdiction under the laws of which an exercise of Subscription Rights by a Warrantheolder who is a national or resident thereof or the performance by the Company of the obligations expressed to be assumed by it under the Instrument or the terms and conditions of the Warrants cannot be carried out lawfully or cannot be carried out lawfully without the Company first having taken any action in

such jurisdiction (including complying with any filing, registration or any other special formalities in such jurisdiction) which would in the opinion of the Directors be unduly onerous or impracticable, and any other country, state or territory nominated by the Directors from time to time (Warranholders shall be notified of any such nomination as soon as practicable after it has been made).

8. REPLACEMENT OF WARRANT CERTIFICATES

If a Warrant Certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the Hong Kong principal place of business of the Registrar (unless the Directors otherwise determine) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such fee (not exceeding such maximum amount as may from time to time be permitted under the Listing Rules) as the Directors may determine. Mutilated or defaced Warrant Certificates must be surrendered before replacements will be issued.

In the case of lost Warrant Certificates, Section 71A subsections (2), (3), (4), (6), (7) and (8) of the Companies Ordinance shall apply as if shares referred to therein includes the Warrants.

9. WINDING UP OF THE COMPANY

- (a) If an effective resolution is passed during the Subscription Period for the voluntary winding-up of the Company for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warranholders, or some persons designated by them for such purpose by Special Resolution, will be a party or in conjunction with which a proposal is made to the Warranholders and is approved by Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal will be binding on all the Warranholders; and
- (b) In the event a notice is given by the Company to its Shareholders and at the same time to each Warranholder as undertaken by the Company in the Instrument to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to wind up the Company voluntarily, every Warranholder shall be entitled by irrevocable surrender of his/her/its Warrant Certificate(s) to the Company with the Subscription Form(s) duly completed, together with payment of the Exercise Moneys or the relative portion thereof (such Subscription Form(s) and Exercise Moneys to be received by the Company not less than two business days prior to the proposed Shareholders' meeting), to be allotted and issued by the Company, as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, the Shares

to be issued pursuant to the exercise of the relevant Subscription Rights. The Company shall give notice to the Warrantheolders of the passing of such voluntary winding-up resolution within seven days after the passing thereof.

- (c) Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the commencement of the winding up will lapse and each Warrant Certificate will cease to be valid for any purpose.

10. FURTHER ISSUES OF WARRANTS; DISTRIBUTIONS AND FURTHER ISSUES OF SECURITIES

The Company will be at liberty to issue further subscription warrants to subscribe for Shares in such manner and on such terms as it sees fit. Save as referred to above, Warrantheolders will not be entitled as of right to participate in any distributions or further issues of securities by the Company prior to exercise of Subscription Rights attached to the Warrants. However, as referred to above, the Warrant Certificates will incorporate provisions relating to the adjustment of the Exercise Price per Share in such circumstances and certain restrictions on the power of the Company to make such distributions and issues.

11. CALL

If at any time Warrants which have not been exercised carry rights to subscribe less than 10 per cent. of the aggregate of the amount of Exercise Moneys attached to the aggregate of all the Warrants issued under the Instrument, the Company may, on giving not less than three months' notice, require Warrantheolders either to exercise their Subscription Rights or to allow them to lapse. On expiry of such notice, all unexercised Warrants will be automatically cancelled without compensation to the Warrantheolders.

12. UNDERTAKINGS BY THE COMPANY AND PROTECTION OF THE SUBSCRIPTION RIGHTS

The Company has undertaken in the Instrument that, inter alia:

- (a) it shall use its best endeavours to procure that:
 - (i) at all times during the Subscription Period the Warrants shall be admitted to listing on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for, or scheme of arrangement or similar proposal made available to holders of, all or any of the Warrants); and

- (ii) all Shares allotted on exercise of Subscription Rights shall be admitted to listing on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for, or scheme of arrangement or similar proposal made available to holders of, all or any of the Shares where a like offer, scheme or proposal is extended to holders of the Warrants).
- (b) at all times during the Subscription Period, it will send to each Warrantholder (or, in the case of joint holders, to the first named of them), at the same time as the same are sent to the holders of Shares, its annual audited accounts and interim accounts and all other notices, reports and communications despatched by it to the holders of the Shares generally;
- (c) it will pay all Hong Kong stamp duties, registration fees or similar charges in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of Shares upon exercise of the Subscription Rights (all other duties, fees and charges being for the account of the relevant Warranholders); and
- (d) it will keep available for issue sufficient Shares to satisfy all rights for the time being outstanding of subscription for or conversion or exchange into new Shares.

13. NOTICES

The Instrument contains provisions relating to notices to be given to Warranholders. Every Warrantholder shall register with the Company an address either in Hong Kong or elsewhere to which notices to be given to such Warrantholder are to be sent and if any Warrantholder shall fail to do notice may be given to such Warrantholder by sending the same to his/her/its last known address. All notices with respect to Warrants standing in the names of joint holders shall be given to whichever at such persons is named first in the register of Warranholders and notice so given shall be sufficient notice to all the joint holders of such Warrants.

14. GOVERNING LAW

The Instrument and the Warrants will be governed by and will be construed in accordance with the laws of Hong Kong.

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

Chan Chun Hoo, Thomas, aged 51, joined the Group in 1967. In 1970 he became responsible for sales and was instrumental in developing the Group's global sales and marketing network. Since 1979, he has been actively involved in all aspects of the Group's operations. His decision to take on the promotional toy business in 1985 led to the evolution of the Group from a manufacturing entity into a pure toy development and marketing group. The Group's high level of productivity is attributable to his guiding management principles of creativity, flexibility and simplicity. Mr. Chan was appointed as Chairman with effect from 15 October 1997. Mr. Chan is a director of Angers Investments Limited, the controlling shareholder of the Company.

Ip Shu Wing, Charles, aged 51, previously joined the Group in 1986, and was involved in the initial development of the promotional toy business of the Group and participated in the transformation of the Group from a manufacturing-based to a marketing-based business group. He left the Group soon after the launch of the Ninja Turtle products in 1988. He re-joined the Group and was appointed as Vice Chairman with effect from 1 October 1999. Mr. Ip has close to thirty years of experience in business management, and has held a number of key management positions in various multi-national corporations.

To Shu Sing, Sidney, aged 44, joined the Group in 1986. Mr. To holds an Executive Master of Business Administration degree from Simon Fraser University, British Columbia, Canada. Prior to joining the Group, he had worked for a number of multi-national trading and manufacturing companies for nine years. Mr. To is a brother-in-law of Mr. Tsim Tak Lung.

Cheng Bing Kin, Alain, aged 39, joined the Group in 1999. He holds a bachelor's degree in Economics from the University of Hong Kong and a bachelor's degree in Laws from the University of London. Mr. Cheng is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Cheng was admitted as a solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales. Mr. Cheng was also awarded a master degree with credit in Chinese and Comparative Laws from the City University of Hong Kong in 1998.

Lam Yin Shing, Donald, aged 38, joined the Group in early 2001. He graduated from the University of Hong Kong with a first class honor in bachelor of Social Sciences and also holds a MBA degree from the Chinese University of Hong Kong. Mr. Lam is an associate member of the Hong Kong Institute of Bankers. Prior to joining the Group, he had worked for a major international bank for fourteen years with an extensive experience in branch and trade services operations and corporate and institutional banking. In 1997, he was honored with the Banker of the Year (Employee) Award in Hong Kong.

Lee Peng Fei, Allen, aged 62, was appointed as a director of the Company in November 1993. He is currently a member of the Commission on Strategic Development, Hong Kong SAR and a deputy of HKSAR, the 9th National People's Congress, PRC. He has taken on an active role in public service.

Lo Kai Yiu, Anthony, aged 53, was appointed as a director of the Company in November 1993. He has over 20 years of experience in investment banking and serves as a director of a number of public and private companies in Hong Kong and the region. Mr. Lo is a member of the Listing Committee of The Stock Exchange of Hong Kong Limited.

Tsim Tak Lung, aged 55, is a consultant on corporate communication and strategic planning. He is on the boards of several public and private companies in Hong Kong and North America. He was appointed as a director of the Company in January 1997. Mr. Tsim is a brother-in-law of Mr. To Shu Sing, Sidney.

Yu Hon To, David, aged 54, 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

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	21st Floor, The Toy House 100 Canton Road Tsimshatsui Kowloon Hong Kong
Underwriter	Tai Fook Securities Company Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Hong Kong legal advisers to the Company	Deacons 3rd – 7th, 18th and 29th Floors Alexandra House 16-20 Chater Road Central Hong Kong
Bermuda legal advisers to the Company	Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22nd Floor, Prince's Building Central Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank
Hong Kong branch share registrar and transfer office	Abacus Share Registrars Limited 5/F, Wing On Centre 111 Connaught Road Central Hong Kong
Authorised representatives	Mr. Chan Chun Hoo, Thomas Mr. To Shu Sing, Sidney
Company secretary	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, or Part I, of the Schedule to, the SDI Ordinance), or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (together, “**Discloseable Interests**”) were as follows:

Name of company	Name of Director	Type of interest	Number of ordinary shares
Playmates Interactive Entertainment Limited	Chan Chun Hoo, Thomas	Other <i>(Note (a))</i>	500,000,000
Playmates Interactive Entertainment Limited	Ip Shu Wing, Charles	Personal	21,200,000
Playmates Interactive Entertainment Limited	To Shu Sing, Sidney	Personal	1,084,000
Playmates Interactive Entertainment Limited	Cheng Bing Kin, Alain	Personal	300,000
Playmates Interactive Entertainment Limited	Yu Hon To, David	Corporate <i>(Note (b))</i>	3,500,000
Playmates Interactive Entertainment Limited	Lee Peng Fei, Allen	Personal	517,500
Playmates Interactive Entertainment Limited	Lo Kai Yiu, Anthony	Personal	1,000,000
Playmates Interactive Entertainment Limited	Tsim Tak Lung	Personal Family	300,000 20,000
Nippon Toys Limited	Ip Shu Wing, Charles	Personal <i>(Note (c))</i>	1

Notes:

- (a) 500,000,000 shares of the Company were beneficially owned by Angers. All the issued share capital of Angers is beneficially wholly-owned by a private company which is in turn wholly-owned by the trustees of a discretionary trust established for the benefit of Mr. Chan Chun Hoo, Thomas and his family.
- (b) 3,500,000 shares of the Company were held by a private company in which Mr. Yu Hon To, David and a member of his family have a controlling interest.
- (c) Mr. Ip Shu Wing, Charles has a personal interest of 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 Options
Ip Shu Wing, Charles	20 Oct. 1999	0.443	2,589,000
	22 Jul. 2000	0.639	1,080,000
	21 May 2001	0.304	2,000,000
To Shu Sing, Sidney	26 Aug. 1998	0.543	518,000
	27 May 1999	0.517	518,000
	20 Oct. 1999	0.443	647,000
	22 Jul. 2000	0.639	540,000
	21 May 2001	0.304	1,000,000
Cheng Bing Kin, Alain	27 May 1999	0.517	432,000
	20 Oct. 1999	0.443	432,000
	22 Jul. 2000	0.639	540,000
	21 May 2001	0.304	1,000,000
Lam Yin Shing, Donald	21 May 2001	0.304	1,000,000

The options are exercisable in stages in accordance with the terms 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 SHAREHOLDER

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 any class of 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).

Name of company	Name of shareholder	Number of ordinary shares
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, 2000 (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 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.

- (e) A company controlled by Mr. Chan Chun Hoo, Thomas, the Chairman of the Company, had entered into a tenancy agreement with a wholly-owned subsidiary of the Company in relation to the lease of the premises at 23/F, The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong for the period from 1 May, 2001 to 31 December, 2002 at a monthly rental of HK\$64,860.

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

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 provisional agreement for sale and purchase dated 26 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.
- (b) An agreement for sub-sale and sub-purchase dated 12 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. By an assignment dated 11 April, 2001, this transaction was completed and the Property was assigned to the Group.

- (c) An agreement dated 14 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 14 September 2000.
- (d) A shareholders' agreement dated 18 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.
- (e) An assignment dated 17 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.
- (f) A settlement agreement dated 1 October, 2001 made between a wholly-owned subsidiary of the Company and the owner ("**Property Owner**") of a property in California of the United States of America ("**US Property**") whereby the Property Owner agreed to dismiss its claim against the Group, being a former owner of the US Property, for causing or allowing to cause the release of refuses, wastes and hazardous substances into or upon the US Property.
- (g) The sale and purchase agreement dated 1 December, 2000 between the Company, Autoestate Properties Limited, a wholly-owned subsidiary of the Company, on the one part, Prestige Properties International Limited and 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 (now known as Belmont Limited) at an aggregate consideration of HK\$256,860,000.
- (h) The underwriting agreement dated 6 February, 2001 between the Company and the underwriter relating to the underwriting and other arrangements in respect of the rights issue announced by the Company on 6 February, 2001.
- (i) The Underwriting Agreement.

10. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this Prospectus 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 HM 11, Bermuda. The Hong Kong share registrar and transfer office of the Company is Abacus Share Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road 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 Tuesday, 30 April, 2002:—

- (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 31 December, 2000 and with effect from 26 April, 2002, the annual report of the Company in respect of the year ended 31 December, 2001;
- (c) the interim report of the Company for the six months ended 30 June, 2001;
- (d) the material contract referred to in paragraph 9 of this Appendix; and
- (e) the Instrument.