

IMAGI



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ZENTRIX

ADVENTURE

MN





**Mr. Michael Kao**  
Chairman and Managing Director

### OPERATING RESULTS

The Board of Directors ("the Board") of Boto International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March 2002 together with comparative figures for the financial year ended 31st March 2001 as follows:

	For the year ended 31st March	
	2002 (HK\$ million)	2001 (HK\$ million)
Turnover	1,072.9	909.6
Operating profit before taxation	148.0	161.9
Profit attributable to shareholders	141.4	156.4
Basic earnings per share	HK4.14 cents	HK4.63 cents
Shareholders' fund	875.1	810.8

### FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31st March 2002.

### CONDITIONAL SPECIAL CASH DIVIDEND

Subject to the completion of the New Disposal Agreement and the New Boto Property Disposal Agreement as defined and detailed in the announcement of the Company dated 11th July 2002, the Board proposes to declare and pay a special cash dividend ("Special Cash Dividend") of HK\$0.26 for each Share held by Shareholders whose names appear on the register of members of the Company on the record date of Friday, 30th August 2002. Completion of the New Disposal Agreement and the New Boto Property Disposal Agreement currently is expected to take place on Thursday, 22nd August 2002, following which the Special Cash Dividend will be paid on or before Wednesday, 4th September 2002.





# Christmas Trees

## and accessories...



**CONDITIONAL SPECIAL CASH DIVIDEND** *(Continued)*

It should be noted that the latest time for trading in the Shares cum entitlement to the Special Cash Dividend would be 4:00 p.m. on Friday, 23rd August 2002. The register of members of the Company will be closed from Wednesday, 28th August 2002 to Friday, 30th August 2002, during which no transfer of Shares will be effected. In order to qualify for the Special Cash Dividend, all duly completed transfer forms accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 27th August 2002.

**It should be noted that the Special Cash Dividend is conditional upon the completion of the New Disposal Agreement and the New Boto Property Disposal Agreement, whose completion conditions are at present yet to be fulfilled.**

**It is strongly recommended that any Shareholder or other person dealing in the Shares and is in any doubt about his or her position should seek advice from his or her professional adviser.**

The various dates stated above are subject to any changes that may arise from the despatch date of the circular to the Shareholders on the transactions. In the event of any changes on such dates, there will be a separate announcement for the revised dates.

**BUSINESS REVIEW**

The Group's turnover for the year ended 31st March 2002 rose to HK\$1,073 million, representing an increase of 18%. The increase was principally arisen from the growth in the leisure furniture sales of approximately 1.3 times over that of the prior year.

North America remained as the Group's largest market, followed with the United Kingdom and Continental Europe, accounting for 81% and 15.6% respectively of the total turnover from the sale of Christmas festive products and leisure furniture. The Group also recorded its first year's revenue from its third business of motion pictures.

Despite the increase in turnover, sales volume of high-profit margin products, such as non-decorated Christmas trees, decreased significantly by 38.5% and there was a remarkable shift in consumers' demand for the low-margin products, such as the pre-lit and fibre optic decorated Christmas trees and the leisure furniture of which sales volume increased by 117.2% and 130.9% respectively. The significant consumers demand shift in the Christmas festive product categories and the Company's successful strategic diversification growth on the leisure furniture business had resulted in the increased turnover but with lower marginal benefit on gross profit contribution.





Leisure

Furniture...

Leisure Furniture...



**BUSINESS REVIEW** *(Continued)*

The Group experienced much unexpected economic changes since the interim financial period ended 30th September 2001. In particular, the impact of the 11th September 2001 terrorist attacks in the United States was not prominently surfaced until after the Christmas season. The various favourable United States consumers spending sentiments reported at around the 2001 year Christmas were proven short lived. The Group's largest customer Kmart Corporation filed for a Chapter 11 bankruptcy protection order in late January 2002, and some customers delayed their 2002 season buying decisions. These caused some non-insignificant losses of off season sales to the Group for the financial year ended 31 March 2002, where such off season sales, albeit at lower sale value and margins, often generate a certain amount of gross profits to cover the fixed administrative and factory overhead costs in the period.

Further, stringent labour protection legislation imposed by the Government of the People's Republic of China since around late August 2001 boosted the labour cost of production and hampered the productivity of the manufacturing plant in Shenzhen.

These factors caused the principal deterioration in the gross profit margin for the Group from 40.1% for the first half year to 33.9% for the full year ended 31st March 2002 and from 37.7% for the previous full financial year.

This deterioration in gross profit contribution, together with the substantial increases in the distribution costs, in particular the various sales incentive allowances and rebates paid, or payable, to the corporate customers with strengthening commercial bargaining power, contributed to the decline in profit attributable to shareholders to HK\$141.4 million, a drop of 9.6%. Basic earnings per share were HK4.14 cents, compared to HK4.63 cents for the previous financial year. Shareholders' funds increased by 7.9% to HK\$875.1 million.

**Christmas Festive Products**

For the year ended 31 March 2002, artificial Christmas trees remained as the largest source of revenue to the Group, the sales value of which increased by 18.1% to HK\$748.9 million, representing 69.9% of the Group's total revenue. The increase was mainly attributed to the United States market with a material shift in consumers product preference from the traditional non-decorated items at lower sale prices (but at higher profit margin to the Group) to the fashion contemporary decorated items at much higher sale prices (but at much lower profit margin to the Group).

The sales of the traditional non-decorated Christmas trees fell by 38.5% from HK\$403.5 million to HK\$248.1 million from previous year, while the pre-lit and fibre optic decorated Christmas trees increased by 117.2% from HK\$230.6 million to HK\$500.8 million over the same period. The sales of festive accessories for the year ended 31st March 2002 was HK\$133.8 million, a drop of 31% compared to HK\$193.8 million achieved in previous financial year.

**Leisure Furniture**

Leisure furniture made a satisfactory result for the year under review. Contributing to 17.6% of the total turnover, sales of leisure furniture increased by HK\$106.9 million to HK\$188.6 million, an increase of 130.9%.

With increased production capacity in the self-contained factory in Shenzhen, China and tight cost control measures, the Group was able to produce a wide variety of leisure furniture on a competitive basis, and therefore be able to capture more sales from the distribution of these products through a larger distribution network.

### BUSINESS REVIEW *(Continued)*

#### **Motion Pictures**

Imagi Animation Studios Limited (formerly known as Boto.Net Solutions Limited) and its subsidiaries (the "Imagi Group") began to produce its first 3-Dimensional ("3D") computer graphics animation television series of 26 episodes, "Zentrix™", in 2001.

The Imagi Group has been aggressively marketing the distribution and negotiating the licensing rights of "Zentrix™" with various international distributors, television networks and toys companies from around the world. In December 2001, Imagi (Zentrix) Licensing B.V., a wholly-owned subsidiary of the Imagi Group, entered into an international distribution license agreement (the "License Agreement") with an European broadcaster, M6 Droits AudioVisuels ("M6 DA"), for the broadcasting distribution rights of "Zentrix™". M6 DA is the international distribution subsidiary of M6, the second largest media organization in France in terms of advertisement revenue, that markets and sells M6 Group's own productions and co-productions to television networks in more than 50 countries and manages a portfolio of rights to these productions. Pursuant to the terms of the License Agreement, M6 DA has the exclusive license to distribute "Zentrix™" to video, pay per view and TV distribution.

In June 2002, Imagi (Zentrix) Licensing B.V. entered into a derivative right licensing agreement (the "DRL Agreement") with M6 Interactions, the consumer products division of M6 Group whereby the DRL Agreement gives M6 Interactions an exclusive right to license the derivative rights of "Zentrix™" for use on, or in relation to, the manufacture, distribution and sale of authorized objects in the territory of Europe.

Under the terms of the above licensing agreements, the Imagi Group began to earn royalty income from the licensing of the distribution and broadcasting rights over its first animation production "Zentrix™". Turnover derived therefrom amounted to HK\$1.6 million for the year ended 31st March 2002.

#### **Honours and Awards**

The first success of "Zentrix™" was seen in the 35th US International Film and Video Festival held in Los Angeles in June 2002 where "Zentrix™" received the "Gold Camera Award" in the Animation: Computer category. The festival is one of two international competitions operated under the auspices of the United States Festival Association, and the Award is one of the world's leading events devoted to the selection and recognition of outstanding business, television, documentary, industrial, information, and entertainment productions. 1,500 entries received from 33 nations were assessed and reviewed by an executive committee composed of senior advisors headed up by the festival chairman to assure a consistent, uniformly high level of quality among the winners.

Further, "Zentrix™" was nominated as the "Best Series for Children of the Year" in the Pulcinella Awards 2002 at the Cartoons on the Bay Festival held in Positano, Italy on 18-22 April 2002. Cartoons on the Bay Festival is an international festival and a conference on television animation in Europe. Entrants, including TV series, TV movies, shorts and web programmes, from all over the world competed for 40 nominations – five programmes for each of the eight different categories – at the Pulcinella Awards 2002 where a total of 10 statuettes were awarded by a prestigious international panel of judges from some of the most respected animation houses and publications and the major international TV channels.

**BUSINESS REVIEW** *(Continued)***Appointment of Shinichi Kobayashi and Masao Maruyama**

In order to enhance the presence of the Imagi Group in Japan and to better position its motion pictures business with a vision to exploit the business opportunities exist in this exciting and high growth digital entertainment industry, the Imagi Group appointed Shinichi Kobayashi and Masao Maruyama as the Chief Executive Officer and Chief Creative Officer respectively of Imagi International Japan Company Limited, a 82.5% owned subsidiary of Imagi Animation Studios Limited, in 2002.

**PROSPECTS**

The Board considers the Company's principal products, Christmas festive trees and accessories, and its key markets for them, in particular, the United States, are reaching a relatively mature stage with low growth prospects as compared to the computer graphics animation business with high growth potential. Profit margins on the Group's Christmas festive products had been steadily rising since the early years of Boto and had reached its peak performance between the years 1999 and 2000, but they are under pressure and are expected to decline as a result of the shift to lower profit-margin products, driven by the acute shift in consumers demand on product designs and the stronger bargaining position of major retail chains which are the Group's principal customers. There is a strong need for an extraordinary growth in sales volume in order to maintain the total profit contribution to the Group in the years to come.

The Group's largest customer, Kmart Corporation, went into Chapter 11 bankruptcy proceedings at the end of January 2002, leading to a significant reduction in its sales and forward orders for the Group's products for the coming year. The Group is striving with continuous efforts to capture additional sales from other customers and new accounts to compensate for the reduction in sales orders from Kmart Corporation, and it is hopeful that the Christmas sales in the current financial year would be maintained with no further deterioration in profit margin. Nevertheless, the Board considers this effort as a great challenge given the present matured stage of the global industry potentials.

The Group commenced its leisure furniture business about five years ago. Notwithstanding the substantial increase in sales volume, market competition has been intensive. The large manufacturers in the industry, mostly from the United States and Taiwan who have production bases in the mainland China, are dominating the global market. The Group is a small new player in the leisure furniture industry, and has so far strategised its marketing and distribution channels on the specialty stores which traditionally demand for limited volume of merchandise but with higher profit margins to the Group. In order for the Group to expand its market share from its current business base, it intends to expand its distribution channels beyond the specialty stores and to reach the mass retailers where the demand volume is often very significant but will generate much lower profit margins.



### **FUTURE INTENTION OF THE GROUP**

The Board believes that the Group's markets, in particular for Christmas festive products in the United States, and the Company's principal products, namely, the Christmas festive products and leisure furniture, are reaching a relatively matured stage where the business growth prospects are relatively low as compared to the high growth potential offered by the Group's motion pictures business.

The Board considers that it would be an excellent opportunity for the Company to accept the proposed disposal of the Group's Christmas festive products business and the leisure furniture business as announced by the Company on 11th July 2002 to the Greenland Investments Holdings Limited to be owned as to 75% by the limited partnerships affiliated with The Carlyle Group, and as to 25% by the Company through its wholly owned subsidiary Topway Asset Limited. (All terms used are as defined in the Company's Announcement published on 11th July 2002.)

Following the Disposal, the Group will continue trading, particularly in further developing its motion pictures business that is currently carried on by the Imagi Group, the Imagi Group is presently focusing its resources on the production of "Zentrix™", a 3D computer graphics animated cartoon television series comprising 26 episodes of duration of 26 minutes each.

Currently, the Imagi Group is negotiating a license agreement with a global leader in electronic gaming and toys manufacturing for the licensing of "Zentrix™" in Japan. It covers various aspects of licensing rights relating to, among others, broadcasting, merchandising, DVD/video and television games.

The Imagi Group is committed to establishing itself as a leader in the digital animation and entertainment industry in Asia.

### **ADOPTION OF THE NEW SHARE OPTION SCHEME**

The Board notes that on 23rd August 2001 the Stock Exchange announced amendments to chapter 17 (share option schemes) of the Listing Rules which came into effect on 1st September 2001. In compliance with the above amendments to the Listing Rules, the Board considers that it is in the interest of the Company to terminate the Existing Share Option Scheme and adopt the New Share Option Scheme.

A summary of the principal terms of the New Share Option Scheme is set out in the Appendix to the circular distributed to shareholders of the Company together with this Annual Report.

### **CLOSURE OF REGISTER OF MEMBERS FOR THE ANNUAL GENERAL MEETING ATTENDANCE**

The Register of Members of the Company will be closed from 14th August 2002 to 16th August 2002, both days inclusive, during which period no transfer of shares can be registered.

In order to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificate must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 pm on 13th August 2002.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

**AUDIT COMMITTEE**

The Audit Committee meets regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance and make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee) and Mr. Alexander Reid Hamilton.

**CODE OF BEST PRACTICE**

None of the Company's Directors are aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by this report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited save and except for two minor breaches on the disclosure of "Connected Transactions" as described in the Company's announcement dated 17th July 2002.

**PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE**

All information pertaining to annual results of the Group for the year ended 31st March 2002 required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

**APPRECIATION**

On behalf of the Board of Directors, I would like to express my sincerest gratitude to our worldwide customers for their trust and support towards our products. I would also like to take this opportunity to express my appreciation to our shareholders for their support along with our staff for their loyalty, dedication and hard work.

**Kao Cheung Chong, Michael**

*Chairman and Managing Director*

Hong Kong, 18th July 2002