

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Sunni International Limited, a company which is incorporated in the British Virgin Islands.

The principal activities of the Group are the design, manufacture, marketing and distribution of Christmas festive products, including artificial Christmas trees and other decorative accessories, and leisure furniture and the production and licensing of computer graphics animation pictures.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

During the year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs had no significant effect on the financial statements for the current or prior year except that in accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in reserves. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increased the dividend reserve of the Group and of the Company, respectively, as at 1st April 2001 by HK\$54,880,000. The revised accounting policies are set out in note 3.

In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Goodwill

Goodwill arising from consolidation represents the excess cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary and is capitalised and amortised on a straight-line basis over its estimated economic useful life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in its associate is stated at the Group's share of the net assets of the associate, less any identified impairment loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Income from the licensing of the distribution and broadcasting rights over animation pictures is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the relevant tapes to the customers.

Service income is recognised when the services are rendered.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation, amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, from the date on which they became fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Leasehold buildings situated in Hong Kong	Over a period of 40 years
Leasehold buildings situated elsewhere in the People's Republic of China ("PRC")	Over a period of 20 years
Leasehold improvements	Over a period of 5 years
Plant and machinery	Over a period of 10 years
Furniture, fixtures and equipment	Over a period of 3 to 5 years
Motor vehicles	Over a period of 5 years
Moulds	Over a period of 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction in progress

Construction in progress is stated at cost, which includes all development expenditure and the direct costs attributable to such projects. Construction in progress is transferred to relevant classes of property, plant and equipment when the construction work is completed and the relevant asset is ready for its intended use.

Motion pictures production

Motion pictures production in progress is stated at production costs incurred to date, less impairment losses. Upon completion and release of the motion picture, the costs are amortised on a systematic basis over their estimated useful lives.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss.

Assets held under finance leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the dates of acquisition. The corresponding liabilities to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the periods of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period.

The costs incurred in connection with the issue of convertible notes are charged to the income statement when the costs are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Pension/retirement benefit scheme

The pension cost/retirement benefit scheme contribution charged in the income statement represents the amount of contribution payable in respect of the current year to the Group's pension/retirement benefit scheme.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the Group's overseas operations which are denominated in currencies other than Hong Kong dollar are translated at rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves and are recognised as income or as expenses in the period in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

4. TURNOVER

Turnover represents the net amounts received and receivable from outside customers during the year and is analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Sales of goods, less returns	1,071,352	909,598
Income from licensing of computer graphics animation pictures	1,560	-
	1,072,912	909,598

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Christmas trees – manufacture and sale of Christmas trees
- Leisure furniture – manufacture and sale of leisure furniture
- Motion pictures – production and licensing of computer graphics animation pictures

Segment information about these businesses is presented below.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

For the year ended 31st March 2002

	Christmas trees HK\$'000	Leisure furniture HK\$'000	Computer graphics animation pictures HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>882,727</u>	<u>188,625</u>	<u>1,560</u>	<u>1,072,912</u>
RESULTS				
Segment results	<u>211,716</u>	<u>19,821</u>	<u>1,346</u>	232,883
Other income				5,976
Unallocated corporate expenses				<u>(87,036)</u>
Profit from operations				151,823
Bank interest income				2,698
Finance costs				<u>(6,491)</u>
Profit before taxation				148,030
Taxation				<u>6,772</u>
Profit before minority interests				<u>141,258</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

As at 31st March 2002

BALANCE SHEET

	Christmas trees HK\$'000	Leisure furniture HK\$'000	Computer graphics animation pictures HK\$'000	Total HK\$'000	
ASSETS					
Segment assets	741,587	96,567	44,737	882,891	
Unallocated corporate assets				242,724	
Consolidated total assets				<u>1,125,615</u>	
LIABILITIES					
Segment liabilities	83,640	27,045	2,913	113,598	
Unallocated corporate liabilities				136,195	
Consolidated total liabilities				<u>249,793</u>	
	Christmas trees HK\$'000	Leisure furniture HK\$'000	Computer graphics animation pictures HK\$'000	Unallocated items HK\$'000	Total HK\$'000
OTHER INFORMATION					
Capital additions	87,435	21,458	25,679	6,466	141,038
Depreciation and amortisation	<u>33,976</u>	<u>1,848</u>	<u>2,275</u>	<u>4,741</u>	<u>42,840</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

For the year ended 31st March 2001

	Christmas trees <i>HK\$'000</i>	Leisure furniture <i>HK\$'000</i>	Computer graphics animation pictures <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	827,920	81,678	–	909,598
RESULTS				
Segment results	230,982	14,012	–	244,994
Other income				5,716
Unallocated corporate expenses				(83,211)
Profit from operations				167,499
Bank interest income				8,529
Finance costs				(12,686)
Share of loss of an associate				(1,453)
Profit before taxation				161,889
Taxation				5,794
Profit before minority interests				156,095

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

As at 31st March 2001

BALANCE SHEET

	Christmas trees HK\$'000	Leisure furniture HK\$'000	Computer graphics animation pictures HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	760,825	48,552	16,096	825,473
Unallocated corporate assets				280,262
Consolidated total assets				<u>1,105,735</u>
LIABILITIES				
Segment liabilities	113,227	7,228	1,632	122,087
Unallocated corporate liabilities				170,988
Consolidated total liabilities				<u>293,075</u>

	Christmas trees HK\$'000	Leisure furniture HK\$'000	Computer graphics animation pictures HK\$'000	Unallocated items HK\$'000	Total HK\$'000
OTHER INFORMATION					
Capital additions	68,868	5,043	14,733	15,060	103,704
Depreciation and amortisation	<u>30,096</u>	<u>581</u>	<u>478</u>	<u>4,727</u>	<u>35,882</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

Analysis of the Group's turnover by geographical market is as follows:

	Total turnover		Contribution to operating results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
North America	868,654	671,480	179,041	165,633
United Kingdom and Continental Europe	169,163	191,814	44,848	66,150
Asia Pacific	33,243	37,193	8,700	10,798
Others	1,852	9,111	294	2,413
	1,072,912	909,598	232,883	244,994
Other income			5,976	5,716
Unallocated corporate expenses			(87,036)	(83,211)
Profit from operations			151,823	167,499

Analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets by the geographical area where the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	316,182	379,728	13,205	30,667
People's Republic of China, excluding Hong Kong	789,527	726,007	108,404	73,037
Others	19,906	-	19,429	-
	1,125,615	1,105,735	141,038	103,704

6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Directors' remuneration (<i>note 8</i>)	13,430	17,328
Other staff costs	146,639	115,228
Total staff costs	160,069	132,556
Less: amounts capitalised in motion pictures production	(11,112)	(9,342)
	148,957	123,214
Depreciation and amortisation of property, plant and equipment		
– assets owned by the Group	41,874	35,221
– assets held under finance leases	439	538
	42,313	35,759
Less: amounts capitalised in motion pictures production	(1,743)	–
	40,570	35,759
Rentals in respect of premises under operating leases	5,866	5,590
Less: amounts capitalised in motion pictures production	(808)	(60)
	5,058	5,530
Auditors' remuneration:		
Current year	1,075	1,145
Underprovision in prior year	–	49
Amortisation of goodwill	314	123
Amortisation of motion picture production	213	–
Loss (gain) on disposal of property, plant and equipment	1,278	(967)

Included in the total staff cost is an aggregate amount of approximately HK\$1,547,000 (2001: HK\$300,000) in respect of contribution to retirement benefit scheme paid or payable by the Group.

Notes to the Financial Statements

For the year ended 31st March 2002

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	6,775	5,520
Convertible notes	16	1,447
Obligations under finance leases	283	66
	<u>7,074</u>	<u>7,033</u>
Provision for premium payable on redemption of convertible notes	–	5,653
Total borrowing costs	7,074	12,686
Less: amounts capitalised in motion pictures production	(583)	–
	<u>6,491</u>	<u>12,686</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the directors and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Executive directors		
– Fees	–	–
– Salaries and other benefits	12,942	16,692
– Contribution to retirement benefit scheme	48	16
Non-executive directors		
– Fee	–	180
– Other emoluments	–	–
Independent non-executive directors		
– Fees	360	360
– Other emoluments	80	80
	<u>13,430</u>	<u>17,328</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors were within the following bands:

	2002	2001
	Number of Directors	Number of Directors
Not exceeding HK\$1,000,000	5	7
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	1	3
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	1
	–	1

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2001: five directors), details of whose emoluments are set out above. The emoluments of the remaining two highest paid individual were as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	4,004	–
Retirement benefits scheme contributions	24	–
	4,028	–

The emoluments of the employees were within the following bands:

	2002	2001
	Number of Employees	Number of Employees
Not exceeding HK\$1,000,000	–	–
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–
	1	–

9. TAXATION

	2002	2001
	HK\$'000	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year		
Current year's provision	6,450	3,396
(Over)underprovision in prior years	(782)	27
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	5,668	3,423
Overseas taxation	1,104	2,371
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	6,772	5,794
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A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

Overseas tax is calculated at the tax rates prevailing in the respective jurisdictions.

On 30th March 2001 and 21st March 2002, a subsidiary of the Company received two notices of additional assessment from the Inland Revenue Department of Hong Kong ("IRD") in respect of the years of assessment 1994/95 and 1995/96 respectively. The subsidiary was not in agreement to the above notices of additional assessment and has lodged objections with the IRD. Pending settlement of the objections, the IRD has agreed with that subsidiary the respective provisional payment of the amount of HK\$5 million on 11th May 2001 and HK\$3.63 million on 16th May 2002. The amount of HK\$5 million paid on 11th May 2001 has been included in taxation recoverable in the consolidated balance sheet as at 31st March 2002.

10. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid – HK0.7 cents per share (2001: HK0.6 cents per share)	23,844	20,315
Final dividend proposed (Note a) – nil (2001: HK1.8 cents per share)	–	61,314
Underprovision of final dividend arising from share options (Note b)	214	986
	24,058	82,615

Note:

- (a) The directors do not recommend the payment of a final dividend for the year ended 31st March 2002.
- (b) The amount represented the underprovision for the additional 2001 final dividend arising from the issue of 11,900,000 (2001: 59,750,000) new shares in the Company subsequent to the balance sheet date which ranked for the final dividend for the previous year.

11. EARNINGS PER SHARE

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

	2002 HK\$'000	2001 HK\$'000
Net profit for the year	141,421	156,373
Effect of dilutive potential ordinary shares in respect of interest on and provision for premium payable on redemption of convertible notes	16	7,100
Earnings for the purposes of diluted earnings per share	141,437	163,473
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,415,070,205	3,380,294,178
Effect of dilutive potential ordinary shares in respect of Convertible notes	2,760,964	251,937,984
Share options	9,048,976	13,770,738
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,426,880,145	3,646,002,900

Notes to the Financial Statements

For the year ended 31st March 2002

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
COST								
At 1st April 2001	345,065	10,513	209,173	45,714	11,516	1,390	83,631	707,002
Additions	22,306	1,133	46,803	13,434	1,739	4,211	31,330	120,956
Transfer	104,726	-	-	-	-	-	(104,726)	-
Disposals	(1,996)	-	(1,951)	(754)	(2,005)	-	-	(6,706)
At 31st March 2002	470,101	11,646	254,025	58,394	11,250	5,601	10,235	821,252
DEPRECIATION AND AMORTISATION								
At 1st April 2001	59,848	6,589	83,904	11,239	10,335	103	-	172,018
Provided for the year	16,423	1,069	17,715	5,781	710	615	-	42,313
Eliminated on disposals	(898)	-	(1,664)	(674)	(1,983)	-	-	(5,219)
At 31st March 2002	75,373	7,658	99,955	16,346	9,062	718	-	209,112
NET BOOK VALUES								
At 31st March 2002	394,728	3,988	154,070	42,048	2,188	4,883	10,235	612,140
At 31st March 2001	285,217	3,924	125,269	34,475	1,181	1,287	83,631	534,984

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of properties shown above comprises:

	Leasehold land and buildings		Construction in progress	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Land and buildings held under medium-term leases:				
Situated in Hong Kong	54,433	55,864	–	–
Situated elsewhere in the PRC	340,295	229,353	10,235	83,631
	394,728	285,217	10,235	83,631

At 31st March 2002, the net book value of plant and machinery of the Group included an amount of approximately HK\$23,829,000 (2001: HK\$2,235,000) in respect of assets held under finance leases.

The Company did not have any property, plant and equipment as at the balance sheet date.

13. MOTION PICTURES PRODUCTION

	THE GROUP HK\$'000
COST	
At 1st April 2001	5,314
Addition during the year	19,325
At 31st March 2002	24,639
AMORTISATION	
Provided for the year and at 31st March 2002	213
NET BOOK VALUES	
At 31st March 2002	24,426
At 31st March 2001	5,314

The amortisation period adopted for motion pictures production is 3 years.

Notes to the Financial Statements

For the year ended 31st March 2002

14. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
COST	
At 31st March 2001	2,448
Addition during the year	757
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At 31st March 2002	3,205
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AMORTISATION	
At 31st March 2001	123
Provided for the year	314
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At 31st March 2002	437
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NET BOOK VALUE	
At 31st March 2002	2,768
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At 31st March 2001	2,325
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The amortisation period adopted for goodwill is 10 years.

15. INTERESTS IN SUBSIDIARIES

	2002	2001
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	678,430	153,430
Amounts due from subsidiaries	353,190	414,644
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	1,031,620	568,074
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Details of the Company's subsidiaries at 31st March 2002 are set out in note 37.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year and are therefore classified as non-current.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Share of net assets	<u>-</u>	<u>-</u>

A subsidiary of the Company holds 24.75% of the issued share capital of Otiari Designs LLC, a limited company incorporated in the United States of America and is engaged in the trading of leisure furniture.

17. INVESTMENTS IN SECURITIES - INVESTMENT SECURITIES

	THE GROUP	
	2002 & 2001	
	<i>HK\$'000</i>	
Unlisted shares, at cost (<i>Note</i>)		10
Club debentures, at cost		<u>1,201</u>
		<u>1,211</u>

Note:

The amount represents the Group's unlisted investment in 10% of the issued share capital of Bo Cheong Manufacturing Company Limited, a company incorporated in Hong Kong which manufactures Christmas tree accessories.

18. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Raw materials	109,714	143,545
Work in progress	108,586	95,233
Finished goods	26,258	<u>47,705</u>
	<u>244,558</u>	<u>286,483</u>

The cost of inventories recognised as an expense during the year was approximately HK\$709,210,000 (2001: HK\$566,749,000).

19. TRADE AND OTHER RECEIVABLES

The Group generally allows its trade customers a credit period of normally 7 days to 30 days. A longer credit period is granted to a few customers with whom the Group has a long business relationship and who have a strong financial position, and interest is charged on the outstanding balances receivable from these customers.

The aged analysis of trade receivables as at balance sheet date is stated as follows:

	THE GROUP	
	2002 HK\$'000	2001 <i>HK\$'000</i>
0 to 30 days	30,089	40,063
31 to 60 days	12,289	2,758
61 to 90 days	1,411	713
Over 90 days	1,220	10,632
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Total trade receivables	45,009	54,166
Other receivables	34,466	22,176
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	79,475	76,342
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20. TRADE AND OTHER PAYABLES

The aged analysis of trade payables as at balance sheet date is stated as follows:

	THE GROUP	
	2002 HK\$'000	2001 <i>HK\$'000</i>
0 to 30 days	37,595	74,131
31 to 60 days	10,692	7,622
61 to 90 days	159	720
Over 90 days	360	793
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Total trade payables	48,806	83,266
Other payables	62,024	37,644
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	110,830	120,910
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21. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	10,697	2,214	10,338	1,955
More than one year, but not exceeding two years	7,253	–	7,175	–
	17,950	2,214	17,513	1,955
Less: future finance charges	(437)	(259)	N/A	N/A
Present value of lease obligations	17,513	1,955	17,513	1,955
Less: Amount due within one year and shown under current liabilities			(10,338)	(1,955)
Amount due after one year			7,175	–

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is two years. For the year ended 31st March 2002, the average effective borrowing rate was 2.66%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Notes to the Financial Statements

For the year ended 31st March 2002

22. BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Bank borrowings are unsecured and comprise of:		
Trust receipt loans	23,758	29,810
Bank loans	91,580	70,356
Bank overdraft	–	1,292
	115,338	101,458
The bank borrowings are repayable as follows:		
On demand or within one year	65,838	63,758
More than one year, but not exceeding two years	38,580	15,600
More than two years, but not exceeding five years	10,920	22,100
	115,338	101,458
Less: Amount due within one year and shown under current liabilities	(65,838)	(63,758)
Amount due after one year	49,500	37,700

23. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
US\$6,500,000 3% convertible notes	–	50,700
Add: Accrued premium payable on redemption	–	14,137
	–	64,837

In May 1998, the Group issued US\$6,500,000 3% convertible notes due 1st May 2001 (the "Notes"). The Notes were redeemed on 4th April 2001 at a maturity value calculated by reference to an internal rate of return of 12% per annum having discounted the interest payments on the outstanding principal.

24. DEFERRED TAXATION**THE GROUP**

The provision for deferred taxation represents the tax effect of timing differences attributable to the excess of tax depreciation allowances over accounting depreciation.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

25. SHARE CAPITAL

	Number of shares	Values HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each at 1st April 2000	1,000,000,000	100,000
Share sub-division (<i>note b</i>)	4,000,000,000	–
	<hr/>	<hr/>
Ordinary shares of HK\$0.02 each at 31st March 2001 and 2002	5,000,000,000	100,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st April 2000	665,215,000	66,522
Share sub-division (<i>note b</i>)	2,660,860,000	–
Exercise of share options (<i>note c</i>)	59,750,000	1,195
	<hr/>	<hr/>
At 1st April 2001	3,385,825,000	67,717
Exercise of share options (<i>note a</i>)	54,100,000	1,082
	<hr/>	<hr/>
At 31st March 2002	3,439,925,000	68,799
	<hr/>	<hr/>

25. SHARE CAPITAL *(Continued)*

The movement in the ordinary share capital for the year ended 31st March 2002 is as follows:

- (a) During the year, the Company issued and allotted 20,500,000, 1,000,000 and 32,600,000 shares of HK\$0.02 each in the Company for cash at HK\$0.09376, HK\$0.17104 and HK\$0.18944 per share, respectively, as a result of the exercise of share options. The shares issued rank pari passu with the then existing shares in all respects.

The movements in the ordinary share capital for the year ended 31st March 2001 were as follows:

- (b) Pursuant to an ordinary resolution passed at a Special General Meeting held on 20th April 2000, the then issued and unissued ordinary shares of HK\$0.10 each in the capital of the Company were sub-divided into five ordinary shares of HK\$0.02 each. All the sub-divided ordinary shares resulting from the share sub-division rank pari passu in all respects.
- (c) The Company issued and allotted a total of 59,750,000 shares of HK\$0.02 each in the Company for cash at HK\$0.15872 per share as a result of the exercise of share options. These shares rank pari passu with the then existing shares in all respects.

26. SHARE OPTION SCHEME

At 31st March 2002, the outstanding options to subscribe for shares under the Company's share option scheme are as follows:

Exercisable period	Exercise price per share <i>HK\$</i>	Number of shares subject to options
15th November 2001 to 14th November 2003	<u>0.18944</u>	<u>1,000,000</u>

27. RESERVES

	Share premium account <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
Balance at 1st April 2000					
– as originally stated	260,992	909	–	337,885	599,786
– prior period adjustment (<i>note 2</i>)	–	–	54,880	–	54,880
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
– as restated	260,992	909	54,880	337,885	654,666
Premium arising from issue of shares	8,289	–	–	–	8,289
Share issue expenses	(108)	–	–	–	(108)
Net profit for the year	–	–	–	156,373	156,373
Dividends paid	–	–	(76,181)	–	(76,181)
Dividends declared (<i>note 10</i>)	–	–	82,615	(82,615)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1st April 2001	269,173	909	61,314	411,643	743,039
Premium arising from issue of shares	7,187	–	–	–	7,187
Net profit for the year	–	–	–	141,421	141,421
Dividend paid	–	–	(85,372)	–	(85,372)
Dividends declared (<i>note 10</i>)	–	–	24,058	(24,058)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March 2002	276,360	909	–	529,006	806,275
Attributable to:					
The Company and its subsidiaries	276,360	909	–	532,881	810,150
The associate	–	–	–	(3,875)	(3,875)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	276,360	909	–	529,006	806,275

The merger reserve represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous corporate reorganisation.

27. RESERVES (Continued)

	Share premium account HK\$'000	Merger reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY					
Balance at 1st April 2000					
– as previously stated	260,992	153,329	–	12,629	426,950
– prior period adjustment (note 2)	–	–	54,880	–	54,880
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
– as restated	260,992	153,329	54,880	12,629	481,830
Premium arising from issue of shares	8,289	–	–	–	8,289
Share issue expenses	(108)	–	–	–	(108)
Net profit for the year	–	–	–	80,066	80,066
Dividends paid	–	–	(76,181)	–	(76,181)
Dividends declared (note 10)	–	–	82,615	(82,615)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1st April 2001	269,173	153,329	61,314	10,080	493,896
Premium arising from issue of shares	7,187	–	–	–	7,187
Net profit for the year	–	–	–	412,120	412,120
Dividend paid	–	–	(85,372)	–	(85,372)
Dividends declared (note 10)	–	–	24,058	(24,058)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March 2002	276,360	153,329	–	398,142	827,831

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous corporate reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Company's directors, the Company's reserves available for distribution to shareholders at 31st March 2002 consisted of the contributed surplus of approximately HK\$153,329,000 (2001: HK\$153,329,000) and retained profits of approximately HK\$398,142,000 (2001: HK\$10,080,000).

28. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES AND MAJOR NON-CASH TRANSACTION

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	148,030	161,889
Share of loss of an associate	–	1,453
Interest expenses	6,491	7,033
Provision for premium payable on redemption of convertible notes	–	5,653
Bank interest income	(2,698)	(8,529)
Depreciation and amortisation of property, plant and equipment	40,570	35,882
Amortisation of goodwill	314	–
Amortisation of motion picture production	213	–
Loss (gain) on disposal of property, plant and equipment	1,278	(967)
Decrease (increase) in inventories	41,925	(64,403)
Increase in trade and other receivables	(3,133)	(1,297)
(Decrease) increase in trade and other payables	(10,080)	45,805
	<hr/>	<hr/>
Net cash inflow from operating activities	222,910	182,519

During the year, the Group entered into finance lease arrangements in respect of asset with a total capital value at the inception of the leases of HK\$20,766,000.

29. PURCHASE OF SUBSIDIARY

	2002 HK\$'000	2001 HK\$'000
NET ASSETS ACQUIRED:		
Property, plant and equipment	–	46
Trade and other receivables	–	111
Bank balance and cash	–	6,501
Trade and other payables	–	(396)
Taxation payables	–	(28)
Minority interest	–	(2,182)
	<hr/>	<hr/>
	–	4,052
Goodwill	–	2,448
	<hr/>	<hr/>
	–	6,500
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiary		
Cash consideration paid	–	(6,500)
Bank balance and cash acquired	–	6,501
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in connection with the purchase of subsidiary	–	1

The subsidiary acquired in 2001 did not have any significant impact on the Group's cash flows, turnover and operating results.

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium account	Bank loans	Obligations under finance leases	Convertible notes
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2000	327,514	37,594	2,785	58,859
Net proceeds from issue of shares	9,484	-	-	-
Share issue expenses	(108)	-	-	-
Inception of new finance lease	-	-	2,128	-
Interest and provision for premium payable on redemption of convertible notes	-	-	-	7,100
New bank loans raised	-	126,894	-	-
Interest payment on convertible notes	-	-	-	(1,122)
Repayments during the year	-	(94,132)	(2,958)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 1st April 2001	336,890	70,356	1,955	64,837
Net proceeds from issue of shares	8,269	-	-	-
Inception of new finance lease	-	-	20,766	-
New bank loans raised	-	55,700	-	-
Repayments during the year	-	(34,476)	(5,208)	-
Interest on convertible notes	-	-	-	16
Interest payment on convertible notes	-	-	-	(16)
Redemption of convertible notes	-	-	-	(64,837)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2002	345,159	91,580	17,513	-

31. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following commitments for capital expenditure in respect of property, plant and equipment:

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Authorised but not contracted for	15,575	16,136
Contracted for but not provided in the financial statements	4,941	5,202
	20,516	21,338

The Company had no capital commitments at the balance sheet date.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Within one year	2,909	5,394
In the second to fifth year inclusive	3,723	4,103
Over five years	3,815	4,381
	10,447	13,878

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Company had no operating lease commitments at the balance sheet date.

33. CONTINGENT LIABILITIES

THE GROUP

- (i) At 31st March 2002, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$14,212,000 (2001: HK\$20,501,000).
- (ii) At 31st March 2002, the Group had a number of employees who have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Employment Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payment where termination meets the required circumstances specified in the Employment Ordinance. If the employment of all these employees were terminated on 31st March 2002 under circumstances meeting the requirements of the Employment Ordinance, the Group's liability at that date would have been approximately HK\$4,720,000 (2001: HK\$4,726,000). No provision has been made for this amount in the financial statements.

THE COMPANY

The Company has given guarantees to banks in respect of general banking facilities granted to its subsidiaries. The amount of such facilities utilised by the subsidiaries at 31st March 2002 was approximately HK\$132,851,000 (2001: HK\$78,565,000).

34. RETIREMENT BENEFITS SCHEME

The Group, participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was approximately HK\$1,547,000 (2001: HK\$300,000) and no contributions were forfeited.

35. POST BALANCE SHEET EVENTS

As announced on 2nd April 2002, the Company entered into certain agreements with the effect of selling the entire Christmas trees and leisure furniture business (the "Proposed Transactions") of the Group for an aggregate cash consideration of HK\$1,100 million ("Effective Consideration"). Details of the Proposed Transactions are described in the Company's press announcement dated 2nd April 2002.

The Company further announced on 11th July 2002 that the Company and the relevant parties to the abovementioned agreements have agreed to revise certain aspects of the Proposed Transactions pursuant to which the group headed by Greenland Investment Holdings Limited, in which the Group will subscribe a 25% equity interest for an aggregate cash consideration of US\$11,303,789 (equivalent to approximately HK\$88 million), will acquire the entire Christmas trees and leisure furniture business from the Group, and the Effective Consideration is revised from HK\$1,100 million to HK\$1,170 million. Details of the revised Proposed Transactions are described in the Company's press announcement dated 11th July 2002.

Subject to the completion of the Proposed Transactions 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 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.

Up to the date of this report, the abovementioned transactions have not yet been completed.

36. RELATED PARTY DISCLOSURES

During the year, the Group entered into the following transactions with related parties:

Name of related parties	<i>Notes</i>	Nature of transactions	2002 HK\$'000	2001 HK\$'000
Boko Glass Art Company Limited	<i>(i)</i>	Rental expense paid by the Group	903	827
Glory Dragon (Hong Kong) Limited	<i>(i)</i>	Rental expense paid by the Group	1,613	1,666
Kayin Insurance Consultants Company	<i>(ii)</i>	Gross insurance premium paid by the Group	595	336
Otiari Designs LLC	<i>(iii)</i>	Sales by the Group	1,847	19,570

36. RELATED PARTY DISCLOSURES *(Continued)*

Notes:

- (i) Mr. Kao Cheung Chong, Michael, Mr. Kui Yiu Ngok and Ms. Tsen Yun Lei, Liliana, directors of the Company, have indirect beneficial interests in this company.
- (ii) Mr. Lam Pak Kin, Philip, a director of the Company, and his wife have direct and indirect beneficial interests, respectively, in this company.
- (iii) Otiari Designs LLC is an associate of the Group.

In the opinion of the directors not having an interest in the above transactions, these transactions were carried out at market prices.

37. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31st March 2002 were as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company <i>(Note (i))</i>	Principal activities
Boji (Shenzhen) Company Limited	PRC (other than Hong Kong)	HK\$300,000,000	100%	Manufacturing of Christmas festive products and leisure furniture
Boli Company Limited	Hong Kong	HK\$2	100%	Trading of leisure furniture
Borrison Metals & Plastics Manufacturing (Shenzhen) Company Limited	PRC (other than Hong Kong)	HK\$50,000,000	100%	Manufacturing of leisure furniture

37. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company (Note (i))	Principal activities
Boto Company Limited	Hong Kong	Ordinary shares HK\$100 Non-voting 5% deferred shares HK\$1,000,000 (Note (ii))	100%	Sale of artificial Christmas trees and related accessories
Boto International Marketing Limited	British Virgin Islands	US\$1,000	100%	Provision of marketing services
Boto Investments Inc.	United States of America	US\$100	100%	Investment holding
Boto Strategic Holdings Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Boto (Licenses) Limited	Isle of Man	GBP2	100%	Holding of intellectual property rights
Focal Consultants Limited	Hong Kong	HK\$2	100%	Provision of administration services
Focal Industrial Limited	Hong Kong	HK\$2	100%	Inactive
Freyner Manufacturing Limited	British Virgin Islands	US\$1,000	100%	Investment holding, provision of production management services and wholesale of artificial Christmas trees

37. PARTICULARS OF SUBSIDIARIES (Continued)

Particulars of the subsidiaries of the Company as at 31st March 2002 were as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company <i>(Note (i))</i>	Principal activities
Goldenform Company Limited	Hong Kong	Ordinary shares HK\$100 Non-voting 5% deferred shares HK\$10,000 <i>(Note (ii))</i>	100%	Investment holding
Goldenform Investments Limited	Hong Kong	HK\$100	100%	Investment holding
Imagi Animation Studios Limited (Formerly known as Boto.Net Solutions Limited)	Hong Kong	HK\$2	100%	Animations
Imagi Production Limited	Hong Kong	HK\$28,572	82.5%	Production of computer graphic animation pictures
Imagi (IP) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of motion pictures
Imagi (Zentrix) Licensing B.V.	Netherlands	EUR18,000	82.5%	Sub-licensing of intellectual property rights in respect of motion pictures

37. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company (Note (i))	Principal activities
Imagi International Japan Company Limited	Japan	JPY10,000,000	82.5%	Provision of marketing services on project licensing and acting as a full-service project management house in respect of motion pictures
Imagi Intellectual Properties Limited	Labuan	US\$100	82.5%	Holding and licensing of intellectual property rights in respect of motion pictures
Imagi IP Holdings Pte. Limited	Labuan	US\$100	100%	Holding and licensing of intellectual property rights in respect of motion pictures
Smarter Base Limited	BVI	US\$2	100%	Investment holding
Topway Asset Limited	BVI	US\$4	100%	Investment holding

Notes:

- (i) The Company directly holds the interests in Boto Strategic Holdings Limited and Topway Asset Limited. All other interests shown above are indirectly held by the Company.
- (ii) The non-voting 5% deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the respective subsidiaries or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.