

The directors present their annual report and the audited financial statements for the year ended 31st March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in 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. The principal activities of its subsidiaries are set out in note 37 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2002 are set out in the consolidated income statement on page 37 of the annual report.

An interim dividend of HK0.7 cents per share, amounting to approximately HK\$24 million in aggregate, was paid during the year.

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

SUBSIDIARIES AND ASSOCIATE

Details of the Company's subsidiaries and of the Group's associate as at 31st March 2002 are set out in notes 37 and 16 to the financial statements respectively.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in note 27 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the eight years ended 31st March 2002 and of the assets and liabilities of the Group as at 31st March 1998, 1999, 2000, 2001 and 2002 is set out on page 80.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

BORROWINGS

Details of borrowings of the Group are set out in notes 21 and 22 to the financial statements.

CONVERTIBLE NOTES

During the year, the Group's convertible notes were fully redeemed upon their maturity, as set out in note 23 to the financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Kao Cheung Chong, Michael	<i>Chairman and Managing Director</i>	
Mr. Lam Pak Kin, Philip	<i>Deputy Chairman and Deputy Managing Director</i>	
Mr. Lai Chi Kin, Lawrence	<i>Deputy Chairman and Deputy Managing Director</i>	(resigned on 8th February 2002)
Mr. Kui Yiu Ngok		
Ms. Tsen Yun Lei, Liliana		
Mr. Kao Wai Ho, Francis		(appointed on 8th February 2002)

Non-executive directors:

Mr. Zhuo Fu Min		
Mr. Kok-Onn Chia		(resigned on 6th April 2001)

DIRECTORS (continued)

Independent non-executive directors:

Mr. Alexander Reid Hamilton

Mr. Oh Kok Chi

In accordance with Articles 86(2) and 87 of the Company's Bye-laws, Mr. Kui Yiu Ngok and Ms. Tsen Yun Lei, Liliana shall retire at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing 1st February 1997 and his/her appointment shall continue thereafter, subject to termination by either party giving at least six months' prior notice to the other party.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

At 31st March 2002, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of directors	Personal interest	Number of shares held	
		Corporate interest	Other interest
Mr. Kao Cheung Chong, Michael	62,055,000	31,243,410 (note (i))	1,864,474,990 (note (ii))
Mr. Lam Pak Kin, Philip	6,780,000	-	-
Mr. Kui Yiu Ngok	21,000,000	-	51,934,410 (note (iii))
Ms. Tsen Yun Lei, Liliana	21,000,000	-	169,435,300 (note (iv))
Mr. Kao Wai Ho, Francis	2,500,000	17,500,000	-

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES *(continued)**Notes:*

- (i) These shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao Cheung Chong, Michael.
- (ii) Of these shares, 40,659,960 shares are beneficially owned by Happy Nation Limited, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members are discretionary objects. The remaining 1,823,815,030 shares are beneficially owned by Sunni International Limited, 51% of whose issued share capital is beneficially owned by Happy Nation Limited.
- (iii) These shares are beneficially owned by Golden Jungle Limited, whose entire issued share capital is beneficially owned by Cheong Kin Management Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for Kui Yiu Ngok Family Trust, of which Mr. Kui Yiu Ngok and his family members are discretionary objects.
- (iv) These shares are beneficially owned by Pleasure International Limited, whose entire issued share capital is beneficially owned by Sunshine Concept Investment Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for Garry Cheng Ka Yun Family Trust, of which Ms. Tsen Yun Lei, Liliana and her family members are discretionary objects.

Other than as disclosed above and the interests in certain non-voting 5% deferred shares in subsidiaries of the Company referred to in note 37 to the financial statements, none of the directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st March 2002.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

In accordance with the Company's share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 12th February 1997 for the purpose of recognising the contribution of the senior management and full-time employees of the Group and will expire on 11th February 2007, the directors of the Company may, at their discretion, grant options to any executive director or full time employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding any shares issued pursuant to the Scheme.

At 31st March 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme were 1,000,000, representing 0.03% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares issued and issuable under the Scheme.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$10 per option. Options may be exercised at any time in the two years commencing on the expiry of 6 months after the date of grant of such option.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

The following table discloses the movements in the Company's share option during the year:

	Date of grant	Exercise price per share HK\$	Number of share options held			
			Outstanding at 1.4.2002	Granted during the year	Exercised during the year	Outstanding at 31.3.2002
<i>Category 1: Directors/ex-director*</i>						
Mr. Kao Cheung Chong, Michael	14th May 2001	0.18944	-	3,000,000	(3,000,000)	-
Mr. Lam Pak Kin, Philip	14th May 2001	0.18944	-	3,000,000	(3,000,000)	-
Mr. Kui Yiu Ngok	24th October 1998	0.09376	9,000,000	-	(9,000,000)	-
	14th May 2001	0.18944	-	2,000,000	(2,000,000)	-
Ms. Tsen Yun Lei, Liliana	24th October 1998	0.09376	9,000,000	-	(9,000,000)	-
	14th May 2001	0.18944	-	2,000,000	(2,000,000)	-
Mr. Kao Wai Ho, Francis	14th May 2001	0.18944	-	2,500,000	(2,500,000)	-
Mr. Lai Chi Kin, Lawrence*	14th May 2001	0.18944	-	2,000,000	(2,000,000)	-
Total for directors			18,000,000	14,500,000	(32,500,000)	-
<i>Category 2: Employees</i>						
	24th October 1998	0.09376	2,500,000	-	(2,500,000)	-
	10th April 2001	0.17104	-	1,000,000	(1,000,000)	-
	14th May 2001	0.18944	-	19,100,000	(18,100,000)	1,000,000
Total for employees			2,500,000	20,100,000	(21,600,000)	1,000,000
Total for the Scheme			20,500,000	34,600,000	(54,100,000)	1,000,000

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

The fair value of the options granted in the current year measured as at the date of grant on 10th April 2001 and 14th May 2001 were HK\$0.05 and HK\$0.06 per option respectively. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

1. an expected volatility of 36%;
2. expected annual dividend yield of 8%; and
3. the estimated expected life of the options granted during the year is 9 months. The corresponding two-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 4.630% and 3.795% for options granted on 10th April 2001 and 14th May 2001 respectively.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of sufficient historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the consolidated income statement in respect of the value of options granted during the year.

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS

On 23rd May 2001, Imagi Animation Studios Limited (formerly known as Boto.Net Solutions Limited), a wholly-owned subsidiary of the Company, entered into an agreement with one of the minority shareholders of Imagi Production Limited ("IPL"), a company in which the Company then held a 65% interest, to acquire an additional 17.5% equity interest in IPL for a consideration of HK\$1,750,000. This transaction was completed on the same date.

In addition, Imagi Animation Studios Limited made unsecured, interest bearing advances in the aggregate amount of approximately HK\$10,254,000 to IPL and received regular repayments from IPL during the year. The maximum balance of such advances outstanding during the year was approximately HK\$9,780,000. The Company received interest income of approximately HK\$180,000 on such advances.

As at 31st March 2002, the Company had given a corporate guarantee of HK\$33,000,000 to a bank in respect of credit facilities granted to IPL. The minority shareholder of IPL as at 31st March 2002 had given a personal guarantee of HK\$7,000,000 to that bank for the above credit facilities.

DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

SUBSTANTIAL SHAREHOLDERS

Other than as disclosed in note (ii) of the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES", as at 31st March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person having an interest in shares representing 10% or more of the issued share capital of the Company.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK\$874,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 35 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Philip Lam

Deputy Chairman and Deputy Managing Director

Hong Kong, 18th July 2002