Operating results

Financial year of 2000/2001 was another difficult and yet challenging year for the Group. On the one hand, it had to face severe competition in the industry under the sluggish global markets and on the other, it was also haunted by the unstable position under the long dragging process of debt restructuring in the past two years. However, with the determination of the management, the Group successfully managed to overcome such extreme difficulties. Therefore, even under the pressure of stringent operating resources, the Group's sales recorded only a slight drop of 6.5% to HK$305 million for the year.

In order to secure for a better cash position, we were directed to accept orders even at a lower profit margin. Gross profit thereby reduced HK$27.5 million to HK$44.9 million this year.

Operating loss improved by HK$6.5 million from HK$11.6 million to HK$5.1 million as a result of a series of cost control measures implemented during the year.

Cost control

Such measures included the strict implementation of a cost saving programme that aimed at lowering administration cost, streamlining the management team and staff to improve overall productivity.

In October 2000, the Group shifted its printing operation to its existing production facilities in China from its headquarter in Tai Po Industrial Estate which had been disposed to reduce bank debt.

In February 2001, the Group consolidated its production plants from three to two in China.

The cost controlling is an ongoing process. The emphasis in the coming year is the price negotiation with raw material suppliers and identification of new suppliers, which is expected to result in cost reductions for certain raw materials by margin of 5% to 60%.

With the successful completion of the bank debt restructuring agreement on 11th January, 2001, interest expenses for the year reduced substantially by HK$15.4 million to HK$27.5 million and is expected to reduce further to a much lower level in the coming year owing to the scheduled repayments of the bank debts. Net loss for the year improved by HK$18.4 million to HK$32.8 million.

OEM paper product manufacturing

OEM paper product manufacturing had firmly proved its importance particularly in a volatile economy. The turnover slightly reduced by 4.6% from previous year to HK$267.7 million representing 87.7% of total turnover of the Group.

Sales to North American market remained rather stable. Although sales to the last year's top customer dropped drastically by 41.9% owing to its reorganization and also the slowing of the US economy, the decrease was compensated by the increase in orders from US giant stores, namely Wal-Mart and Kmart.

As sales to other major markets, Europe experienced a 15% decrease because of the sluggish demand while Asia Pacific more or less maintained at the same level.

Antidumping investigation

It was noticed that antidumping investigation was conducting early this year by the U.S. Department of Trade on certain folding gift boxes.

Although the Group's products do not fall into the scope of such investigation, the Group take a cautious approach to it and has maintained a comprehensive system of product costing to ensure compliance with respective important stipulations and proper control on the profit margin on individual items.

License of printing business in China

In furtherance of the "Rules in the Management of Printing Business" enacted by the State Council of China in May 1997, the Shenzhen Local government in October 1999 imposed detailed licensing regulations to all printings in the Special Economic Zone. Entities failed to obtain such license may force to cease its printing operations.

The Group is pleased to report that among a limited number of recipients, it has successfully obtained a 印刷行業許可證 which embraces a wide scope of its nature and shall ensure unrestricted running of the Group's related operations.

House Brand distribution

Drops in sales in each of the division's major markets, namely China, Hong Kong and South East Asia ranged from 15% to 17%.

The drop was not unexpected because the stringent financial resources to have sufficient cover designs, in particular, for its photo albums and notebooks limited the development of the division. The sales in LA files were basically maintained.

Subsequent to the year-end, the Group concluded a management buyout of the division's operating subsidiary Climaxpaper (Singapore) Pte Ltd. ("CPS") in Singapore in April 2001.

The Group has also entered into a Distribution Agreement with CPS, pursuant to which CPS is appointed to be the sole and exclusive distributor for re-sales of certain of its products including albums and related collectables in Singapore, Malaysia and Thailand.

The Group believes that under the terms of the Distribution Agreement, minimum sales to the region can be secured. Furthermore, the strategic partnership arrangement empowers the Group to manoeuvre it existing resources to other better opportunities.

Enterprise Resources Planning (ERP) System and Company Website

In January 2001, the Group has contracted a reputable Application Service Provider to install SAP, one of the top selling ERP systems, for on line control and integration of flow of cash, materials and information.

In June 2001, the Group also launched the first phase of its Website www.climax-intl.com. These initiatives should position the Group well to selectively explore the further potentials of e-commerce and the Internet economy in the medium term.