1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the issue of new shares to First Century Holdings Limited on 11th January, 2001 as part of the bank debt restructuring exercise of the Group, First Century Holdings Limited became the ultimate holding company of the Company. First Century Holdings Limited is a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, production and marketing of paper products, including photo albums, gift items and stationery.

2. 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 (the "Group") made up to 31st March each year.

The results of the subsidiaries 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 inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill and capital reserve

Goodwill or capital reserve represents respectively the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of the subsidiaries or business operations acquired. Goodwill or capital reserve is written off directly or credited directly to reserves in the year of acquisition.

On disposal of a subsidiary or a business operation, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are sold and title has been passed.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining period of leases from the year ended 31st March, 1997 onwards
Buildings	4%-5%
Furniture and fixtures	8%-33%
Machinery and equipment	8%-14%
Motor vehicles	20%
Moulds	20%
Office equipment	10%-20%

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases are classified as finance leases whenever 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 date of acquisition. The corresponding liability to the Group, net of interest charges, is included in the balance sheet as a finance lease obligation. The finance costs, which represent the difference between the total leasing commitments and the original outstanding principal at the inception of the leases, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchases and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Marketable securities

Marketable securities are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Taxation

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

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations outside Hong Kong are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

3. STANDSTILL AGREEMENT AND BANK DEBT RESTRUCTURING EXERCISE

(a) On 16th June, 1998, the Company entered into a standstill agreement (the "Standstill Agreement") with the bank creditors (the "Bank Creditors") in respect of the existing banking facilities granted to the Group ("Banking Facilities") for a period of six months from 31st March, 1998 to 30th September, 1998 ("Standstill Period"). Pursuant to the Standstill Agreement, the Bank Creditors agreed to maintain the existing banking facilities for the Standstill Period. Under the Standstill Agreement, on 25th September, 1998, the Company submitted a refinancing proposal to the Bank Creditors for restructuring and refinancing the Banking Facilities.

(b) Pursuant to the Standstill Agreement, on 7th August, 1998, the Company and certain principal subsidiaries executed a guarantee and debenture to pledge the assets of the Company and these principal subsidiaries to the Bank Creditors as security for the outstanding bank borrowings. Upon the completion of the bank debt restructuring agreement (see (d) below), the Company and these principal subsidiaries entered into a deed of supplemental charge with the Bank Creditors to extend the pledge of assets of the Company and these principal subsidiaries to the Bank Creditors as security for the outstanding rescheduled loans of the Group.

(c) On 20th October, 2000, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with First Century Holdings Limited (the "Subscriber") involving a capital reorganisation of the Company which involved capital reduction, capital subdivision and allotment and issue of new shares to the Subscriber. On 11th January, 2001, the date of completion of the Subscription Agreement, the Company allotted and issued 2,000,000,000 new shares of HK$0.01 each to the Subscriber at the subscription price of HK$0.05 per share.

(d) On 22nd November, 2000, the Group entered into a bank debt restructuring agreement (the "Bank Debt Restructuring Agreement") with the Bank Creditors. Pursuant to the Bank Debt Restructuring Agreement, the bank indebtedness of the Group was restructured in the manner as set out in the circular of the Company dated 5th December, 2000. The Bank Debt Restructuring Agreement was completed on 11th January, 2001. The remaining bank borrowings of the Group are rescheduled by the Bank Creditors as the rescheduled loans owed by the Company to the Bank Creditors, which are repayable by eight instalments and will be fully repaid on 11th January, 2003.

4. TURNOVER AND SEGMENT INFORMATION

The analysis of the Group's turnover and contribution to operating (loss) profit for the year ended 31st March, 2001 by principal activity is as follows:

	2001		2000	
Principal activity	**Turnover**	**Contribution to loss from ordinary activities before taxation**	Turnover	Contribution to (loss) profit from ordinary activities before taxation
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
OEM paper products manufacturing	**267,652**	**(28,652)**	280,590	(43,249)
House brand and agency products	**37,625**	**(4,034)**	45,315	(11,901)
Direct corporate sales of office supplies and stationery products	**—**	**—**	719	4,450
	305,277	**(32,686)**	326,624	(50,700)

The analysis of the Group's turnover for the year by geographical market is as follows:

	2001	2000
	HK$'000	*HK$'000*
North America	**124,742**	124,527
Europe	**85,756**	100,910
Asia-Pacific	**71,394**	71,950
Hong Kong	**11,965**	22,379
Others	**11,420**	6,858
	305,277	326,624

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.

5. OTHER REVENUE

	2001	2000
	HK$'000	*HK$'000*
Included in other revenue is net investment income as follows:		
Interest on bank deposits and balances	**1,724**	1,697
Net realised gain on disposal of marketable securities	**—**	2,166
Net unrealised holding gain on marketable securities	**—**	73
	1,724	3,936

6. OTHER OPERATING EXPENSES

	2001	2000
	HK$'000	*HK$'000*
The other operating expenses comprise:		
Office and factory removal costs	**2,532**	—
Provision for redundancy and severance payments	**—**	4,706
Provision for early termination of an operating lease for rented premises	**—**	1,673
	2,532	6,379

7. PROVISION FOR A LEGAL CLAIM FROM A CUSTOMER WRITTEN BACK

In July 1998, a subsidiary of the Company received a claim from an overseas customer for losses and damages in respect of allegedly defective goods delivered by this subsidiary amounting to approximately CAD1,750,000 (2000: CAD1,750,000). The Group had provided a sum of approximately HK$9,750,000 in respect of this claim in the prior year's financial statements. During the year, this subsidiary reached an out-of-court settlement with this overseas customer for a compensation of CAD450,000 (equivalent to approximately HK$2,308,000). Accordingly, the excess provision amounting to approximately HK$7,442,000 was written back to the income statement during the year.

8. GAIN ON DISPOSAL OF CLIMAX BUILDING

The amount represents the gain on disposal of Climax Building at 14 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong ("Climax Building") including the incidental property, plant and equipment. On 15th November, 2000, a subsidiary of the Company as the lessee entered into a deed of surrender with the Hong Kong Industrial Estates Corporation as the lessor to surrender Climax Building. The net proceeds of approximately HK$20,113,000 were applied towards repayment of the secured portion of the bank indebtedness of the Group.

9. LOSS FROM OPERATIONS

	2001	2000
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Directors' emoluments *(note 10)*	**3,754**	9,854
Staff salaries, allowances and welfare	**27,508**	30,090
Labour costs	**35,413**	45,621
Provision for redundancy and severance payments	**—**	4,706
Total staff costs	**66,675**	90,271
Amortisation of prepaid rentals	**2,239**	2,239
Auditors' remuneration	**800**	710
Depreciation and amortisation on:		
- owned assets	**20,462**	20,026
- assets held under finance leases	**16**	967
Guaranteed payment to a joint venture partner in the People's Republic of China ("PRC") (Note)	**1,525**	1,088
Loss on disposal of property, plant and equipment	**—**	2,035
Operating lease rentals paid in respect of		
- rented premises	**4,849**	4,795
- hire of equipment	**891**	653
and after crediting:		
Gain on disposal of property, plant and equipment other than Climax Building	**3,266**	—
Recovery of misappropriated funds in prior year from the then largest shareholder of the Company	**—**	1,250

Note: Details of the guaranteed distribution paid to the joint venture partner of a subsidiary in the PRC are set out in note 40(c).