

## 34. RELATED PARTY TRANSACTION

During the year, the Group did not record any significant transactions with the related parties.

During the previous year, the Company and its wholly-owned subsidiary, Climax Paper Converters, Limited ("CPCL") entered into a settlement deed ("Settlement Deed") with Selma Limited ("Selma"), the former largest shareholder of the Company. Pursuant to the Settlement Deed, Selma agreed to pay to CPCL a total compensation of HK\$1,250,000 as full and final settlement of any claims, rights or allegations in respect of the misappropriated funds of HK\$5,000,000, which was alleged to have been received by Selma in around February 1998 by Fung Kin Yuen, Kenneth, the former Chairman of the Company at that time. All the voting shares of Selma were in turn beneficially owned by Barclays Private Bank & Trust Limited as trustee of the Fung Kwong Yan Family Trust, a discretionary trust of which Fung Kin Keung, Derek was the only beneficiary. During the year, the Fung Kwong Yan Family Trust was terminated and Fung Kin Keung, Derek ceased to be the beneficiary of Selma thereafter.

## 35. LITIGATION

The former Chairman of the Company approved a number of employment contracts with certain former employees, under which these former employees are entitled to bonuses in the form of new shares of the Company with an aggregate value equivalent to HK\$7,000,000. These employment contracts were terminated resulting in claims being made by these former employees against the Company.

The Company disputes the claims for shares of the Company equivalent to HK\$7,000,000. However, the Company has made a provision of HK\$1,528,000 in the prior year's financial statements in respect of the claims of shares by these former employees.

## 36. CAPITAL COMMITMENTS

- (a) At the balance sheet date, a subsidiary of the Group was committed to contribute approximately HK\$9,070,000 (2000: HK\$155,900,000) in connection with an unpaid investment in a subsidiary.
- (b) At the balance sheet date, the Group was committed to pay an annual guaranteed payment to the PRC joint venture partner of a subsidiary in the PRC in the coming year amounting to HK\$800,000 (2000: HK\$1,525,000).

### 37. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises and hire of equipment. The portion of these commitments which is payable in the following year is as follows:

	Rented premises		Hire of equipment	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating leases which expire:				
Within one year	<b>560</b>	229	—	—
In the second to fifth years inclusive	<b>4,355</b>	2,863	<b>1,108</b>	736
After five years	—	481	—	—
	<b>4,915</b>	3,573	<b>1,108</b>	736

### 38. RETIREMENT BENEFIT SCHEME

A retirement plan is provided to all employees eligible and employed by the Group in Hong Kong starting from 1st January, 1996. Eligible employees enjoy a defined contribution scheme to which the employees and the Group contribute 5% and 5-10% of monthly salary respectively. Employees under the defined contribution scheme are entitled to 100% of the employers' contribution and the accrued interest upon retirement or leaving the Group after completing ten years of service counting from the date of joining the Group, or at a reduced scale of between 30% and 90% after completing three to nine years of service counting from the date of joining the Group. The amount of contributions charged to the consolidated income statement during the year amounted to approximately HK\$1,233,000 (2000: HK\$407,000). From 1st December, 2000 onwards, staff in Hong Kong are required to join the new Mandatory Provident Fund Scheme.

The aggregate employers' contributions, net of forfeited contributions, amounted to:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Employers' contributions under defined contribution scheme	<b>1,544</b>	1,254
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	<b>(311)</b>	(847)
	<b>1,233</b>	407

At the balance sheet date, there were no forfeited contributions arising from employees leaving the scheme before becoming fully vested and which are available to reduce the contributions payable by the Group in the future (2000: nil).

### **39. POST BALANCE SHEET EVENT**

On 9th April, 2001, the Company announced that Easyfil International Company Limited (“EICL”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the purchasers, pursuant to which EICL agreed to sell and the purchasers agreed to purchase, the entire issued share capital of Climaxpaper (Singapore) Pte. Ltd. (“Climaxpaper Singapore”), a wholly-owned subsidiary of the Company, for a consideration of approximately S\$672,000 (equivalent to approximately HK\$3,004,000).

One out of the two purchasers, Mr. Foo Hee Peng, is a member of the senior management of Climaxpaper Singapore. Neither of the two purchasers is connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or an associate of any of them.

The shares in the capital of Climaxpaper Singapore were charged in favour of the Bank Creditors as security for the obligations of the Company and certain of its subsidiaries under the Bank Debt Restructuring Agreement. The above transaction has been approved by the Bank Creditors and a deed of release was entered into on 2nd April, 2001 between, among others, Standard Chartered Bank, the Company and EICL pursuant to which the security over the shares of Climaxpaper Singapore was released and discharged.

## 40. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Climax Paper Converters, Inc.	United States of America	US\$200	—	100	Distribution of paper products
Climax Paper Converters, Limited	Hong Kong	Ordinary HK\$100,000 Deferred (Note (a)) HK\$20,000,000	—	100	Manufacture and distribution of paper products
英發紙品製造（東莞）有限公司 Climax Paper Products Manufacturing (Dongguan) Co., Ltd. ("CPPML")	PRC	HK\$45,000,000 (Note (b))	—	100	Manufacture and distribution of paper products
Climaxpaper Singapore	The Republic of Singapore	S\$10,000	—	100	Trading in paper products
Easyfil (China) Company Limited	British Virgin Islands/PRC	Ordinary US\$2 Non-voting ordinary US\$1	—	100	Provision of marketing services
Easyfil (Hong Kong) Company Limited	Hong Kong	Ordinary HK\$1,000 Deferred HK\$1	—	100	Trading in paper products and stationery
Easyfil International Company Limited	Bermuda/ Hong Kong	US\$12,000	100	—	Investment holding
Fonmax Transportation Company Limited	Hong Kong	HK\$1,000,000	—	60	Transportation services
東莞合星紙製品有限公司 United Star (Dongguan) Paper Production Co. Ltd. ("USDG") (Note (c))	PRC	HK\$15,400,000	—	100	Production and distribution of paper products

## 40. PRINCIPAL SUBSIDIARIES *(continued)*

*Notes:*

- (a) The deferred shares carry no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the company. On a winding-up, the holders of the deferred shares are entitled to a return of the capital paid up on the deferred shares held by them after the distribution of HK\$100,000,000 per share to each of the ordinary shares of the company in such a winding-up.
- (b) During the year, the registered capital of CPPML was approved to reduce from HK\$170,400,000 to HK\$45,000,000 by the relevant authorities in the PRC. The paid up registered capital of CPPML was approximately HK\$14,500,000 as at 31st March, 2001.
- (c) Arrangements have been made with the PRC joint venture partner of USDG such that a fixed amount will be payable annually to the PRC joint venture partner in lieu of their interest in the results of the subsidiary. The amount payable for the current year amounted to HK\$1,525,000 (2000: HK\$1,088,000).

The joint venture period of USDG was expired in March 2001. Accordingly, USDG refunded the capital contributed by the PRC joint venture partner and became a wholly-owned subsidiary of the Company.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital outstanding as at 31st March, 2001 or at any time during the year.