Performance of the Group's businesses in 2001/2002 and strategies for their future development are set out in this section.

OEM paper product manufacturing

OEM paper product sales was increased by HK$31,472,000 to HK$299,124,000 from HK$267,652,000 last year. This was mainly due to a substantial increase in sales of HK$42,343,000 from HK$119,125,000 last year to HK$161,468,000 this year in the United States of America. However, such increase was partly offset by the decrease of HK$10,871,000 in other markets such as Europe and Hong Kong.

Market

The sales to one of our biggest customers, Wal-Mart in the United States of America, recorded a historical high of HK$65,452,000 in the year. We are pleased that we have received from Wal-Mart for the second consequent year the same award in 2001 again after receiving the award of "International Supplier of the Year 2000".

It is more encouraging that we have secured purchase orders of more than HK$80 million from Wal-Mart for the financial year 2002/2003.

Sales to Europe had a moderate decrease of HK$9,099,000 to HK$76,657,000 from HK$85,756,000 last year. This was mainly due to a drop in total value of purchase orders from our exclusive sales agent, Filex Paper Converter, Ltd. ("Filex"), in Europe. The contract for the exclusivity of the sales agent signed by the ex-management will be terminated at the 3rd quarter of the financial year 2002/2003. By then, we will directly deal with customers in Europe. The OEM sales team, under the management of the new management since 2001, has already commenced a sales and redevelopment plan to recapture certain markets and customers in Europe which have been lost during the abnormal conditions when the Group was under financial difficulty.

We foresee that our turnover can be increased and some unnecessary expenses can be cut after terminating the contract with Filex. In additions, with direct communications, our business partnership with the customers can be more tightened as well as the sales strategies in the regions can be implemented more effectively.

Sales in the Asia-Pacific other than Hong Kong had a slight increase of HK$6,606,000 to HK$47,815,000 from HK$41,209,000 last year. It is the Group's policy to diversify and widen the customer base in order to spread the risk of over reliance in a single market. Therefore, in the year, we were focusing on developing the Asia Pacific markets especially in Japan and Australia. As the economy of Australia was relatively less influenced by the global recession, we believe that the market will keep growing and furthermore, we do have strong bonding with those key market player customers. The result was proved to be encouraging.

To cope with our business growth, we will improve our production capability further by increasing our capital expenditures.

House brand distribution

Total turnover of Mainland China, Hong Kong and South East Asia dropped from HK$37,625,000 last year to HK$22,998,000 this year.

Market

In the year, we have spent effort in reestablishing the infrastructure of our sales and marketing channels in different areas. We might be suffered from slightly decrease in our house brand sales in the areas which we have endeavoured to minimize the impact. However, we believe that the setup can follow the company's direction and carry our sales and marketing activities more effectively in a long run. This could ensure us to ready for the emerging opportunities and challenges in these rapidly changing markets.

The paper products markets in Hong Kong and South East Asia were adversely affected by the slackening economy and the sluggish retail market where no visible improvement has been shown. Besides, the market share of our house brand products continued to shrink because of the abnormal prices cut competition and cost consciousness of customers in the regions. We are reviewing the situation and formulating marketing strategies to regain the lost market shares. These strategies include more creative product development and design, reappointment of more capable distributors and more competitive pricing.

The Group entered a Sale and Purchase Agreement with the management in Climaxpaper (Singapore) Pte Ltd. ("CPS") to sell the division's operating subsidiary CPS on 5th April, 2001 ("the MBO transaction"). The MBO transaction was to be completed on 5th October, 2001. However, owing to the failure of the purchasers to pay all installments, the MBO transaction had not been completed until the purchasers paid the final installment on 14th March, 2002.

The Group also entered into a Distribution Agreement (the "Distribution Agreement") with CPS on 5th April, 2001, pursuant to which CPS was appointed as the Group's sole and exclusive distributor for resale of certain of the Group's products including photo albums and related collectables in Singapore, Malaysia and Thailand. Nevertheless, the sales to the regions were far lag behind the minimum sales quotas stipulated in the Distribution Agreement. Furthermore, CPS also failed to comply with their obligations under the terms and conditions of the Distribution Agreement including failure to make arrangements for the goods and products ordered and to be ready for shipment to CPS; failure to settle the outstanding amount due and owing to the Group. In such circumstances, the Group decided to terminate the Distribution Agreement in accordance with the provisions therein with effect from 5th May, 2002.

On 7th March, 2002, Easyfil International Company Limited ("EICL"), a wholly owned subsidiary of the Group and ComOffice Pte Ltd ("ComOffice"), a well established distributor for office stationery and photo album in Singapore, Thailand and Malaysia, signed a Memorandum of Understanding (the "MOU").

Pursuant to the MOU, EICL has appointed ComOffice as its sole and exclusive distributor for the Easyfil products and OEM products in Singapore, Malaysia and Thailand. The term of appointment in Singapore is from 5th May, 2002 to 31st March, 2003 and the term of appointment in Malaysia and Thailand is from 25th March, 2002 to 31st March, 2003.

EICL and ComOffice intend to enter into a formal agreement for the purpose of laying down the terms and conditions to effectuate all clauses in the MOU within 6 months from the date of signing the MOU. Otherwise, the MOU shall be null and void and neither party shall be bound by the terms therein.

The Group believes that the wholesales and retail businesses of China markets will sooner or later be more open to overseas investors after China has become a member of the WTO. This provides valuable and better opportunities to our house brand distribution in China.

In March 2002, our sales branch office in Beijing has been established and commenced business in April 2002. After the establishment of the Beijing branch office and appointment of distribution agents in different region, the Group is in a better position to market our brands such as Easyfil and Greenery and target to achieve a higher market sharing in the paper products industry in the PRC.

Cost Control

The Group believes that cost control is an ongoing process. This is to ensure our competitiveness and even to safeguard our survival in the market.

The cost saving programme implemented in the year proved to be successful. There were different degrees of saving in many of our cost of operations. We have a general reduction of 2.2% in material cost, 3.5% reduction in general and administration expenses in which saving in staff cost amounted to HK$4,073,000.

After the completion of the bank debt restructuring agreement on 11th January, 2002, interest expenses for the year reduced substantially by HK$25,141,000 to HK$2,404,000.

The emphasis in the coming year will be on the reduction of cost of production. The utilization of the enterprise resources planning system helps us to achieve the objective. Furthermore, we plan to invest in some machinery so that efficiency and quality of production can be improved. The overall cost in labour and other related expenses that continue to increase in China will be reduced.

Group Debt Restructuring

On 22nd November, 2000, the Group entered into a bank debt restructuring agreement (the "BDRA") with the Bank Creditors. Pursuant to the BDRA, 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 BDRA was completed on 11th January, 2001. The remaining bank borrowings of the Group are rescheduled by the Bank Creditors as the rescheduled loan owed by the Company to the Bank Creditors, which are repayable by eight installments and shall be fully repaid on 11th January, 2003.

As at 31st March, 2002, the outstanding balance of the rescheduled loan was HK$41,313,000. During the year under review, three installments of the rescheduled loan amounting to HK$45,351,000 had been repaid to the Bank Creditors according to the time schedule stipulated by the BDRA. The remaining four installments were originally scheduled to be repayable on the 11th of April 2002, July 2002, October 2002 and January 2003.

However, on 11th July, 2002, the Group made available of enough funds from its internal resources to repay all the indebtedness and other amounts due or payable under the BDRA. All the Scheme Security Documents as defined in the BDRA will be released and discharged.

Liquidity, Gearing and Financial Resources

As at 31st March, 2002, the Group has cash and bank balances (excluding pledged bank deposits/balances) of HK$ 8,620,000 (2001: HK$15,749,000). Other current assets mainly included inventories of HK$71,325,000 (2001: HK$71,990,000) and trade and bills receivables of HK$30,695,000 (2001: HK$27,793,000).

As at 31st March, 2002, the total bank borrowing to net assets of the Group was 41.4%, which has been improved from the prior year of 102.9%. The Group had bank loans amounting to HK$41,313,000 (2001: HK$86,664,000) and cash and bank balances totaling HK$8,751,000 (2001: HK$32,615,000). After deduction of cash and balances, the Group's ratio of net bank loans to shareholder's equity was 32.6% (2001: 64%). Loan facilities offered by banks in Hong Kong bear interest at HIBOR per annum. All bank borrowings were repayable within one year and the last installment would be repayable at 11th January, 2003.

The new money facilities (the "NMF") of HK$10 million had been provided to the Group by Standard Chartered Bank ("SCB") subsequent to the restructuring since 11th January, 2001 and expired on the anniversary date of the restructuring.

The Company had started to request SCB a continuance of the current working capital facilities and an increase in trade lines to support the expanding and turnaround businesses since September 2001. After a long process of negotiation and cash flow and businesses analysis, SCB had made a proposal to increase and extend the NMF. However, after serious and careful consideration of the terms and conditions and total cost of obtaining the NMF, the Company decided not to accept the proposal.

However, the Group was able to obtain financial support from the directors and major vendors by having security and interest free advances and a longer term of credit of goods and services supplied respectively.

After the repayment of the 5th installment of the rescheduled loan in April 2002, the outstanding balance of the total bank borrowings of the Group is HK$32,462,384. Comparing to the net asset value of the Group, the current debt level has been reduced to a very safe level. The Group feels confident that with the current businesses and the supports giving by the customers and suppliers, the Group is enable to obtain sufficient banking facilities to sustain its normal operation and growth of businesses.

On 28th June, 2002, The Hongkong Chinese Bank, Limited ("HKCBL") agreed by a facility letter to make available to the Group certain credit facilities of HK$25,000,000 upon and subject to the terms and conditions contained in the facility letter.

On 11th July, 2002, the Group made available of enough funds from its internal resources to repay all the indebtedness and other amounts due or payable under the BDRA.

During the year, the Group's operation generated net cash inflow of HK$19,583,000. Cash inflow from advances from the Directors was HK$4,000,000 and cash outflow from repayment of loan principal and accrued interest was HK$48,386,000. Net Cash outflow for the year amounted to HK$7,129,000.

Pledge of Assets

The Company and certain principal subsidiaries executed a guarantee and debenture on 7th August, 1998 to pledge the assets of the Company and these principal subsidiaries to the Bank Creditors as security for the outstanding bank borrowings of the Group. Upon the completion of the BDRA, 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.

Capital Expenditure

As at 31st March, 2002, fixed assets were HK$41,109,000, a reduction of HK$10,911,000 or 21% from last year. The Group's capital expenditure during the year amounted to HK$2,061,000 (2001: HK$3,469,000). They were incurred mainly for the purchases of computer and electronic equipment to cater for the newly adopted enterprise resources planning ("ERP") system. The Group also disposed of certain of its furniture and fixtures, machinery and equipment, motor vehicles with a net book value of HK$768,000 during the year.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The Group's bank loans are Hong Kong Dollar borrowings. While US Dollar continues to denominate the Group's major foreign currency receipts, it is the Group's view that the current link between HK Dollar and US Dollar will be maintained and the mechanism will continue to function in the foreseeable future.

Contingent Liabilities

The Group has no significant contingent liabilities as at the balance sheet date.

Litigation

Subsequent to the year ended 31st March, 2002, on 29th May, 2002, Climax Paper Converters, Limited ("CPCL"), a wholly owned subsidiary of the Company commenced an action in the Subordinate Courts of the Republic of Singapore against CPS. CPCL is attempting to recover from CPS approximately HK$368,868 being the outstanding trade debts and liquidated damages of non-fulfillment of the Distribution Agreement by CPS.

Number and Remuneration of Employees

As at 31st March, 2002, the Group employed a total of approximately 3,000 employees in Hong Kong and Mainland China. The pay levels of employees are made with reference to the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The company adopted a share option scheme for the benefit of its Directors and employees. Details of the share option scheme are set out in the Report of the Directors.

Enterprise Resources Planning (ERP) system

After the successful implementation of the first phase of the ERP system concentrating on the finance, inventory management, and trading and distribution in August 2001, we continued to launch the second phase of the system with emphasis on material resources planning and costing control in March 2002. The system is now undergoing familiarizing and fine-tuning processes. We believe that we can achieve a better efficiency in production and hence strengthen our competitiveness in the coming years.