

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

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"). Its ultimate holding company is First Century Holdings Limited, 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. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

At 31st March, 2001, the Group did not have any goodwill or negative goodwill. Following the adoption of SSAP No. 30 "Business combinations", goodwill arising on acquisition after 1st April, 2001 is capitalised and amortised on a straight line basis following an assessment of its economic useful life. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. During the current year, the Group recognised a negative goodwill arising on acquisition of additional interest in a subsidiary of HK\$614,000 as income.

3. 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

Goodwill arising on consolidation represents the excess of the cost of acquisition the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at date of acquisition.

Goodwill arising on acquisition is recognised as an asset and amortised on a straight line basis over its economic useful life. Goodwill arising on the acquisition of subsidiary is presented separately in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill

Negative goodwill represents the excess of the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

Turnover

Turnover represents the net amount received and receivable for goods sold to outside customers, less returns and allowances.

Revenue recognition

Sales of goods are recognised when goods are delivered 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 is recognised when the shareholders' right to receive payment has been established.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost or carrying value less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is 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%

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For the year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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.

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 currencies other than Hong Kong dollars are translated into Hong Kong dollars at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars 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.

Operating leases

Rentals payment under operating leases are charged to the income statement on a straight line basis over the terms of the leases.

4. SEGMENT INFORMATION

Business segments

The Group's principal activities are manufacturing and trading of OEM paper products and house brand and agency products. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	OEM paper products manufacturing HK\$'000	House brand and agency products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
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For the year ended 31st March, 2002

Turnover

External sales	299,124	22,998	—	322,122
Inter-segment sales	23,763	—	(23,763)	—
	322,887	22,998	(23,763)	322,122

Inter-segment sales are charged at prevailing market prices.

Result

Segment result	13,198	347		13,545
Unallocated corporate expenses				(9,893)
Interest income				678
Finance costs				(2,404)
Loss on disposal/ winding up of subsidiaries	(127)			(127)
Gain on disposal of leasehold land in Mainland China	8,176			8,176
Provision for claims of shares by former employees written back				1,528
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income	614			614
Profit before taxation				12,117
Taxation credit				34
Profit before minority interests				12,151
Minority interests				(1)
Net profit for the year				12,150

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	OEM paper products manufacturing HK\$'000	House brand and agency products HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2002			
Other information			
Additions of property, plant and equipment	2,061	—	2,061
Depreciation and amortisation of property, plant and equipment	12,196	8	12,204
Amortisation of prepaid rentals	2,240	—	2,240
As at 31st March, 2002			
Balance sheet			
Assets			
Segment assets	187,856	7,817	195,673
Unallocated corporate assets			8,751
Consolidated total assets			204,424
Liabilities			
Segment liabilities	56,072	2,062	58,134
Unallocated corporate liabilities			46,419
Consolidated total liabilities			104,553

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	OEM paper products manufacturing HK\$'000	House brand and agency products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2001				
Turnover				
External sales	267,652	37,625	—	305,277
Inter-segment sales	28,051	—	(28,051)	—
	295,703	37,625	(28,051)	305,277

Inter-segment sales are charged at prevailing market prices.

Result

Segment result	(806)	(1,823)		(2,629)
Unallocated corporate expenses				(11,248)
Interest income				1,724
Finance costs				(27,545)
Gain on disposal of Climax Building				2,102
Provision for a legal claim from a customer written back				7,442
Office and factory removal costs				(2,532)
Loss before taxation				(32,686)
Taxation charge				(70)
Loss before minority interests				(32,756)
Minority interests				(10)
Net loss for the year				(32,766)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	OEM paper products manufacturing HK\$'000	House brand and agency products HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2001			
Other information			
Additions of property, plant and equipment	3,333	136	3,469
Depreciation and amortisation of property, plant and equipment	20,444	34	20,478
Amortisation of prepaid rentals	2,239	—	2,239
As at 31st March, 2001			
Balance sheet			
Assets			
Segment assets	184,330	12,058	196,388
Unallocated corporate assets			32,615
Consolidated total assets			229,003
Liabilities			
Segment liabilities	37,258	6,502	43,760
Unallocated corporate liabilities			98,834
Consolidated total liabilities			142,594

4. SEGMENT INFORMATION *(continued)*

Geographical segments

The Group's operations are located in Mainland China and Hong Kong of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market Year ended 31st March,	
	2002 HK\$'000	2001 HK\$'000
United States of America	161,468	119,125
Europe	76,657	85,756
Asia-Pacific (excluding Hong Kong)	65,128	71,394
Hong Kong	7,058	11,965
Canada	5,236	5,617
Others	6,575	11,420
	322,122	305,277

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.

The following is an analysis of the carrying amount of consolidated total assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

	Carrying amount of consolidated total assets As at 31st March,		Additions to property, plant and equipment Year ended 31st March,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Mainland China	160,465	167,773	673	491
Hong Kong	20,720	39,121	1,388	2,821
Others	23,239	22,109	—	157
	204,424	229,003	2,061	3,469

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

5. 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. 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 ended 31st March, 2001, 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 for that year.

6. GAIN ON DISPOSAL OF CLIMAX BUILDING

The amount represented the gain on disposal of Climax Building at 14 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong (the "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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

7. PROFIT (LOSS) FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Directors' emoluments (note 8)	5,406	3,754
Staff salaries, allowances and welfare	21,783	27,508
Labour costs	37,813	35,413
Total staff costs	65,002	66,675
Amortisation of prepaid rentals	2,240	2,239
Auditors' remuneration	750	800
Depreciation and amortisation on:		
- owned assets	12,204	20,462
- assets held under finance leases	—	16
Guaranteed payment to a joint venture partner in the Mainland China of the PRC (Note)	—	1,525
Loss on disposal of property, plant and equipment other than leasehold land in Mainland China	353	—
Minimum lease payment paid in respect of		
- rented premises	4,913	4,849
- hire of equipment	433	891
and after crediting:		
Interest income	678	1,724
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income included in other income	614	—
Gain on disposal of property, plant and equipment other than Climax Building	—	3,266

Note: Arrangements have been made with the PRC joint venture partner of a subsidiary of the Company such that a fixed amount will be payable annually to the PRC joint venture partner in lieu of their interest in the results of this subsidiary. No guaranteed payment to the PRC joint venture partner was made in the current year (2001: HK\$1,525,000) as this subsidiary applied for dissolution in May 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
(i) Directors' emoluments		
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
Other non-executive directors	—	—
	—	—
Other emoluments to executive directors:		
Salaries and other benefits	5,406	3,754
	5,406	3,754

Emoluments of the directors were within the following bands:

	Number of director(s)	
	2002	2001
Nil - HK\$1,000,000	8	13
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	—	1
	9	15

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included three (2001: five) executive directors, details of whose emoluments are set out in (i) above. The emoluments of the two (2001: nil) highest paid employees, not being directors of the Company, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,849	—

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2002	2001
Nil - HK\$1,000,000	1	—
HK\$1,000,001 to HK\$1,500,000	1	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	2,404	27,544
Obligations under finance leases	—	1
Total borrowing costs	2,404	27,545

10. TAXATION

	2002 HK\$'000	2001 HK\$'000
The credit (charge) comprises:		
Hong Kong Profits Tax calculated at 16% (2001: 16%) on the estimated assessable profit		
- Current year	—	(61)
- Overprovision in prior year	34	33
	34	(28)
Taxation in other jurisdictions	—	(86)
Deferred taxation (note 30)	—	44
	34	(70)

No provision for Hong Kong Profits Tax has been made in the financial statements as the estimated assessable profit of the Group for the current year was wholly absorbed by taxation losses brought forward.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

11. NET PROFIT (LOSS) FOR THE YEAR

Of the consolidated net profit for the year of HK\$12,150,000 (2001: a net loss of HK\$32,766,000), a net profit of HK\$11,978,000 (2001: a net loss of HK\$40,727,000) has been dealt with in the financial statements of the Company.

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is computed based on the following data:

	2002 HK\$'000	2001 HK\$'000
Earnings (loss):		
Net profit (loss) for the year and earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>12,150</u>	<u>(32,766)</u>
	2002	2001
Number of shares:		
Weighted average number of shares for the purpose of basic earnings (loss) per share	<u>3,619,718,071</u>	<u>1,085,901,551</u>
Effect of dilutive potential shares:		
Share options	12,839,265	
Warrants	<u>30,936,890</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>3,663,494,226</u>	

No diluted loss per share has been presented for the previous year as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for that year and the exercise of the Company's outstanding warrants would result in a decrease in net loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Office equipment HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st April, 2001	7,436	7,884	168,965	3,899	1,208	23,267	212,659
Additions	—	18	316	290	—	1,437	2,061
Disposals	—	(267)	(2,748)	(1,132)	—	(708)	(4,855)
Disposal of a subsidiary	—	(200)	—	(136)	—	(123)	(459)
At 31st March, 2002	7,436	7,435	166,533	2,921	1,208	23,873	209,406
DEPRECIATION AND AMORTISATION							
At 1st April, 2001	1,450	4,472	128,907	3,391	1,139	21,280	160,639
Provided for the year	299	1,462	8,678	117	40	1,608	12,204
Eliminated on disposals	—	(265)	(2,570)	(1,005)	—	(577)	(4,417)
Eliminated on disposal of a subsidiary	—	(57)	—	(27)	—	(45)	(129)
At 31st March, 2002	1,749	5,612	135,015	2,476	1,179	22,266	168,297
NET BOOK VALUES							
At 31st March, 2002	5,687	1,823	31,518	445	29	1,607	41,109
At 31st March, 2001	5,986	3,412	40,058	508	69	1,987	52,020

The Group's leasehold properties are under medium term leases and are held outside Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

14. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares:		
At carrying value	124,438	124,438
At cost	55,215	53,664
	179,653	178,102
Amounts due from subsidiaries	630,949	668,805
	810,602	846,907
Less: Impairment losses	(624,602)	(636,907)
	186,000	210,000

The carrying value of the unlisted shares is based on the book values of the underlying separable net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group pursuant to the group reorganisation in 1992.

During the year, the directors reviewed the carrying amounts of interest in subsidiaries and identified that the estimated discounted net future cash flows from the subsidiaries ("recoverable amounts") based on the market borrowing rates exceed the then carrying amounts. Accordingly, a reversal of impairment loss on interest in subsidiaries of approximately HK\$12,305,000 is resulted and the carrying amounts of interest in subsidiaries are increased to their respective recoverable amounts.

Details of the Company's principal subsidiaries at 31st March, 2002 are set out in note 37.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

15. PREPAID RENTALS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Amount to be utilised within one year	2,239	2,240
Amount to be utilised after one year	37,506	39,745
	39,745	41,985
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	(2,239)	(2,240)
	37,506	39,745

Prepaid rentals represent the amounts advanced by the Group to a third party for the construction of production and related facilities in Baoan, the PRC. Pursuant to the original and supplementary agreements signed between a subsidiary of the Company and the third party, the Group is entitled to use the production and related facilities for a term of 30 years up to 31st December, 2019 free of charge as consideration for the settlement of the advances. The amount charged to the income statement as consideration for the settlement for the year was approximately HK\$2,240,000 (2001: HK\$2,239,000). The advances are unsecured and interest free.

16. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	37,789	39,735
Work in progress	27,844	22,611
Finished goods	5,692	9,644
	71,325	71,990

At the balance sheet date, the inventories carried at net realisable value are as follows:

	2002 HK\$'000	2001 HK\$'000
Raw materials	4,022	3,665
Finished goods	1,725	2,449
	5,747	6,114

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For the year ended 31st March, 2002

17. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31st March, 2002, the balance of debtors, deposits and prepayments included trade debtors of approximately HK\$30,695,000 (2001: HK\$27,793,000). The aged analysis of trade debtors at the reporting date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 - 30 days	24,487	19,588
31 - 60 days	3,687	3,684
61 - 90 days	1,375	1,944
91 - 120 days	313	793
Over 120 days	833	1,784
	30,695	27,793

The Group allows an average credit period of 35 days (2001: 33 days) to its trade customers.

18. COMPENSATION RECEIVABLE

The compensation receivable represents the amount receivable of approximately RMB8,748,000 (equivalent to approximately HK\$8,176,000) from 東莞松山湖科技產業園管委會 (the "Expropriator") in respect of the surrendering the land use rights of a piece of land in Douguan, the PRC, by the Group to the Expropriator during the year. The cost of purchase of this piece of leasehold land of approximately HK\$23,049,000 was fully written off by the Group in 1999. Accordingly, the compensation receivable of approximately HK\$8,176,000 was recognised as income for the current year.

19. CREDITORS AND ACCRUED CHARGES

At 31st March, 2002, the balance of creditors and accrued charges included trade creditors of approximately HK\$38,307,000 (2001: HK\$20,819,000). The aged analysis of trade creditors at the reporting date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 - 30 days	22,115	6,109
31 - 60 days	3,994	4,856
61 - 90 days	4,487	2,202
91 - 120 days	3,507	3,889
Over 120 days	4,204	3,763
	38,307	20,819

20. LOANS FROM DIRECTORS

Particulars of the loans from directors are as follows:

Name of director	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Kan Shiu Cheong, Frederick	2,000	—
Yau Kang Nam	2,000	—
	4,000	—

The amounts were unsecured, interest-free and fully repaid subsequent to the balance sheet date.

21. RESCHEDULED LOANS

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
The rescheduled loans are repayable within the periods as follows:		
Within one year	41,313	43,041
More than one year, but not exceeding two years	—	43,623
	41,313	86,664
Less: Amount due within one year shown under current liabilities	(41,313)	(43,041)
Amount due after one year	—	43,623

On 22nd November, 2000, the Group entered into a bank debt restructuring agreement (the “Bank Debt Restructuring Agreement”) with the bank creditors (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 Company’s circular dated 5th December, 2000. After the completion of the bank debt restructuring exercise on 11th January, 2001, the remaining unpaid bank borrowings of the Group and the Company are rescheduled by the Bank Creditors as rescheduled loans, which are repayable by eight instalments and will be fully repaid on 11th January, 2003.

Details of pledge of assets for the rescheduled loans are set out in note 31 to the financial statements.

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For the year ended 31st March, 2002

22. SHARE CAPITAL

	Number of shares	Par value per ordinary share HK\$	Share capital HK\$'000
Authorised:			
At 1st April, 2000	1,000,000,000	0.10	<u>100,000</u>
Creation of new unissued shares upon capital reduction	3,374,917,200		
Subdivision of 1 ordinary share to 10 ordinary shares on 11th January, 2001	<u>5,625,082,800</u>		
At 31st March, 2001 and 31st March, 2002	<u>10,000,000,000</u>	0.01	<u>100,000</u>
Issued and fully paid:			
At 1st April, 2000	374,990,800	0.10	37,499
Reduction of issued share capital from HK\$0.10 each to HK\$0.01 each on 11th January, 2001	<u>—</u>		<u>(33,749)</u>
	374,990,800	0.01	3,750
Issue of shares to First Century Holdings Limited for cash at the subscription price of HK\$0.05 per share on 11th January, 2001 (the "Subscription Shares")	2,000,000,000	0.01	20,000
Issue of shares to Bank Creditors for partial settlement of the bank borrowings at HK\$0.34 per share on 11th January, 2001 (the "Bank Shares")	1,242,805,271	0.01	12,428
Issue of shares upon exercise of warrants	<u>1,922,000</u>	0.01	<u>19</u>
At 31st March, 2001 and 31st March, 2002	<u>3,619,718,071</u>		<u>36,197</u>

During the year ended 31st March, 2001, the Group underwent a capital reorganisation and bank debt restructuring exercise with the Bank Creditors as described in the Company's circular dated 5th December, 2000.

In order to implement the transactions contemplated under the subscription agreement and the Bank Debt Restructuring Agreement and to issue the Subscription Shares, Bank Shares and bonus warrants, the Company implemented the capital reduction and subdivision whereby the nominal value of its issued and unissued shares of nominal value of HK\$0.10 per share was reduced to HK\$0.01 per new share in accordance with the laws of Bermuda. The capital reduction and subdivision were approved by the shareholders of the Company at an extraordinary general meeting held on 29th December, 2000.

22. SHARE CAPITAL *(continued)*

The nominal value of each issued ordinary share in the capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each so that the issued share capital was reduced from approximately HK\$37,499,000 to approximately HK\$3,750,000. The credit of approximately HK\$33,749,000 arising from the capital reduction was applied towards the partial elimination of the accumulated losses of the Company. The nominal value of all the unissued shares in the authorised share capital were changed to HK\$0.01 by subdividing every unissued share of HK\$0.10 into ten unissued new shares of HK\$0.01 each.

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 First Century Holdings Limited at the subscription price of HK\$0.05 per share for cash. An amount of HK\$90 million from the net proceeds was utilised to partially repay the bank borrowings while the balance is for working capital.

On 11th January, 2001, the date of completion of the Bank Debt Restructuring Agreement, the Company allotted and issued 1,242,805,271 new shares of HK\$0.01 each to the Bank Creditors at HK\$0.34 per share for partial settlement of the Group's bank borrowings amounting to approximately HK\$422,554,000.

These shares rank *pari passu* with existing shares in all respects.

There were no changes in the Company's authorised, issued and fully paid share capital in the current year.

23. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed on 19th February, 1992, the Company adopted a share option scheme (the "Scheme") on that date for the primary purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The details in the number of options granted and outstanding at end of the year which have been granted under the Scheme are as follows:

Exercise period	Exercise price HK\$	Number of share options granted during the year and outstanding at 31.3.2002
31.8.2001 - 30.8.2004	0.01344	192,822,000
18.2.2002 - 17.2.2005	0.02400	10,000,000
1.3.2002 - 28.2.2005	0.01344	26,000,000
1.6.2002 - 31.5.2005	0.01344	32,100,000
1.6.2002 - 31.5.2005	0.02400	6,000,000
15.6.2002 - 14.6.2005	0.01344	500,000
		267,422,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

24. WARRANTS

Pursuant to the Bank Debt Restructuring Agreement, the Company granted warrants by way of bonus issue to the shareholders whose names appeared on the register of members of the Company on 1st February, 2001 on the basis of one warrant for every five shares held on that date. A total of 723,559,214 units of warrants with subscription rights of approximately HK\$36,178,000 were therefore issued. Each warrant entitles the holder thereof to subscribe in cash at an initial subscription price of HK\$0.05 per share, subject to adjustment, for one share at any time within a period of three years from 9th February, 2001, the date on which dealings in the warrants on the Stock Exchange commenced.

In the previous year, warrants carrying subscription rights of HK\$96,100 were exercised. No warrants were exercised during the current year.

At 31st March, 2002, exercise in full of the outstanding warrants would result in the issue of an additional 721,637,214 (2001: 721,637,214) ordinary shares of HK\$0.01 each by the Company.

25. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP					
At 1st April, 2000	48,125	(5,397)	18,759	(496,895)	(435,408)
Currency realignment	—	157	—	—	157
Transfer to set off accumulated losses upon capital reduction	(48,125)	—	—	48,125	—
Premium on issue of Subscription Share	80,000	—	—	—	80,000
Premium on issue of Bank Shares	410,126	—	—	—	410,126
Expenditure incurred for issue of Subscription Shares and Bank Shares	(7,889)	—	—	—	(7,889)
Premium on issue of shares upon exercise of warrants	77	—	—	—	77
Transfer of share capital to set off accumulated losses upon capital reduction	—	—	—	33,749	33,749
Net loss for the year	—	—	—	(32,766)	(32,766)
At 31st March, 2001 and 1st April, 2001	482,314	(5,240)	18,759	(447,787)	48,046
Realised on disposal/winding up of subsidiaries	—	4,336	(859)	—	3,477
Net profit for the year	—	—	—	12,150	12,150
At 31st March, 2002	482,314	(904)	17,900	(435,637)	63,673

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

25. RESERVES *(continued)*

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 2000	48,125	—	—	(476,892)	(428,767)
Transfer to set off accumulated losses upon capital reduction	(48,125)	—	—	48,125	—
Premium on issue of Subscription Shares	80,000	—	—	—	80,000
Premium on issue of Bank Shares	410,126	—	—	—	410,126
Expenditure incurred for issue of Subscription Shares and Bank Shares	(7,889)	—	—	—	(7,889)
Premium on issue of shares upon exercise of warrants	77	—	—	—	77
Transfer of share capital to set off accumulated losses upon capital reduction	—	—	—	33,749	33,749
Net loss for the year	—	—	—	(40,727)	(40,727)
At 31st March, 2001 and 1st April, 2001	482,314	—	—	(435,745)	46,569
Net profit for the year	—	—	—	11,978	11,978
At 31st March, 2002	482,314	—	—	(423,767)	58,547

The balance of capital reserve represents the capital reserve of HK\$17,900,000 arising from the group restructuring which took place in 1992.

At 31st March, 2002, the Company did not have any reserves distributable to shareholders (2001: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

26. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit (loss) before taxation	12,117	(32,686)
Interest income	(678)	(1,724)
Interest expenses	2,404	27,545
Amortisation of prepaid rentals	2,240	2,239
Depreciation and amortisation of property, plant and equipment	12,204	20,478
Gain on disposal of leasehold land in Mainland China	(8,176)	—
Gain on disposal of Climax Building	—	(2,102)
Loss on disposal/winding up of subsidiaries	127	—
Loss (gain) on disposal of property, plant and equipment other than leasehold land in Mainland China and Climax Building	353	(3,266)
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income	(614)	—
Provision for claims of shares by former employees written back	(1,528)	—
Provision for a legal claim from a customer written back	—	(7,442)
Effect of foreign exchange rate changes on inter-company balances	—	231
Increase in inventories	(765)	(8,918)
Increase in debtors, deposits and prepayments	(8,249)	(973)
Increase in creditors and accrued charges	10,148	2,216
Decrease in bills payable	—	(864)
Net cash inflow (outflow) from operating activities	19,583	(5,266)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

27. DISPOSAL/WINDING UP OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	330	—
Inventories	815	—
Debtors, deposits and prepayments	2,387	—
Bank balances and cash	442	—
Creditors and accrued charges	(985)	—
Taxation payable	(3,435)	—
	(446)	—
Translation reserve realised	4,336	—
Capital reserve realised	(859)	—
	3,031	—
Loss on disposal/winding up of subsidiaries	(127)	—
	2,904	—
Satisfied by:		
Cash	2,904	—
	2,904	—
Analysis of net inflow of cash and cash equivalents arising on the disposal/winding up:		
Cash received	2,904	—
Bank balances and cash disposed of	(442)	—
	2,462	—

The subsidiaries disposed of/wound up during the year did not have any significant impact on the Group's operating results and cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Trust receipts, import loans and packing loans HK\$'000	Minority interests including the advances HK\$'000	Obligations under finance leases HK\$'000	Loans from directors HK\$'000
At 1st April, 2000	85,624	441,899	74,124	6,412	166	—
Transfer to set off accumulated loss upon capital reduction	(81,874)	—	—	—	—	—
Issue of Subscription Shares for cash	100,000	—	—	—	—	—
Issue of Bank Shares for partial settlement of bank borrowings	422,554	(348,430)	(74,124)	—	—	—
Expenditure incurred for issue of Subscription Shares and Bank Shares	(7,889)	—	—	—	—	—
Issue of new shares for cash upon exercise of warrants	96	—	—	—	—	—
Repayments during the year	—	(6,805)	—	—	—	—
Refund of capital contribution to the minority interests of a subsidiary	—	—	—	(4,256)	—	—
Share of profits of subsidiaries by minority interests	—	—	—	10	—	—
Currency realignment	—	—	—	—	(6)	—
Principal repayments for obligations under finance leases	—	—	—	—	(160)	—
At 31st March, 2001 and 1st April, 2001	518,511	86,664	—	2,166	—	—
Repayments during the year	—	(45,351)	—	—	—	—
Reduction in minority interest due to acquisition of additional interest of a subsidiary	—	—	—	(2,166)	—	—
Share of profits of subsidiaries by minority interests	—	—	—	1	—	—
Loans raised	—	—	—	—	—	4,000
At 31st March, 2002	518,511	41,313	—	1	—	4,000

29. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group acquired an additional 5% equity interest in a subsidiary at a consideration of approximately HK\$1,552,000. The consideration of HK\$1,552,000 was settled by the transfer of inventories and assignment of trade debtors of approximately HK\$615,000 and HK\$937,000 respectively.
- (b) On 11th January, 2001, pursuant to the Bank Debt Restructuring Agreement, the Company allotted and issued 1,242,805,271 new shares of HK\$0.01 each to the Bank Creditors at HK\$0.34 per share in partial settlement of the Group's bank borrowings amounting to approximately HK\$422,554,000.

30. UNPROVIDED DEFERRED TAXATION

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Balance at beginning of the year	—	44
Movement for the year (note 10)	—	(44)
Balance at end of the year	—	—

At the balance sheet date, the major components of the unprovided deferred taxation (assets) liabilities are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Excess of tax allowances of property, plant and equipment over accounting depreciation	2,081	2,976
Taxation losses	(34,831)	(44,051)
Net deferred tax assets	(32,750)	(41,075)

No provision for deferred taxation assets has been made in respect of timing differences which are not expected to be realised in the foreseeable future.

At the balance sheet date, the Company had unprovided deferred taxation assets of approximately HK\$2,799,000 (2001: HK\$3,303,000) in respect of taxation losses carried forward.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

31. PLEDGE OF ASSETS

The Group and the Company have pledged the bank deposits/balances of approximately HK\$131,000 (2001: HK\$16,866,000) to secure the bank borrowings and other banking facilities granted by various banks to the Group.

Upon the completion of the Bank Debt Restructuring Agreement, as set out in note 21, the Company and certain principal subsidiaries entered into a deed of supplemental charge with the Bank Creditors to extend the pledge of all assets of the Company and these principal subsidiaries to the Bank Creditors as security for the outstanding rescheduled loans of the Group.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantee given to bankers in respect of banking facilities granted to subsidiaries	—	—	834,100	834,100

33. CLAIMS

The former Chairman of the Company approved a number of employment contracts with certain former employees, under which these former employees should be 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 years' financial statements in respect of the claims of shares by these former employees. During the year, the directors of the Company considered that the Group is unlikely to make any settlement in respect of the claims and accordingly, the amount of the provision of HK\$1,528,000 has been written back to the income statement.

34. CAPITAL COMMITMENTS

- At the balance sheet date, the Group was contracted for acquisition of property, plant and equipment amounting to approximately HK\$7,997,000 (2001: nil).
- At the balance sheet date, a subsidiary of the Group had no commitment to contribute the unpaid investment in a subsidiary (2001: HK\$9,070,000).

35. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and hire of equipment which fall due as follows:

	Rented premises		Hire of equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	2,980	4,915	698	1,108
In the second to fifth years inclusive	426	3,620	920	1,618
	3,406	8,535	1,618	2,726

Operating lease payments for rented premises represent rentals payable by the Group for its office premises and factories. Leases for rented premises and hire of equipment are negotiated for an average term of three years and five years respectively. The lease payments are fixed and no arrangements have been entered into for contingent rental.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases in respect of rented premises.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

36. RETIREMENT BENEFIT SCHEME

Hong Kong

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 credited to the consolidated income statement during the year amounted to approximately HK\$160,000 (2001: a charge of HK\$1,233,000). From 1st December, 2000 onwards, staff in Hong Kong are required to join the new Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance.

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Employers' contributions under defined contribution scheme	1,045	1,544
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	(1,205)	(311)
	(160)	1,233

At the balance sheet date, 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 amounted to approximately HK\$49,000 (2001: nil).

Mainland China

The Group also participates in a defined contribution retirement scheme organised by the government in Mainland China. All employees of the Group in Mainland China are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement scheme. The total contribution incurred in connection with the scheme for the year ended 31st March, 2002 was approximately HK\$120,000 (2001: HK\$152,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

37. 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 Management Company Limited	Hong Kong	HK\$2	—	100	Provision of management services
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\$37,000,000 (Note (b))	—	100	Manufacture and distribution of paper products
Climax Patent & Trademark Limited	Hong Kong	HK\$2	—	100	Holding of trademark
Easyfil (Greater China) Company Limited	British Virgin Islands/PRC	US\$1	—	100	Trading in paper products and stationery
Easyfil (Hong Kong) Company Limited	Hong Kong	Ordinary HK\$1,000 Deferred (Note (a)) HK\$1	—	100	Trading in paper products and stationery
Easyfil International Company Limited	Bermuda/ Hong Kong	US\$12,000	100	—	Investment holding

Notes:

- (a) These deferred shares practically carry no right to dividends or to receive notice or to attend or vote at any general meeting of these subsidiaries or to participate in any distribution on winding up.
- (b) During the year, the registered capital of CPPML was approved to reduce from HK\$45,000,000 to HK\$37,000,000 by the relevant authorities in the PRC. The paid up registered capital of CPPML was approximately HK\$37,000,000 as at 31st March, 2002.

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 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 at 31st March, 2002 or at any time during the year.