

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003**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 Group 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. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the consolidated cash flow statement and the introduction of the consolidated statement of changes in equity, but has had no material effect on the results for the current or prior years. Accordingly, no prior period adjustment is required.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and interest received which were previously presented under a separate heading, are classified as financing cash flows and operating cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over 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.

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 a 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

Buildings	4%–5%
Furniture and fixtures	8%–33%
Machinery and equipment	8%–14%
Motor vehicles	20%
Moulds	20%
Office equipment	10%–20%

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.

Assets held under finance leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the outstanding principal amount at the inception of the finance leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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. An 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 an 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an 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 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. Income and expense items are translated at the average exchange rates for the year. 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.

Retirement benefit scheme costs

Payments to the state-managed retirement benefit schemes in the People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme in Hong Kong are charged as expenses as they fall due.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

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	House brand and agency products	Elimination	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 31st March, 2003				
Turnover				
External sales	347,707	22,869	–	370,576
Inter-segment sales	15,398	–	(15,398)	–
	<u>363,105</u>	<u>22,869</u>	<u>(15,398)</u>	<u>370,576</u>
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result	<u>7,870</u>	<u>3,771</u>	–	11,641
Unallocated corporate expenses				(8,691)
Interest income				47
Finance costs				(1,139)
Loss on winding up of subsidiaries		(85)		<u>(85)</u>
Net profit for the year				<u>1,773</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	OEM paper products manufacturing <i>HK\$'000</i>	House brand and agency products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the year ended 31st March, 2003			
Other information			
Additions of property, plant and equipment	14,432	–	14,432
Depreciation and amortisation of property, plant and equipment	10,343	2	10,345
Amortisation of prepaid rentals	2,239	–	2,239
As at 31st March, 2003			
Balance sheet			
Assets			
Segment assets	243,469	10,716	254,185
Unallocated corporate assets			11,926
Consolidated total assets			266,111
Liabilities			
Segment liabilities	102,657	743	103,400
Unallocated corporate liabilities			57,933
Consolidated total liabilities			161,333

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

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
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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)	–
	<u>322,887</u>	<u>22,998</u>	<u>(23,763)</u>	<u>322,122</u>

Inter-segment sales are charged at prevailing market prices.

Result

Segment result	<u>13,198</u>	<u>347</u>	–	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			<u>614</u>
Profit before taxation				12,117
Taxation credit				<u>34</u>
Profit before minority interests				12,151
Minority interests				<u>(1)</u>
Net profit for the year				<u>12,150</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	OEM paper products manufacturing <i>HK\$'000</i>	House brand and agency products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's operations are located in Mainland China and Hong Kong of 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,	
	2003 HK\$'000	2002 HK\$'000
United States of America	213,287	161,468
Europe	73,332	76,657
Asia-Pacific (excluding Hong Kong)	66,303	65,128
Hong Kong	5,882	7,058
Canada	5,397	5,236
Others	6,375	6,575
	370,576	322,122

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 combined total assets		Additions to property, plant and equipment	
	As at 31st March,		Year ended 31st March,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Mainland China	212,619	160,465	13,863	673
Hong Kong	16,861	20,720	569	1,388
Others	36,631	23,239	–	–
	266,111	204,424	14,432	2,061

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

5. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (<i>note 6</i>)	6,015	5,406
Other staff costs	65,757	59,696
Retirement benefit scheme contributions for other staff	1,186	1,105
Forfeited contributions utilised to offset employers' contributions	(38)	(1,205)
Total staff costs	72,920	65,002
Amortisation of prepaid rentals	2,239	2,240
Auditors' remuneration	680	750
Depreciation and amortisation on:		
– own assets	9,989	12,204
– an asset held under a finance lease	356	–
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	3,915	4,913
– hire of equipment	372	433
and after crediting:		
Gain on disposal of property, plant and equipment other than leasehold land in Mainland China	2,240	–
Interest income	47	678
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income included in other income	–	614

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
(i) Directors' emoluments		
Fees:		
Executive directors	–	–
Independent non-executive directors	40	–
	<u>40</u>	–
Other emoluments to executive directors:		
Salaries and other benefits	5,917	5,346
Retirement benefit scheme contributions	58	60
	<u>5,975</u>	5,406
	<u><u>6,015</u></u>	<u>5,406</u>

Emoluments of the directors were within the following bands:

	Number of director(s)	
	2003	2002
Nil – HK\$1,000,000	3	8
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>7</u>	<u>9</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**(ii) Employees' emoluments**

The five highest paid individuals of the Group for the year included four (2002: three) executive directors, details of whose emoluments are set out in (i) above. The emolument(s) of the remaining one (2002: two) highest paid employee(s), not being director(s) of the Company, is/are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,151	1,825
Retirement benefit scheme contributions	12	24
	<u>1,163</u>	<u>1,849</u>

Emolument(s) of this/these employee(s) was/were within the following bands:

	Number of employee(s)	
	2003	2002
Nil – HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	1	1

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	1,132	2,404
– obligations under a finance lease	7	–
Total borrowing costs	<u>1,139</u>	<u>2,404</u>

8. TAXATION

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

The taxation credit in 2002 represented the overprovision of Hong Kong Profits Tax in prior years.

Details of unprovided deferred taxation are set out in note 26.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

9. EARNINGS PER SHARE

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Earnings:		
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	<u>1,773</u>	<u>12,150</u>
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	3,780,719,386	3,619,718,071
Effect of diluted potential shares:		
Share options	43,545,445	12,839,265
Warrants	–	30,936,890
Weighted average number of shares for the purpose of diluted earnings per share	<u>3,824,264,831</u>	<u>3,663,494,226</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding warrants as the exercise price of those warrants is higher than the market price of the Company's shares throughout the current year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1st April, 2002	7,436	7,435	166,533	2,921	1,208	23,873	209,406
Additions	82	75	12,546	1,003	–	726	14,432
Disposals	–	(4,250)	(11,678)	(210)	–	(17,420)	(33,558)
At 31st March, 2003	7,518	3,260	167,401	3,714	1,208	7,179	190,280
DEPRECIATION AND AMORTISATION							
At 1st April, 2002	1,749	5,612	135,015	2,476	1,179	22,266	168,297
Provided for the year	301	1,050	7,904	187	18	885	10,345
Eliminated on disposals	–	(3,993)	(10,981)	(163)	–	(17,313)	(32,450)
At 31st March, 2003	2,050	2,669	131,938	2,500	1,197	5,838	146,192
NET BOOK VALUES							
At 31st March, 2003	5,468	591	35,463	1,214	11	1,341	44,088
At 31st March, 2002	5,687	1,823	31,518	445	29	1,607	41,109

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

The net book value of machinery and equipment includes an amount of approximately HK\$6,974,000 (2002: nil) in respect of an asset held under a finance lease.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

11. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares:		
At carrying value	124,438	124,438
At cost	55,215	55,215
	179,653	179,653
Amounts due from subsidiaries	642,389	630,949
	822,042	810,602
Less: Impairment losses	(624,602)	(624,602)
	197,440	186,000

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.

Details of the Company's principal subsidiaries at 31st March, 2003 are set out in note 33.

12. PREPAID RENTALS

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount to be utilised within one year	2,239	2,239
Amount to be utilised after one year	35,267	37,506
	37,506	39,745
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	(2,239)	(2,239)
	35,267	37,506

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\$2,239,000 (2002: HK\$2,240,000). The advances are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

13. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	77,147	37,789
Work in progress	26,674	27,844
Finished goods	17,256	5,692
	121,077	71,325

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	2,950	4,022
Finished goods	1,572	1,725
	4,522	5,747

14. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31st March, 2003, the balance of debtors, deposits and prepayments included trade debtors of approximately HK\$44,250,000 (2002: HK\$30,695,000). The aged analysis of trade debtors at the reporting date is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	30,627	24,487
31 – 60 days	6,480	3,687
61 – 90 days	4,034	1,375
91 – 120 days	398	313
Over 120 days	2,711	833
	44,250	30,695

The Group allows an average credit period of 35 days (2002: 35 days) to its trade customers.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

15. COMPENSATION RECEIVABLE

The compensation receivable represented 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 Dongguan, the PRC by the Group to the Expropriator during the year ended 31st March, 2002. 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 year ended 31st March, 2002.

16. CREDITORS AND ACCRUED CHARGES

At 31st March, 2003, the balance of creditors and accrued charges included trade creditors of approximately HK\$70,226,000 (2002: HK\$38,307,000). The aged analysis of trade creditors at the reporting date is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	22,045	22,115
31 – 60 days	16,229	3,994
61 – 90 days	9,895	4,487
91 – 120 days	1,999	3,507
Over 120 days	20,058	4,204
	70,226	38,307

17. LOANS FROM DIRECTORS

Particulars of the loans from directors are as follows:

Names of director	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Kan Shiu Cheong, Frederick	–	2,000
Yau Kang Nam	–	2,000
	–	4,000

The amounts were unsecured, interest-free and fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

18. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The obligations under a finance lease are repayable within the periods as follows:				
Within one year	2,126	–	1,921	–
In the second to fifth year inclusive	4,251	–	4,079	–
	6,377	–	6,000	–
Less: Future finance charges	(377)	–	N/A	N/A
Present value of lease obligations	6,000	–	6,000	–
Less: Amount due within one year shown under current liabilities			(1,921)	–
Amount due after one year			4,079	–

The Group's obligations under a finance lease are secured by the lessor's charge over the leased asset.

19. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trust receipts and import loans, unsecured	46,177	–	–	–
Bank overdrafts, unsecured	5,209	–	–	–
Rescheduled loans, secured (Note)	–	41,313	–	41,313
	51,386	41,313	–	41,313

Details of pledge of assets for the rescheduled loans are set out in note 27 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

19. BANK BORROWINGS (Continued)

Note: 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 were rescheduled by the Bank Creditors as rescheduled loans, which were repayable by eight instalments. The Company has fully repaid the outstanding rescheduled loans in July 2002.

20. SHARE CAPITAL

	Number of shares	Par value per ordinary share HK\$	Share capital HK\$'000
Authorised:			
At 1st April, 2001, 31st March, 2002 and 31st March, 2003	<u>10,000,000,000</u>	0.01	<u>100,000</u>
Issued and fully paid:			
At 1st April, 2001 and 31st March, 2002	3,619,718,071	0.01	36,197
Issue of new shares upon exercise of share options	<u>225,240,000</u>	0.01	<u>2,253</u>
At 31st March, 2003	<u>3,844,958,071</u>		<u>38,450</u>

21. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed on 19th February, 1992, the Company adopted a share option scheme (the "Old Share Option 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. Under the Old Share Option Scheme, the board of directors of the Company may grant share options to executive directors and employees of the Company and of its subsidiaries to subscribe for shares in the Company. Options granted must be taken up within the period as specified in the offer of options, and upon payment of HK\$1 as the consideration for the options granted and are exercisable on the expiry of six months after the date of acceptance of the options granted or on such other date as the board of directors may at its discretion determine and will expire on the last day of the three years period.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

21. SHARE OPTIONS (Continued)

The maximum number of shares in respect of which share options may be granted under the Old Share Option Scheme and any other schemes of the Company in aggregate shall not exceed 10% of the issued share capital of the Company from time to time. The maximum entitlement of each participant under the Old Share Option Scheme shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme. The exercise price shall be 80% of the average of the closing prices of the shares quoted on the Stock Exchange for the five trading days immediately preceding the date the options are granted or the nominal value of the Company's share, whichever is the higher.

The implementation of relevant terms of the Old Share Option Scheme had been adjusted to comply with the new requirements of the Listing Rules, which were adopted on 1st September, 2001.

The Old Share Option Scheme expired on 18th February, 2002 and no further options can be granted under the Old Share Option Scheme thereafter.

The details of the movements in the number of options outstanding during the year which have been granted under the Old Share Option Scheme are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options					Outstanding at 31.3.2003
			Outstanding at 1.4.2001	Granted during the previous year	Outstanding at 31.3.2002 and 1.4.2002	Exercised during the current year	Lapsed during the current year	
31.8.2001	31.8.2001 – 30.8.2004	0.01344	-	192,822,000	192,822,000	(171,640,000)	-	21,182,000
31.8.2001	1.3.2002 – 28.2.2005	0.01344	-	26,000,000	26,000,000	(26,000,000)	-	-
31.8.2001	1.6.2002 – 31.5.2005	0.01344	-	32,100,000	32,100,000	(25,100,000)	(4,000,000)	3,000,000
31.8.2001	15.6.2002 – 14.6.2005	0.01344	-	500,000	500,000	(500,000)	-	-
18.2.2002	18.2.2002 – 17.2.2005	0.02400	-	10,000,000	10,000,000	-	-	10,000,000
18.2.2002	1.6.2002 – 31.5.2005	0.02400	-	6,000,000	6,000,000	(2,000,000)	-	4,000,000
			-	267,422,000	267,422,000	(225,240,000)	(4,000,000)	38,182,000

Details of share options held by directors included in the above table are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options				Outstanding at 31.3.2003
			Outstanding at 1.4.2001	Granted during the previous year	Outstanding at 31.3.2002 and 1.4.2002	Exercised during the current year	
31.8.2001	31.8.2001 – 30.8.2004	0.01344	-	182,822,000	182,822,000	(171,640,000)	11,182,000
18.2.2002	18.2.2002 – 17.2.2005	0.02400	-	10,000,000	10,000,000	-	10,000,000
			-	192,822,000	192,822,000	(171,640,000)	21,182,000

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

21. SHARE OPTIONS (Continued)

The closing prices of the Company's shares upon the dates of exercise of options ranged from HK\$0.021 to HK\$0.034.

On 29th August, 2002, a new share option scheme (the "New Share Option Scheme") was approved and adopted by the shareholders of the Company with the primary purpose the same as the Old Share Option Scheme, which will be effective for ten years until 28th August, 2012.

Pursuant to the New Share Option Scheme, the board of directors of the Company may at any time within ten years from the adoption date, offer any eligible participant (including any director of the Company or any of its subsidiaries) options to subscribe for shares in the Company at a price not less than the highest of:

- (i) The closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant of the options;
- (ii) The average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and
- (iii) The nominal value of the shares of the Company on the date of grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Company shall not exceed 10% of the shares of the Company in issue on the adoption date. The maximum entitlement of each participant in any twelve month period under the New Share Option Scheme shall not exceed 1% of the shares of the Company in issue at the relevant time.

Each grant of options to any director, chief executive or substantial shareholder of the Company shall be subject to approval of the independent non-executive directors. In addition, any grant of options to a substantial shareholder or an independent non-executive director, or any of their associates, would result in the shares issuable upon exercise of all options granted and to be granted to such person in the twelve month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares quoted on the Stock Exchange on the date of grant) in excess of HK\$5 million, such further grant of options shall be subject to approval by the shareholders in general meeting.

Options granted must be taken up within 28 days from the date of grant, upon payment of the consideration of HK\$1 per each grant of option. The exercise period of the options is determinable by the directors, and shall expire not later than ten years from the date of grant. The New Share Option Scheme does not specify the requirement as to minimum period for which an option must be held.

No options were granted under the New Share Option Scheme during the year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

22. 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.

No warrants were exercised during the current year (2002: nil).

At 31st March, 2003, exercise in full of the outstanding warrants would result in the issue of an additional 721,637,214 (2002: 721,637,214) ordinary shares of HK\$0.01 each by the Company.

23. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 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
Issue of new shares upon exercise of share options	796	–	–	796
Transfer to set off accumulated losses and contributed surplus account upon capital reduction (Note)	(482,934)	47,297	435,637	–
Net profit for the year	–	–	191	191
At 31st March, 2003	176	47,297	12,061	59,534

At 31st March, 2003, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK\$47,297,000 (2002: nil) and accumulated profits of HK\$12,061,000 (2002: nil).

The balance of contributed surplus arose as a result of the Company's capital reduction during the current year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

23. RESERVES (Continued)

Under the Company Act 1981 of Bermuda, contributed surplus account of a company is also available for distribution in addition to accumulated profits. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Note: The details of the Company's capital reduction exercise are set out in the Company's circular issued to the shareholders dated 30th July, 2002.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

24. DISPOSAL/WINDING UP OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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	85	4,336
Capital reserve realised	-	(859)
	85	3,031
Loss on disposal/winding up of subsidiaries	(85)	(127)
	-	2,904
Satisfied by:		
Cash	-	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 subsidiary disposed of/wound up during both years did not have any significant impact on the Group's operating results and cash flows.

25. MAJOR NON-CASH TRANSACTION

During the year ended 31st March, 2002, 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

26. UNPROVIDED DEFERRED TAXATION

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

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Excess of tax allowances of property, plant and equipment over accounting depreciation	2,442	2,081
Taxation losses	(23,159)	(34,831)
Net deferred tax assets	<u>(20,717)</u>	<u>(32,750)</u>

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\$2,390,000 (2002: HK\$2,799,000) in respect of taxation losses carried forward.

27. PLEDGE OF ASSETS

Upon the completion of the Bank Debt Restructuring Agreement, as set out in note 19, 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. Such security was released after the Company fully repaid the outstanding rescheduled loans during the year ended 31st March, 2003.

At 31st March, 2002, the Group and the Company had pledged the bank balances of approximately HK\$131,000 to secure the bank borrowings and other banking facilities granted by various banks to the Group. Such pledge of bank balances was released during the year ended 31st March, 2003.

28. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee given to bankers in respect of banking facilities granted to subsidiaries	–	–	93,000	834,100

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

29. 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 disputed the claims for shares of the Company equivalent to HK\$7,000,000. However, the Company had 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 ended 31st March, 2002, the directors of the Company considered that the Group was unlikely to make any settlement in respect of the claims and, accordingly, the amount of the provision of HK\$1,528,000 was fully written back to the income statement for that year.

30. CAPITAL COMMITMENTS

At the balance sheet date, the Group was contracted for acquisition of property, plant and equipment amounting to approximately HK\$1,790,000 (2002: HK\$7,997,000).

31. 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	3,173	2,980	372	698
In the second to fifth year inclusive	1,738	426	548	920
	4,911	3,406	920	1,618

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, 2003

32. RETIREMENT BENEFIT SCHEME**Hong Kong**

A retirement plan has been established for all eligible employees of 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\$524,000 (2002: a credit of HK\$160,000). 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	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Employers' contributions under defined contribution scheme	562	1,045
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	(38)	(1,205)
	524	(160)

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 was nil (2002: amounted to approximately HK\$49,000).

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, 2003 was approximately HK\$682,000 (2002: HK\$120,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003

33. 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) 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.	PRC*	HK\$37,000,000	–	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) HK\$1	–	100	Trading in paper products and stationery
Easyfil International Company Limited	Bermuda/ Hong Kong	US\$12,000	100	–	Investment holding

* wholly foreign-invested enterprises

Note: 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2003**33. PRINCIPAL SUBSIDIARIES (Continued)**

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, 2003 or at any time during the year.