

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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 HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was required to be made for deferred tax using the income statements liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxes bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment is required.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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:

Leasehold improvements	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 are depreciated over their estimated useful lives on the same basis as owned assets or the term of the relevant leases, where shorter.

Investments in subsidiaries

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

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payment in respect of operating leases are charged to the income statement on a straight line basis over the period of the relevant lease terms.

Retirement benefits 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, 2004

4. SEGMENT INFORMATION

Business segments

The Group's principal activities are manufacturing and distribution 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 <i>HK\$'000</i>	House brand and agency products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the year ended 31st March, 2004				
Turnover				
External sales	365,854	16,616	–	382,470
Inter-segment sales	7,156	–	(7,156)	–
	373,010	16,616	(7,156)	382,470
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result	11,065	516	–	11,581
Unallocated corporate expenses				(6,100)
Interest income				10
Finance costs				(1,777)
Net profit for the year				3,714

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	OEM paper products HK\$'000	House brand and agency products HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2004			
Other information			
Additions of property, plant and equipment	33,571	–	33,571
Depreciation and amortisation of property, plant and equipment	11,702	–	11,702
Amortisation of prepaid rentals	2,239	–	2,239
As at 31st March, 2004			
Balance sheet			
Assets			
Segment assets	221,584	7,872	229,456
Unallocated corporate assets			14,492
Consolidated total assets			243,948
Liabilities			
Segment liabilities	63,816	755	64,571
Unallocated corporate liabilities			69,927
Consolidated total liabilities			134,498

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	OEM paper products <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, 2004

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,	
	2004	2003
	HK\$'000	HK\$'000
United States of America	221,994	213,287
Europe	92,046	73,332
Asia-Pacific (excluding Hong Kong)	56,113	66,303
Hong Kong	5,240	5,882
Canada	558	5,397
Others	6,519	6,375
	382,470	370,576

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

	Carrying amount of consolidated assets		Additions to property, plant and equipment	
	As at 31st March,		Year ended 31st March,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	186,582	212,619	33,123	13,863
Hong Kong	27,954	16,861	448	569
Others	29,412	36,631	–	–
	243,948	266,111	33,571	14,432

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

5. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' emoluments (<i>note 6</i>)	4,982	6,015
Other staff costs	60,789	65,757
Retirement benefit scheme contributions for other staff	1,573	1,186
Forfeited contributions utilised to offset employers' contributions	(80)	(38)
Total staff costs	67,264	72,920
Amortisation of prepaid rentals	2,239	2,239
Auditors' remuneration	781	680
Depreciation and amortisation on:		
– own assets	10,713	9,989
– assets held under finance leases	989	356
Minimum lease payment paid in respect of		
– rented premises	4,615	3,915
– hire of equipment	372	372
and after crediting:		
Gain on disposal of property, plant and equipment	2,014	2,240
Interest income	10	47
Reversal of allowance for inventories included in cost of sales	5,859	7,905

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	40	40
	40	40
Other emoluments to executive directors:		
Salaries and other benefits	4,894	5,917
Retirement benefit scheme contributions	48	58
	4,942	5,975
	4,982	6,015

Emoluments of the directors were within the following bands:

	Number of director(s)	
	2004	2003
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	2	3
HK\$1,500,001 – HK\$2,000,000	1	1
	6	7

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included four (2003: four) executive directors, details of whose emoluments are set out in (i) above. The emolument of the remaining one (2003: one) highest paid employee, not being director of the Company, is as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,131	1,151
Retirement benefit scheme contributions	12	12
	1,143	1,163

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

7. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
– bank borrowings wholly repayable within five years	1,437	1,132
– obligations under finance leases	340	7
Total borrowing costs	1,777	1,139

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group have no assessable profit for the year.

The applicable income tax rate for subsidiaries operating in the PRC is 33% (2003: 33%).

A reconciliation of taxation is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net profit for the year	3,714	1,773
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 16%)	650	284
Tax effect of expenses not deductible for tax purposes	659	1,655
Tax effect of income not taxable for tax purposes	(282)	(1,049)
Tax effect of tax losses not recognised	206	578
Utilisation of tax losses previously not recognised	(759)	(418)
Effect of different tax rates of subsidiaries operating in the PRC	265	(720)
Others	(739)	(330)
Taxation for the year	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

9. EARNINGS PER SHARE

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

	2004	2003
	HK\$'000	HK\$'000
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Earnings:		
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	3,714	1,773
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	2004	2003
<hr/>		
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	3,886,503,153	3,780,719,386
Effect of diluted potential shares:		
Share options	39,570,526	43,545,445
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Weighted average number of shares for the purpose of diluted earnings per share	3,926,073,679	3,824,264,831
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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 both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve- ments <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, 2003	7,518	3,260	167,401	3,714	1,208	7,179	190,280
Currency realignment	–	3	70	15	–	3	91
Additions	78	215	32,185	450	–	643	33,571
Disposals	–	–	(11,797)	(443)	–	–	(12,240)
At 31st March, 2004	7,596	3,478	187,859	3,736	1,208	7,825	211,702
DEPRECIATION AND AMORTISATION							
At 1st April, 2003	2,050	2,669	131,938	2,500	1,197	5,838	146,192
Currency realignment	–	2	55	8	–	1	66
Provided for the year	308	492	9,650	390	7	855	11,702
Eliminated on disposals	–	–	(11,388)	(432)	–	–	(11,820)
At 31st March, 2004	2,358	3,163	130,255	2,466	1,204	6,694	146,140
NET BOOK VALUES							
At 31st March, 2004	5,238	315	57,604	1,270	4	1,131	65,562
At 31st March, 2003	5,468	591	35,463	1,214	11	1,341	44,088

The net book value of machinery and equipment includes an amount of approximately HK\$34,066,000 (2003: HK\$6,974,000) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

11. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares:		
At carrying value	124,438	124,438
At cost	55,215	55,215
	179,653	179,653
Amounts due from subsidiaries	642,256	642,389
	821,909	822,042
Less: Impairment losses	(624,602)	(624,602)
	197,307	197,440

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, 2004 are set out in note 29.

12. PREPAID RENTALS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Amount to be utilised within one year	2,239	2,239
Amount to be utilised after one year	33,028	35,267
	35,267	37,506
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	(2,239)	(2,239)
	33,028	35,267

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 (2003: HK\$2,239,000). The advances are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

13. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	61,589	77,147
Work in progress	14,566	26,674
Finished goods	5,212	17,256
	81,367	121,077

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

	2004		2003	
	HK\$'000		HK\$'000	
	Raw materials	361	2,950	
Finished goods	790	1,572		
	1,151	4,522		

14. DEBTORS, DEPOSITS AND PREPAYMENTS

THE GROUP

At 31st March, 2004, the balance of debtors, deposits and prepayments included trade debtors of approximately HK\$37,074,000 (2003: HK\$44,250,000). The aged analysis of trade debtors at the reporting date is as follows:

	2004		2003	
	HK\$'000		HK\$'000	
	0 – 30 days	35,228	40,690	
31 – 60 days	1,224	1,888		
61 – 90 days	182	53		
91 – 120 days	274	61		
Over 120 days	166	1,558		
	37,074	44,250		

The Group allows an average credit period of 35 days (2003: 35 days) to its trade customers.

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For the year ended 31st March, 2004

15. CREDITORS AND ACCRUED CHARGES

THE GROUP

At 31st March, 2004, the balance of creditors and accrued charges included trade creditors of approximately HK\$41,291,000 (2003: HK\$70,226,000). The aged analysis of trade creditors at the reporting date is as follows:

	2004 HK\$'000	2003 HK\$'000
0 – 30 days	23,096	43,898
31 – 60 days	1,688	7,598
61 – 90 days	1,731	5,624
91 – 120 days	2,984	5,165
Over 120 days	11,792	7,941
	41,291	70,226

16. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The obligations under finance leases are repayable within the periods as follows:				
Within one year	8,851	2,126	8,142	1,921
In the second to fifth year inclusive	18,329	4,251	17,652	4,079
	27,180	6,377	25,794	6,000
Less: Future finance charges	(1,386)	(377)	N/A	N/A
Present value of lease obligations	25,794	6,000	25,794	6,000
Less: Amounts due within one year shown under current liabilities			(8,142)	(1,921)
Amounts due after one year			17,652	4,079

The average lease term is four years. All the leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

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For the year ended 31st March, 2004

17. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Export loans	17,923	–
Trust receipts and import loans	14,660	46,177
Short term bank loans	7,498	–
Bank overdrafts	3,748	5,209
	43,829	51,386

The bank borrowings are unsecured.

18. SHARE CAPITAL

	Number of shares	Par value per ordinary share HK\$	Share capital HK\$'000
<i>Authorised:</i>			
At 1st April, 2002, 31st March, 2003 and 31st March, 2004	10,000,000,000	0.01	100,000
<i>Issued and fully paid:</i>			
At 1st April, 2002	3,619,718,071	0.01	36,197
Issue of new shares upon exercise of share options	225,240,000	0.01	2,253
At 31st March, 2003	3,844,958,071		38,450
Issue of new shares upon exercise of share options	56,550,000	0.01	565
At 31st March, 2004	3,901,508,071		39,015

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

19. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed on 19th February, 1992, the Company adopted a share option scheme (the "Old 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 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.

The maximum number of shares in respect of which share options may be granted under the Old 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 Scheme shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old 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 Scheme had been adjusted to comply with the new requirements of the Listing Rules, which was adopted on 1st September, 2001.

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

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

Date of grant	Exercise period	Exercise price HK\$	Number of share options					
			Outstanding at 1.4.2002	Exercised during the previous year	Lapsed during the previous year	Outstanding at 31.3.2003 and 1.4.2003	Exercised during the current year	Outstanding at 31.3.2004
31.8.2001	31.8.2001 - 30.8.2004	0.01344	192,822,000	(171,640,000)	-	21,182,000	(10,000,000)	11,182,000
31.8.2001	1.3.2002 - 28.2.2005	0.01344	26,000,000	(26,000,000)	-	-	-	-
31.8.2001	1.6.2002 - 31.5.2005	0.01344	32,100,000	(25,100,000)	(4,000,000)	3,000,000	(3,000,000)	-
31.8.2001	15.6.2002 - 14.6.2005	0.01344	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	(2,000,000)	-	4,000,000	-	4,000,000
			267,422,000	(225,240,000)	(4,000,000)	38,182,000	(13,000,000)	25,182,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

19. SHARE OPTIONS (Continued)

Details of share options granted under the Old Scheme 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 1.4.2002	Exercised during the previous year	Outstanding at 31.3.2003, 1.4.2003 and 31.3.2004
31.8.2001	31.8.2001 – 30.8.2004	0.01344	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
			192,822,000	(171,640,000)	21,182,000

The closing prices of the Company's shares upon the dates of exercise of options ranged from HK\$0.018 to HK\$0.028 (2003: HK\$0.021 to HK\$0.034).

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

Pursuant to the New 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 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 Scheme shall not exceed 1% of the shares of the Company in issue at the relevant time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

19. SHARE OPTIONS (Continued)

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 Scheme does not specify the requirement as to minimum period for which an option must be held.

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

Date of grant	Exercise period	Exercise price HK\$	Number of share options				Outstanding at 31.3.2004
			Outstanding from 29.8.2002 to 1.4.2003	Granted during the current year	Exercised during the current year	Lapsed during the current year	
3.4.2003	3.4.2003 – 2.4.2006	0.01800	–	152,300,000	(43,550,000)	(1,850,000)	106,900,000

Details of share options granted under the New Scheme 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 31.3.2004
			Outstanding from 29.8.2002 to 1.4.2003	Granted during the current year	Exercised during the current year	
3.4.2003	3.4.2003 – 2.4.2006	0.01800	–	84,000,000	(40,000,000)	44,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

20. WARRANTS

Pursuant to the Bank Debt Restructuring Agreement entered into by the Group with the bank creditors on 22nd November, 2000, 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 year (2003: nil) and the listing of the warrants on the Stock Exchange had been withdrawn after the close of business on 6th February, 2004.

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

21. 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, 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
Issue of new shares upon exercise of share options	393	–	–	393
Net profit for the year	–	–	92	92
At 31st March, 2004	569	47,297	12,153	60,019

The balance of contributed surplus arose as a result of the Company's capital reduction which took place in the previous year.

21. 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.

At 31st March, 2004, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK\$47,297,000 (2003: HK\$47,297,000) and accumulated profits of HK\$12,153,000 (2003: HK\$12,061,000).

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.

22. WINDING UP OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Translation reserve realised	–	85
Loss on winding up of subsidiaries	–	(85)
	–	–

The subsidiaries wound up in the previous year did not have any significant impact on the Group's operating results and cash flows.

23. MAJOR NON-CASH TRANSACTION

During the year, certain subsidiaries of the Group entered into finance lease arrangements of HK\$23,097,000 (2003: nil) in respect of property, plant and equipment with capital value at the inception of the lease of HK\$28,081,000 (2003: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

24. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and the movements thereon during the current and previous year:

	THE GROUP		
	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002			
– as previously reported	–	–	–
– adjusted on adoption of SSAP 12 (Revised)	(2,096)	2,096	–
– as restated	(2,096)	2,096	–
(Charge) credit to income statement for the year	(355)	355	–
At 31st March, 2003	(2,451)	2,451	–
(Charge) credit to income statement for the year	(728)	728	–
Effect of change in tax rate	(230)	230	–
At 31st March, 2004	(3,409)	3,409	–

At 31st March, 2004, the Group has unused tax losses of approximately HK\$145,740,000 (2003: HK\$144,742,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$19,478,000 (2003: HK\$15,318,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$126,262,000 (2003: HK\$129,424,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At the balance sheet date, the Company has unused tax losses of approximately HK\$14,681,000 (2003: HK\$14,940,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

25. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills receivable discounted with recourse	966	–	–	–
Guarantee given to bankers in respect of banking facilities granted to subsidiaries	–	–	144,030	93,000

The Company had no contingent liabilities at both balance sheet dates.

26. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	6,620	1,790
Capital expenditure in respect of capital injection in a subsidiary in the PRC contracted for	31,000	–
	37,620	1,790

27. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	5,229	3,173	372	372
In the second to fifth year inclusive	10,133	1,738	176	548
Over five years	9,458	–	–	–
	24,820	4,911	548	920

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

27. OPERATING LEASE COMMITMENTS (Continued)

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 five years and one year 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.

28. 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\$654,000 (2003: HK\$524,000). 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	
	2004	2003
	HK\$'000	HK\$'000
Employers' contributions under defined contribution scheme	734	562
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	(80)	(38)
	654	524

At both balance sheet dates, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

28. RETIREMENT BENEFIT SCHEME (Continued)**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, 2004 was approximately HK\$887,000 (2003: HK\$682,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

29. 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/ HK\$68,000,000	–	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

* wholly foreign-invested enterprises

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

29. PRINCIPAL SUBSIDIARIES (Continued)

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 %	
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
Shiu's Investments Limited	British Virgin Islands/PRC	US\$1	–	100	Manufacture and distribution of paper products

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.

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, 2004 or at any time during the year.