

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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)***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.

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 terms of the relevant leases, where shorter.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

Taxation

Taxation 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Taxation** *(continued)*

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.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign 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.

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For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 <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, 2005				
Turnover				
External sales	297,965	13,376	–	311,341
Inter-segment sales	11,526	–	(11,526)	–
	309,491	13,376	(11,526)	311,341
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result	6,506	(447)		6,059
Unallocated corporate expenses				(6,547)
Gain on disposal of a subsidiary	–	6,792		6,792
Interest income				14
Finance costs				(2,768)
Net profit for the year				3,550

For the year ended 31st March, 2005

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, 2005			
Other information			
Additions of property, plant and equipment	21,901	–	21,901
Depreciation and amortisation of property, plant and equipment	11,444	–	11,444
Amortisation of prepaid rentals	2,239	–	2,239
As at 31st March, 2005			
Balance sheet			
Assets			
Segment assets	208,268	14,578	222,846
Unallocated corporate assets			5,840
Consolidated total assets			228,686
Liabilities			
Segment liabilities	45,958	595	46,553
Unallocated corporate liabilities			68,462
Consolidated total liabilities			115,015

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

4. SEGMENT INFORMATION (Continued)

Business segments (continued)

	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)	–
	<u>373,010</u>	<u>16,616</u>	<u>(7,156)</u>	<u>382,470</u>
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result	<u>11,065</u>	<u>516</u>	–	11,581
Unallocated corporate expenses				(6,100)
Interest income				10
Finance costs				<u>(1,777)</u>
Net profit for the year				<u>3,714</u>

For the year ended 31st March, 2005

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, 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, 2005

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,	
	2005	2004
	HK\$'000	HK\$'000
United States of America	159,794	221,994
Europe	87,336	92,046
Asia-Pacific (excluding Hong Kong)	50,209	56,113
Hong Kong	4,502	5,240
Others	9,500	7,077
	311,341	382,470

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,	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	169,659	186,582	21,698	33,123
Hong Kong	35,431	27,954	203	448
Others	23,596	29,412	–	–
	228,686	243,948	21,901	33,571

For the year ended 31st March, 2005

5. (LOSS) PROFIT FROM OPERATIONS

	2005	2004
	HK\$'000	HK\$'000
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(Loss) profit from operations has been arrived at after charging:		
Directors' emoluments (<i>note 6</i>)	5,192	4,982
Other staff costs	58,870	60,789
Retirement benefit scheme contributions for other staff	2,592	1,573
Forfeited contributions utilised to offset employers' contributions	(17)	(80)
	<hr/>	<hr/>
Total staff costs	66,637	67,264
	<hr/>	<hr/>
Amortisation of prepaid rentals	2,239	2,239
Auditors' remuneration	811	781
Depreciation and amortisation on:		
– own assets	7,483	10,713
– assets held under finance leases	3,961	989
Minimum lease payment paid in respect of		
– rented premises	6,271	4,615
– hire of equipment	372	372
and after crediting:		
Gain on disposal of property, plant and equipment	3,107	2,014
Interest income	14	10
Reversal of allowance for inventories included in cost of sales	5,383	5,859
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
(i) Directors' emoluments		
Fees:		
Executive directors	–	–
Independent non-executive directors	100	40
	<u>100</u>	<u>40</u>
Other emoluments to executive directors:		
Salaries and other benefits	4,656	4,894
Discretionary bonuses	388	–
Retirement benefit scheme contributions	48	48
	<u>5,092</u>	<u>4,942</u>
	<u>5,192</u>	<u>4,982</u>

Emoluments of the directors were within the following bands:

	Number of director(s)	
	2005	2004
Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>7</u>	<u>6</u>

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included three (2004: four) executive directors, details of whose emoluments are set out in (i) above. The emoluments of the remaining two (2004: one) highest paid employees, not being directors of the Company, are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	1,752	1,131
Discretionary bonuses	224	–
Retirement benefit scheme contributions	24	12
	<u>2,000</u>	<u>1,143</u>

For the year ended 31st March, 2005

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(ii) Employees' emoluments (continued)

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2005	2004
Nil – HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	1	1
	2	1

7. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	1,666	1,437
– obligations under finance leases	1,102	340
Total finance costs	2,768	1,777

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% (2004: 33%).

A reconciliation of taxation is as follows:

	2005	2004
	HK\$'000	HK\$'000
Net profit for the year	3,550	3,714
Tax at Hong Kong Profits Tax rate of 17.5%	621	650
Tax effect of expenses not deductible for tax purpose	1,079	659
Tax effect of income not taxable for tax purpose	(2,515)	(282)
Tax effect of tax losses not recognised	75	206
Utilisation of tax losses previously not recognised	(391)	(759)
Effect of different tax rates of subsidiaries operating in the PRC	1,078	265
Others	53	(739)
Taxation for the year	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

9. EARNINGS PER SHARE

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

	2005	2004
	HK\$'000	HK\$'000
Earnings:		
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	<u>3,550</u>	<u>3,714</u>
	2005	2004
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	3,928,763,244	3,886,503,153
Effect of diluted potential shares:		
Share options	<u>33,027,824</u>	<u>39,570,526</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>3,961,791,068</u>	<u>3,926,073,679</u>

The warrants had expired after the close of business on 6th February, 2004. There was no warrant outstanding during the year ended 31st March, 2005.

The computation of diluted earnings per share for the year ended 2004 does not assume the exercise of the Company's outstanding warrants as the exercise price of those warrants was higher than the market price of the Company's shares throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements 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, 2004	7,596	3,478	187,859	3,736	1,208	7,825	211,702
Additions	-	3,689	17,520	150	-	542	21,901
Disposals	-	-	(24,435)	(308)	-	(33)	(24,776)
At 31st March, 2005	7,596	7,167	180,944	3,578	1,208	8,334	208,827
DEPRECIATION AND AMORTISATION							
At 1st April, 2004	2,358	3,163	130,255	2,466	1,204	6,694	146,140
Provided for the year	308	402	9,882	280	3	569	11,444
Eliminated on disposals	-	-	(17,893)	(308)	-	(33)	(18,234)
At 31st March, 2005	2,666	3,565	122,244	2,438	1,207	7,230	139,350
NET BOOK VALUES							
At 31st March, 2005	4,930	3,602	58,700	1,140	1	1,104	69,477
At 31st March, 2004	5,238	315	57,604	1,270	4	1,131	65,562

The net book value of machinery and equipment includes an amount of approximately HK\$39,009,000 (2004: HK\$34,066,000) in respect of assets held under finance leases.

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 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	638,398	642,256
	818,051	821,909
Less: Impairment losses	(620,030)	(624,602)
	198,021	197,307

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

11. INTERESTS IN SUBSIDIARIES (Continued)

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.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts are not likely to be settled within the coming twelve months and accordingly, the amounts are classified as non-current.

Impairment loss was recognised based on the recoverable amounts of certain loss making subsidiaries which were determined by the estimated discounted net future cash flows from these subsidiaries. The carrying amounts of the subsidiaries were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

Details of the Company's principal subsidiaries at 31st March, 2005 are set out in note 30.

12. PREPAID RENTALS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Amount to be utilised within one year	2,239	2,239
Amount to be utilised after one year	30,789	33,028
	33,028	35,267
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	(2,239)	(2,239)
	30,789	33,028

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 (2004: HK\$2,239,000). The advances are unsecured and interest free.

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For the year ended 31st March, 2005

13. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	38,657	61,589
Work in progress	18,132	14,566
Finished goods	4,478	5,212
	61,267	81,367

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	–	361
Finished goods	237	790
	237	1,151

14. DEBTORS, DEPOSITS AND PREPAYMENTS

THE GROUP

At 31st March, 2005, the balance of debtors, deposits and prepayments included trade debtors of approximately HK\$32,902,000 (2004: HK\$37,074,000). The aged analysis of trade debtors at the reporting date is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	30,642	35,228
31 – 60 days	694	1,224
61 – 90 days	597	182
91 – 120 days	435	274
Over 120 days	534	166
	32,902	37,074

The Group allows an average credit period of 35 days (2004: 35 days) to its trade customers.

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15. AMOUNT DUE FROM A RELATED COMPANY

THE GROUP

	2005 HK\$'000	2004 HK\$'000
Deferred consideration receivable for disposal of a subsidiary (note 22)	7,200	–
Advance	2,000	–
	9,200	–
Maximum amount outstanding during the year	9,200	–

Balance represents amount due from Vevion Hong Kong Limited in which Mr. Chan Hoi Lam, the director of the Company, has beneficial interest.

The amount is unsecured, non-interest bearing and repayable on demand.

16. CREDITORS AND ACCRUED CHARGES

THE GROUP

At 31st March, 2005, the balance of creditors and accrued charges included trade creditors of approximately HK\$29,627,000 (2004: HK\$41,291,000). The aged analysis of trade creditors at the reporting date is as follows:

	2005 HK\$'000	2004 HK\$'000
0 – 30 days	20,896	23,096
31 – 60 days	2,354	1,688
61 – 90 days	1,853	1,731
91 – 120 days	1,666	2,984
Over 120 days	2,858	11,792
	29,627	41,291

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For the year ended 31st March, 2005

17. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The obligations under finance leases are repayable within the periods as follows:				
Within one year	12,200	8,851	11,480	8,142
In the second to fifth year inclusive	16,864	18,329	16,349	17,652
	29,064	27,180	27,829	25,794
Less: Future finance charges	(1,235)	(1,386)	N/A	N/A
Present value of lease obligations	27,829	25,794	27,829	25,794
Less: Amounts due within one year shown under current liabilities			(11,480)	(8,142)
Amounts due after one year			16,349	17,652

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 lessors' charge over the leased assets.

18. BANK BORROWINGS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Export loans	6,468	17,923
Trust receipts and import loans	16,853	14,660
Short term bank loans	5,004	7,498
Long term bank loans	3,328	–
Bank overdrafts	8,605	3,748
	40,258	43,829
Less: Amounts due within one year shown under current liabilities	(36,930)	(43,829)
Amounts due after one year	3,328	–

The bank borrowings are unsecured.

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19. SHARE CAPITAL

	Number of shares	Par value per ordinary share HK\$	Share capital HK\$'000
Authorised:			
At 1st April, 2003, 31st March, 2004 and 31st March, 2005	<u>10,000,000,000</u>	0.01	<u>100,000</u>
Issued and fully paid:			
At 1st April, 2003	3,844,958,071	0.01	38,450
Issue of new shares upon exercise of share options	<u>56,550,000</u>	0.01	<u>565</u>
At 31st March, 2004	3,901,508,071		39,015
Issue of new shares upon exercise of share options	<u>40,082,000</u>	0.01	<u>401</u>
At 31st March, 2005	<u>3,941,590,071</u>		<u>39,416</u>

20. 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.

For the year ended 31st March, 2005

20. SHARE OPTIONS (Continued)

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 per share HK\$	Number of share options					
			Outstanding at 1.4.2003	Exercised during the previous year	Outstanding at 1.4.2004	Exercised during the current year	Lapsed during the current year	Outstanding at 31.3.2005
31.8.2001	31.8.2001 – 30.8.2004	0.01344	21,182,000	(10,000,000)	11,182,000	(11,182,000)	-	-
31.8.2001	1.6.2002 – 31.5.2005	0.01344	3,000,000	(3,000,000)	-	-	-	-
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	4,000,000	-	4,000,000	-	(4,000,000)	-
			38,182,000	(13,000,000)	25,182,000	(11,182,000)	(14,000,000)	-

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 per share HK\$	Number of share options			
			Outstanding at 1.4.2003 and 1.4.2004	Exercised during the current year	Lapsed during the current year	Outstanding at 31.3.2005
31.8.2001	31.8.2001 – 30.8.2004	0.01344	11,182,000	(11,182,000)	-	-
18.2.2002	18.2.2002 – 17.2.2005	0.02400	10,000,000	-	(10,000,000)	-
			21,182,000	(11,182,000)	(10,000,000)	-

The closing price of the Company's shares upon the date of exercise of options under the Old Scheme was HK\$0.028 (2004: HK\$0.018 to HK\$0.028).

All the outstanding options under the Old Scheme were exercised or lapsed during the year.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

20. SHARE OPTIONS *(Continued)*

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.

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.

For the year ended 31st March, 2005

20. SHARE OPTIONS (Continued)

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 per share HK\$	Number of share options							
			Outstanding at 1.4.2003	Granted during the previous year	Exercised during the previous year	Lapsed during the previous year	Outstanding at 1.4.2004	Exercised during the current year	Lapsed during the current year	Outstanding at 31.3.2005
3.4.2003	3.4.2003 - 2.4.2006	0.018	-	152,300,000	(43,550,000)	(1,850,000)	106,900,000	(28,900,000)	(7,100,000)	70,900,000

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 per share HK\$	Number of share options						
			Outstanding at 1.4.2003	Granted during the previous year	Exercised during the previous year	Outstanding at 1.4.2004	Exercised during the current year	Lapsed during the current year	Outstanding at 31.3.2005
3.4.2003	3.4.2003 - 2.4.2006	0.018	-	84,000,000	(40,000,000)	44,000,000	-	-	44,000,000

The closing prices of the Company's shares upon the dates of exercise of options under the New Scheme ranged from HK\$0.026 to HK\$0.038 (2004: from HK\$0.018 to HK\$0.028).

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

The financial impact of options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their costs. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

21. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st April, 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
Issue of new shares upon exercise of share options	270	–	–	270
Net loss for the year	–	–	(40)	(40)
At 31st March, 2005	839	47,297	12,113	60,249

The balance of contributed surplus arose as a result of the Company's capital reduction which took place in 2003.

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, 2005, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK\$47,297,000 (2004: HK\$47,297,000) and accumulated profits of HK\$12,113,000 (2004: HK\$12,153,000).

For the year ended 31st March, 2005

22. GAIN ON DISPOSAL OF A SUBSIDIARY

On 31st March, 2005, the Group disposed of Easyfil (Hong Kong) Company Limited.

The net assets of the subsidiary at the date of disposal were as follows:

	<i>HK\$'000</i>
<hr/>	
Net assets disposed of:	
Inventories	755
Debtors, deposits and prepayment	503
Bank balances and cash	84
Creditors and accrued charges	(134)
	<hr/>
	1,208
Gain on disposal of a subsidiary	6,792
	<hr/>
Total consideration	8,000
	<hr/>
Satisfied by:	
Cash	800
Deferred consideration (<i>note 15</i>)	7,200
	<hr/>
	8,000
	<hr/>
Net cash inflow arising on disposal:	
Cash received	800
Bank balances and cash disposed of	(84)
	<hr/>
	716
	<hr/>

The deferred consideration will be settled in cash by five equal monthly instalments of HK\$1,440,000 each, commencing from 15th May, 2005 to 15th September, 2005.

The subsidiary disposed of during the year contributed HK\$3,282,000 Group's turnover and HK\$421,000 to the Group's loss from operations.

23. MAJOR NON-CASH TRANSACTION

During the year, certain subsidiaries of the Group entered into finance lease arrangements of HK\$12,703,000 (2004: HK\$23,097,000) in respect of property, plant and equipment with capital value at the inception of the lease of HK\$14,656,000 (2004: HK\$28,081,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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, 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	–
Credit (charge) to income statement for the year	1,144	(1,144)	–
At 31st March, 2005	(2,265)	2,265	–

At 31st March, 2005, the Group has unused tax losses of approximately HK\$133,048,000 (2004: HK\$145,740,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$12,941,000 (2004: HK\$19,478,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$120,107,000 (2004: HK\$126,262,000) 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\$14,513,000 (2004: HK\$14,681,000) 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, 2005

25. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bills receivable discounted with recourse	1,981	966	–	–
Guarantee given to bankers in respect of banking facilities granted to subsidiaries	–	–	159,013	144,030

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

26. CAPITAL COMMITMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	1,088	6,620

The Company had no capital commitments at both balance sheet dates.

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	5,223	5,229	186	372
In the second to fifth year inclusive	8,691	10,133	–	176
Over five years	7,432	9,458	–	–
	21,346	24,820	186	548

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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. 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	
	2005	2004
	HK\$'000	HK\$'000
Employers' contributions under defined contribution schemes	751	734
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	(17)	(80)
	734	654

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.

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, 2005 was approximately HK\$1,889,000 (2004: HK\$887,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

29. RELATED PARTY TRANSACTION

On 31 March 2005, the Group disposed of its subsidiary to Vevion Hong Kong Limited, in which Mr. Chan Hoi Lam, the director of the Company, has beneficial interest, at consideration of HK\$8,000,000.

For the year ended 31st March, 2005

30. 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
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 this subsidiary or to participate in any distribution on winding up.

* *wholly foreign-owned enterprise*

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, 2005 or at any time during the year.