ANNUAL REPORT 2009

2009

CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 439)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

CHAN Hoi Ling *(Chairman)*
WONG Hin Shek *(Chief Executive Officer)*

Independent Non-executive Directors

LAU Man Tak
MAN Kwok Leung
WONG Yun Kuen

COMPANY SECRETARY

CHAN Hoi Ling

AUDIT COMMITTEE

LAU Man Tak *(Chairman)*
MAN Kwok Leung
WONG Yun Kuen

REMUNERATION COMMITTEE

LAU Man Tak *(Chairman)*
MAN Kwok Leung
WONG Yun Kuen

AUDITORS

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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110–116 Queen's Road Central
Central
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Website: www.climax-intl.com
www.irasia.com/listco/climax/index.htm

REGISTRARS

Hong Kong

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SOLICITORS

Hastings & Co

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

STOCK CODE

439

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Climax International Company Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 March 2009.

REVIEW AND FUTURE DEVELOPMENTS

With the hit of the worldwide financial crisis, the Company and the Group had gone through another hard year. The Group continued to reduce its reliance on manufacturing through outsourcing production to subcontractors, streamlining its operation by further downsizing its labour force and realising under-utilised assets. As anticipated that the intensive competition in paper products market will be continued, the Group has started a new trading business in electronic market at the end of this fiscal year. The new business has given a great challenge and opportunity to the management. In future, the Group will excel in its new business and take advantage of the market adversities and seize upon suitable investment opportunities to provide tremendous value-added to shareholders.

ACKNOWLEDGEMENTS

I would like to take this opportunity to deliver my most sincere gratitude to the board members and management team for their devoted commitments during the year.

On behalf of the Group, I would also like to dedicate my special thanks to our bankers, investors, vendors and most importantly to our customers for their enduring trusts and supports.

With the commitments of all parties, we are on the mission in creating greater values to our shareholders, customers and employees in the future.

Chan Hoi Ling
Chairman

Hong Kong, 31 July 2009

Management Discussion and Analysis

PERFORMANCE REVIEW

For the year ended 31 March 2009 ("2009"), the Group's turnover was HK$70 million, decreased by 58% as comparing with HK$167 million for the year ended 31 March 2008 ("2008"). With the significant decrease in turnover in 2009, the Group recorded a gross loss of HK$21 million (2008: gross profit of HK$14 million) with loss attributable to equity holders of the Company increased to HK$100 million (2008: HK$44 million).

The significant decrease in turnover in 2009 was largely due to the decrease in orders from customers. The customers generally adopted a more cautious approach in placing orders and requested more accommodating pricing for their orders. Given the keen competition in paper products market and the unfolding of the global recession, the operating environment for the manufacturing business of the Group has been increasingly difficult with the further raising in material costs and labour wages. The increase in operating costs without corresponding increment in selling prices squeezed the gross margin and forced us to refuse certain unprofitable sale orders.

The newly established business in electronic market at the end of 2009 has not yet made a great contribution to the results of the Group.

During 2009, the Group continued took cautious sales strategy by directing its resources to customers and products with better profit margin and in the meantime took efforts in reducing the Group's fixed costs and manufacturing overhead.

OUTLOOK

It is believed that the competition in paper products market becoming more intense and the global economic situation will continue to be challenging and adversely affect our existing businesses, the Group continued to reduce its reliance on manufacturing through outsourcing production to subcontractors, streamlining its operation by further downsizing its labour force and realising under-utilised assets. On the other hand, the Group will excel in its new business in electronic market and take advantage of the market adversities and seize upon suitable investment opportunities to provide tremendous value-added to shareholders.

SHARE CAPITAL

During 2009, the share capital of the Company had the following changes:

On 23 June 2008, 191,000,000 ordinary shares of HK$0.01 each in the capital of the Company were issued pursuant to a placing agreement in relation to placing of new shares of the Company at the placing price of HK$0.159 per placing share.

On 30 September 2008, 6 ordinary shares of HK$0.01 each in the capital of the Company were issued upon exercise of share options granted on 17 June 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009, the Group shareholders' equity was HK$52 million (2008: HK$120 million), the current assets and current liabilities of the Group amounted to HK$99 million (2008: HK$106 million) and HK$61 million (2008: HK$54 million) respectively. The Group's working capital turned to HK$38 million net current assets (2008: HK$52 million).

During 2009, the Group recorded cash used in operations of HK$24 million (2008: cash generated from operations of HK$19 million) and the gearing ratio as of 31 March 2009, defined as the percentage of total interest bearing debt to net asset value, substantially reduced to 1% (2008: 6%).

Most of the Group's banking facilities are dominated in Hong Kong dollars with interest charged at certain percentage over the Hong Kong prime rate. Except for certain machinery financed by medium term finance leases, the Group pledges no assets to banks or financial institutions for the facilities.

As all borrowings are in Hong Kong dollars and the Group's businesses are carried out mainly in Hong Kong dollars and US dollars, foreign exchange risk is relatively low under the currency peg of Hong Kong dollar and US dollar.

INVESTMENT POSITION AND PLANNING

During 2009, the Group spent approximately HK$0.3 million (2008: HK$1.6 million) for the acquisition of plant and equipment. As the Group had relied on outsourcing its production to subcontractors in order to reduce its operating costs, a significant impairment losses of approximately HK$10 million (2008: HK$0.4 million) and loss on written off of approximately HK$4 million (2008: HK$Nil) in respect of plant and equipment was recognised.

As announced by the Company on 23 January 2009, the Group transferred the rights of use and management of the first phase of the factory premises in Shenzhen for the period from 1 January 2009 to 31 December 2019 to a third party at a consideration of approximately HK$8 million. The remaining phase of the factory premises has continued to generate a stable income stream for the Group. During 2009, HK$3 million (2008: HK$3.6 million) was recognised as rental income.

The issuer of convertible notes has redeemed all convertible notes from the Group in September 2008 and the Group realized a gain of approximately HK$187,000.

The Group has invested certain portion of its surplus cash in the shares of some companies that are traded over Hong Kong Stock Exchange. As at 31 March 2009, the Group had a portfolio of shares with fair value of approximately HK$10 million, after recognising unrealised loss of approximately HK$5 million attributed from the lower market prices compared with the purchase price.

Save as disclosed above, the Group did not have any significant investment position in stocks, bonds and any other financial derivatives, and there are no acquisition or disposal of subsidiaries and associated company during 2009.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2009, the Group has pledged plant and equipment with carrying value of HK$nil after full impairment of approximately HK$1.5 million (2008: HK$4 million) to financial institutions to secure the Group's obligation under finance leases.

As at 31 March 2009, the Group had no significant contingent liabilities (2008: Nil).

EMPLOYEES

As at 31 March 2009, the Group had 163 employees, with 32 staff in Hong Kong and 131 staff and workers in the Group's factories in mainland China. The Group provides competitive remuneration packages to employees with attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. CHAN Hoi Ling, aged 35, joined the Group in June 2007 as an independent non-executive director of the Company and was re-designated as an executive director of the Company in May 2008. She was appointed as the chairman of the Company in June 2008. She is also directors of various subsidiaries of the Group. She graduated from the University of South Australia with a Bachelor Degree in Accountancy. She has extensive experiences in auditing and financial management. She is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. She is currently an independent non-executive director of China E-Learning Group Limited.

Mr. WONG Hin Shek, aged 39, joined the Group in June 2007 as an executive director of the Company and was appointed as the chief executive officer of the Company in June 2008. He is also directors of various subsidiaries of the Group. He worked in a number of reputable investment banks and the Listing Division of The Stock Exchange of Hong Kong Limited. He has extensive experience in finance, operation and strategic investment of listed companies in Hong Kong. He is a responsible officer of Veda Capital Limited, a licensed corporation which carries out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance). He holds a Master of Science (Financial Management) Degree from University of London in the United Kingdom and a Bachelor of Commerce Degree from University of Toronto in Canada. He is currently an executive director of Golden Resorts Group Limited, China Public Procurement Limited and Hua Yi Copper Holdings Limited. He has been involved in management, business development, strategic investment and investor relations in these companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. WONG Yun Kuen, aged 51, joined the Group in June 2007. He received his Ph.D. Degree from Harvard University, and was a "Distinguished Visiting Scholar" in finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Finance Products Corp. of USA. He has extensive experience in corporate finance, investment and derivative products. He is also an executive director of UBA Investments Limited, and an independent non-executive director of Grand Field Group Holdings Limited, Harmony Asset Limited, Bauhaus International (Holdings) Limited, Kaisun Energy Group Limited, China Yunnan Tin Minerals Group Company Limited, Superb Summit International Timber Company Limited, Kong Sun Holdings Limited, China E-Learning Group Limited and Golden Resorts Group Limited.

Mr. LAU Man Tak, aged 39, joined the Group in March 2008. He graduated from Hong Kong Polytechnic University with a Bachelor Degree in Accountancy. He has more than 15 years of finance, accounting and auditing experiences. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute. He is currently an executive director of Warderly International Holdings Limited and an independent non-executive director of Golden Resorts Group Limited, Kong Sun Holdings Limited. He was also a former executive director of Solartech International Holdings Limited from 2002 to 2007, Hua Yi Copper Holdings Limited from 2004 to 2007 and an independent non-executive director of Hong Kong Health Check and Laboratory Holdings Company Limited from 2003 to 2006.

Board of Directors and Senior Management

Mr. MAN Kwok Leung, aged 62, joined the Group in May 2008. He is a solicitor of the High Court of Hong Kong and a civil celebrant of marriages. He has extensive experience in the legal practice. He had been appointed by Xinhua News Agency as a district advisor from 1995 to 1997. He is currently appointed as a director of Apleichau Kai Fong Primary School, the deputy chairman of Apleichau Kai Fong Welfare Association, the secretary of Apleichau Promotion of Tourism Association and the honorary legal advisor of Junior Police Officers' Association. He is currently an independent non-executive director of Hua Yi Copper Holdings Limited and Kong Sun Holdings Limited.

SENIOR MANAGEMENT

Mr. KAN Shiu Cheong, Frederick — Director of Climax Marketing Company Limited

Mr. Kan, aged 61, was appointed as an executive director of the Company from January 2001 to March 2008 and commenced his current appointment in April 2008. He is a merchant with over 30 years of experience particularly in the area of manufacturing of electrical appliances.

Mr. CHAN Hoi Lam — Director of Climax Marketing Company Limited

Mr. Chan, aged 46, was appointed as an executive director of the Company from January 2001 to March 2008 and commenced his current appointment in April 2008. He holds a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong and also a Master's Degree in Business Administration from the City University of Hong Kong. He has over 10 years of experience in the commercial and investment banking field and has been actively involved in the corporate finance and debt restructuring of a number of listed companies. He is the younger brother of Mr. Chan Yim.

Mr. WONG King Leung, Frankie — Senior Vice President of OEM Sales

Mr. Wong, aged 41, is responsible for the sales and marketing of the Group's OEM products. He joined the Group in March 1992 and has 15 years of experience in sales and marketing management. He graduated from the Hong Kong Polytechnic University and holds a Master of Science Degree in Manufacturing Systems Engineering from the University of Warwick, UK.

Mr. CHIU Wai Chung — Head of Human Resources

Mr. Chiu, aged 36, is responsible for the human resources, training and development of the Group. He joined the Group in September 2006 and has over 10 years of experience in human resources and training management. He holds a Master Degree in Human Resources and Training Management from the University of Leicester in UK, a Postgraduate Diploma in Accounting from the Monash University in Australia and a Bachelor Degree in Chemistry. He is also a member of the Hong Kong Institute of Human Resource Management and the committee member of China Interest Group for the Hong Kong Institute of Human Resource Management.

Corporate Governance Report

The Company is committed to maintain a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that effective corporate governance practices are essential to enhance shareholders' value and safeguarding shareholders' interests.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "CG Code") during the year ended 31 March 2009.

The Company has fully complied with the applicable code provisions of the CG Code during the year.

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Board has delegated the day-to-day responsibility to the management under the instruction/supervision of the Chief Executive Officer and various Board committees.

The composition of the Board during the year and up to the date of this report is set out as follows:

Executive Directors ("EDs"):	Ms. Chan Hoi Ling *(Chairman)* Mr. Wong Hin Shek *(Chief Executive Officer)* Ms. Chan Siu Mun (resigned on 13 May 2008)
Non-executive Directors ("NEDs"):	Mr. Tse On Kin (resigned on 1 August 2008) Mr. Tse On Po, Vincent (resigned on 1 August 2008)
Independent Non-executive Directors ("INEDs"):	Mr. Lau Man Tak Dr. Wong Yun Kuen Mr. Man Kwok Leung (appointed on 13 May 2008)

Biographical details of the directors of the Company (the "Director(s)") as at the date of this report are set out in the "Board of Directors and Senior Management" section on pages 7 to 8.

Corporate Governance Report

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. During the year, 22 Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/ eligible to attend
EDs	
Ms. Chan Hoi Ling *(Chairman)*	22/22
Mr. Wong Hin Shek *(Chief Executive Officer)*	21/22
Ms. Chan Siu Mun (resigned on 13 May 2008)	1/1
NEDs	
Mr. Tse On Kin (resigned on 1 August 2008)	1/2
Mr. Tse On Po, Vincent (resigned on 1 August 2008)	0/2
INEDs	
Mr. Lau Man Tak	10/22
Dr. Wong Yun Kuen	19/22
Mr. Man Kwok Leung (appointed on 13 May 2008)	16/21

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The Company has specified the terms of appointments for non-executive Directors. The terms of appointments of the non-executive Directors appointed during the year including, Mr. Man Kwok Leung as INEDs were first determined on 13 May 2008. The terms of appointments of Dr. Wong Yun Kuen, Mr. Lau Man Tak and Mr. Man Kwok Leung as INEDs were re-determined on 1 January 2009. None of the NEDs or INEDs have entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. Moreover, they are also subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company.

NOMINATION OF DIRECTORS

The Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The executive Directors shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills, time commitment, etc), identify and recommend proposed candidate(s) to the Board for approval of an appointment. During the year, the Board has reviewed its composition and the proposed changes of Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer of the Company are separate to reinforce their respective independence and accountability. The chairman of the Company is Ms. Chan Hoi Ling who is primarily responsible for the leadership of the Board, while the chief executive officer of the Company is Mr. Wong Hin Shek, who is responsible for the Group's overall operation and to execute the strategies formulated by the Board. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board. The positions of chairman and chief executive officer were vacant from 27 March 2007 to 17 June 2008.

BOARD COMMITTEES

The Board has established two committees, namely the remuneration committee and audit committee. Each of which has specific written terms of reference that are available on the Company's website.

Remuneration Committee

The remuneration committee was established in May 2002 and currently comprises three INEDs. The committee is chaired by Mr. Lau Man Tak with Dr. Wong Yun Kuen and Mr. Man Kwok Leung as members.

The major roles and functions of the remuneration committee are to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of the executive Directors and senior management.

During the year, the remuneration committee passed 6 written resolutions (which were signed by all members of the Committee in appointed when the written resolutions passed) in considering and approving the payment of discretionary bonuses, fixing the specific terms of appointment and directors' fee of INEDs, terminating and amending the Directors' employment agreements, also reviewing the composition of the remuneration committee as well.

The remuneration of Directors and senior management is determined with reference to the performance and profitability of the Group as well as the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

Audit Committee

The audit committee was established in July 1999 and currently comprises three INEDs. The committee is chaired by Mr. Lau Man Tak with Dr. Wong Yun Kuen and Mr. Man Kwok Leung as members.

The major roles and functions of the audit committee are to oversee the relationship with the external auditors, review the Group's interim and annual financial statements, monitor the Group's financial reporting practices and internal control systems.

During the year, 5 committee meetings were held and the attendance of each member is set out as follows:

	Number of committee meetings attended/ eligible to attend
Committee members	
Mr. Lau Man Tak *(Chairman)*	5/5
Dr. Wong Yun Kuen	5/5
Mr. Man Kwok Leung (appointed on 13 May 2008)	5/5

During the year, the Audit Committee discussed and reviewed the financial reporting matters including the interim and annual financial statements before submission to the Board, reviewed the management letter points from the external auditors in relation to the audit of the Group and discussed the non-audit services provided by the external auditors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the year.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibilities to prepare, with the support from accounting department, the financial statements for each financial year which give a true and fair view. The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, makes judgments and estimates that are prudent, fair and reasonable and that all applicable accounting standards are followed. As at 31 March 2009, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as going-concern. Accordingly, the Directors have prepared the financial statements of the Company on a going-concern basis. The reporting responsibilities of the Company's independent auditors are set out in the Independent Auditor's Report on page 21 to 22.

EXTERNAL AUDITORS' REMUNERATION AND REPORTING RESPONSIBILITIES

For the year, the remuneration in respect of the services rendered by the Group's external auditors is set out as follows:

Services rendered for the Group	SHINEWING (HK) CPA Limited	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
Audit services	830	64	894
Non-audit services (including taxation services, professional services rendered in relation to agreed upon procedures)	126	138	264
Total:	956	202	1,158

INTERNAL CONTROLS

The Board is committed to implement a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets.

For the year, the Board has appointed LK Risk Services Limited to conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries (the "Review"). The Review is in progress.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the Company's website.

Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 clear days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's business.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any suggestions and recommendations from our shareholders are also welcome and will take into account in the ongoing enhancement of our transparency.

On behalf of the Board

Chan Hoi Ling
Chairman

Hong Kong, 31 July 2009

The Board presents this annual report and the audited financial statements for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 48% of the Group's total purchases. The largest supplier accounted for 14% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 58% of the Group's total sales. The largest customer accounted for 24% of the Group's total sales.

None of the Directors, their associates or any shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's issued share capital, has a beneficial interest in any of the Group's five largest suppliers or customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2009 (2008: HK$Nil).

FINANCIAL SUMMARY

A financial summary of the Group is set out on pages 80.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 30 to the consolidated financial statements.

PLANT AND EQUIPMENT

Details of movements in the Group's plant and equipment during the year are set out in note 15 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors during the year and up to the date of this report were:

Executive Directors:

CHAN Hoi Ling *(Chairman)*
WONG Hin Shek *(Chief Executive Officer)*
CHAN Siu Mun (resigned on 13 May 2008)

Non-executive Directors:

TSE On Kin (resigned on 1 August 2008)
TSE On Po, Vincent (resigned on 1 August 2008)

Independent Non-executive Directors:

LAU Man Tak
WONG Yun Kuen
MAN Kwok Leung (appointed on 13 May 2008)

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

In accordance with Bye-law 87 of the Company's Bye-laws, Ms. Chan Hoi Ling will retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2009, the following Directors had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"):

		Number of shares or underlying shares held			
Name of Director	Capacity	Interest in shares held	Interest in underlying shares held	Total interest	Percentage of the issued share capital
Wong Hin Shek	Personal	–	9,000,000	9,000,000	0.78%

Save as disclosed, as at 31 March 2009, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2009, the following persons (other than the Directors) had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO:

		Number of shares or underlying shares held			
Name of shareholders	Capacity	Interest in shares held	Interest in underlying shares held	Total interest	Percentage of the issued share capital
First King Holdings Limited	Beneficial owner	176,000,000	–	176,000,000	15.32%
Chu Yuet Wah	Interest of corporation controlled by the substantial shareholder	176,000,000	–	176,000,000	15.32%

Save as disclosed above, as at 31 March 2009, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme") which complies with the new requirements of Chapter 17 of the Listing Rules effective on 1 September 2001. During the year ended 31 March 2009, 36,000,000 options were granted under the Scheme.

Details of the movements in the options under the Scheme during the year were as follows:

Category or name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Original exercise price per share HK$	Adjusted exercise price per share (Note 4) HK$	Adjusted exercise price per share (Note 5) HK$	Number of share options: Outstanding at 1.4.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2009	Weighted average closing price (Note 3) HK$
Directors											
Wong Hin Shek	17.6.2008	17.6.2008 to 16.6.2011	0.1740	–	–	–	9,000,000	–	–	9,000,000	–
						–	9,000,000	–	–	9,000,000	–
Employees and others	26.4.2005	26.4.2005 to 25.4.2008	0.0322	0.6440	0.5530	2,554,970	–	–	2,554,970	–	–
	20.9.2005	20.9.2005 to 6.10.2008 (Note 6)	0.0244	0.4880	0.4190	5,175,452	–	–	5,175,452	–	–
	30.4.2007	30.4.2007 to 29.4.2010	0.2084	–	–	6,180,000	–	–	–	6,180,000	–
	17.6.2008	17.6.2008 to 16.6.2011	0.1740	–	–	–	27,000,000	6	–	26,999,994	0.1503
						13,910,422	27,000,000	6	7,730,422	33,179,994	
						13,910,422	36,000,000	6	7,730,422	42,179,994	

Notes:

(1) All dates are shown day/month/year.

(2) The vesting period of the options is from the date of grant until the commencement of the exercise period.

(3) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.

(4) The reorganisation of share capital of the Company was approved by shareholders on 10 April 2006 and became effective on 11 April 2006. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for under the Scheme are required to be adjusted upon the capital reorganisation becoming effective.

(5) An Open Offer was completed on 15 March 2007. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for pursuant to the Scheme are required to be adjusted upon the completion of the Open Offer.

(6) The exercise period was extended from 19 September 2008 to 6 October 2008.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTIONS

Pursuant to the supply agreement (the "Supply Agreement") dated 30 May 2006 entered into between Climax Paper Converters, Limited ("Climax Paper"), a wholly-owned subsidiary of the Company, as the seller with Easyfil (Hong Kong) Company Limited ("Easyfil HK") as the buyer relating to the ongoing supply and sales of notebooks, photo albums, gift items and other stationery to Easyfil HK, a wholly-owned subsidiary of Fullman Corporation Limited which is in turn wholly-owned by Mr. Chan Hoi Lam, a Director resigned on 26 March 2008 ("Mr. Chan"). Mr. Chan is also a director of certain subsidiaries of the Company.

The term of the Supply Agreement is two years commencing on 1 April 2005 until 31 March 2007, subject to earlier express rights of termination. On 31 March 2007, Climax Paper entered into a supplemental agreement with Easyfil HK, pursuant to which the term of the Supply Agreement is extended to 31 March 2010. As it is expected that the aggregate consideration for the paper products supplied to Easyfil HK, on an annual basis, is less than HK$1,000,000 and each of the relevant percentage ratios under the Listing Rules is less than 2.5%. Accordingly, the supply of paper products to Easyfil HK represents a continuing connected transaction but is exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. During the year, Climax Paper did not sell goods to Easyfil HK (2008: HK$21,000).

During the year, Climax Paper sold goods to Vevion Hong Kong Limited and Always Online (Hong Kong) Company Limited, companies in which Mr. Chan has a controlling interest, amounting to approximately HK$20,000 (2008: HK$75,000) and HK$2,000 (2008: HK$Nil) respectively.

On 27 April 2006, the Company entered into a rental agreement with Vevion for renting the office premises from Vevion for a term of seventy-two months commencing on 1 July 2006. During the year, the Company paid rent and management fee amounting to approximately HK$542,000 (2008: HK$589,000) to Vevion.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

CORPORATE GOVERNANCE

Principal corporate governance practice as adopted by the Company are set out in the Corporate Governance Report on pages 9 to 14.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 33 to the consolidated financial statements.

AUDITORS

The consolidated financial statements for the year have been audited by Messrs. SHINEWING (HK) CPA Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board

Chan Hoi Ling
Chairman

Hong Kong, 31 July 2009

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF CLIMAX INTERNATIONAL COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Climax International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 79, which comprise the consolidated balance sheet as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

Our report on the consolidated financial statements of the Group for the year ended 31 March 2009 was disclaimed in view of the significance of the limitations in the scope of our audit resulting from insufficiency of supporting documentation and explanations. The accounting books and records of a Group's subsidiary, namely Climax Paper Products Manufacturing (Dongguan) Co., Ltd. ("CPD") located in Dongguan, were lost during relocation of factory due to cessation of business and not be able to be recovered. As a result, we were unable to carry out audit procedures to satisfy ourselves as to whether the income, expenses, assets and liabilities relating to CPD which have been included in the consolidated financial statements of the Group as stated below have been accurately recorded and properly accounted for in the consolidated financial statements:

Income and expenses for the year ended 31 March 2009:	
Turnover	HK$1,070,000
Cost of sales	HK$8,063,000
Other income	HK$2,569,000
Selling and distribution expenses	HK$44,000
Administrative expenses	HK$6,767,000
Impairment loss recognised in respect of deposits, prepayment and other receivable	HK$215,000
Assets and liabilities as at 31 March 2009 (in gross amount):	
Deposits, prepayments and other receivables	HK$808,000
Bank balances and cash	HK$28,000
Trade and other payables	HK$2,036,000
Tax payables	HK$1,810,000

We were also unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the Group has any significant contingent liabilities and commitment in respect of CPD that need to be adjusted for or disclosed in the consolidated financial statements.

There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the abovementioned matters. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to these figures may have a consequential significant effect on the loss for the year and net assets at 31 March 2009.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY LIMITATION OF SCOPE

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31 March 2009 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other aspects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
31 July 2009

Consolidated Income Statement

For the year ended 31 March 2009

	NOTES	2009 HK$'000	2008 HK$'000
Turnover	7	**70,116**	167,321
Cost of sales		**(91,451)**	(153,241)
Gross (loss) profit		**(21,335)**	14,080
Other income	8	**7,110**	9,741
Selling and distribution expenses		**(4,299)**	(10,720)
Administrative expenses		**(45,523)**	(47,096)
Impairment loss recognised in respect of plant and equipment	15	**(10,408)**	(446)
Impairment loss recognised in respect of available-for-sale investments	17	**—**	(3,500)
Impairment loss recognised in respect of deposits, prepayments and other receivables	21	**(18,985)**	—
Gain on redemption of financial assets at fair value through profit or loss	18	**187**	—
Gain on changes in fair value of financial assets at fair value through profit or loss	18	**131**	—
Loss on changes in fair value of held for trading investments		**(4,526)**	(643)
(Loss) gain on disposal of held for trading investments		**(1,540)**	60
Finance costs	9	**(358)**	(2,852)
Loss before taxation		**(99,546)**	(41,376)
Income tax expense	10	**(76)**	(2,232)
Loss for the year attributable to equity holders of the Company	11	**(99,622)**	(43,608)
Loss per share — basic (in Hong Kong cents)	14	**(9.01)**	(4.82)

Consolidated Balance Sheet

As at 31 March 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Plant and equipment	15	**4,113**	32,665
Prepayments	16	**10,217**	24,071
Available-for-sale investments	17	**—**	—
Financial assets at fair value through profit or loss	18	**—**	12,357
		14,330	69,093
Current assets			
Inventories	19	**200**	15,160
Trade receivables	20	**7,224**	8,766
Deposits, prepayments and other receivables	21	**8,861**	24,795
Held for trading investments	22	**9,820**	—
Amounts due from related companies	23	**63**	—
Deposits in other financial institution	24	**69,803**	53,697
Bank balances and cash	25	**2,737**	3,226
		98,708	105,644
Current liabilities			
Trade and other payables	26	**57,844**	45,596
Amounts due to directors	27	**—**	161
Tax payables		**2,330**	2,232
Obligations under finance leases — amount due within one year	28	**492**	1,794
Short-term bank borrowings	29	**82**	3,898
		60,748	53,681
Net current assets		**37,960**	51,963
Total assets less current liabilities		**52,290**	121,056

Consolidated Balance Sheet

As at 31 March 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current liability			
Obligations under finance leases			
— amount due after one year	28	—	951
		52,290	120,105
Capital and reserves			
Share capital	30	**11,486**	9,576
Reserves		**40,803**	110,528
Total equity attributable to equity holders of the Company		**52,289**	120,104
Minority interests		**1**	1
Total equity		**52,290**	120,105

The consolidated financial statements on pages 23 to 79 were approved and authorised for issue by the board of directors on 31 July 2009 and are signed on its behalf by :

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2009

	Attributable to equity holders of the Company									
	Share capital	Share premium	Translation reserve	Share option reserve	Capital reserve	Contributed surplus	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Note a)	(Note b)				
At 1 April 2007	6,180	31,464	135	1,392	17,900	103,941	(74,436)	86,576	1	86,577
Exchange differences on translation of foreign operations recognised directly in equity	–	–	974	–	–	–	–	974	–	974
Loss for the year, representing total recognised income and expense for the year	–	–	–	–	–	–	(43,608)	(43,608)	–	(43,608)
Issue of new shares upon placing	3,396	75,219	–	–	–	–	–	78,615	–	78,615
Transaction costs attributable to issue of new shares upon placing	–	(3,128)	–	–	–	–	–	(3,128)	–	(3,128)
Recognition of equity – settled share based payment	–	–	–	675	–	–	–	675	–	675
At 31 March 2008 and 1 April 2008	9,576	103,555	1,109	2,067	17,900	103,941	(118,044)	120,104	1	120,105
Cancellation of share options	–	–	–	(1,392)	–	–	1,392	–	–	–
Exchange differences on translation of foreign operations recognised directly in equity	–	–	(13)	–	–	–	–	(13)	–	(13)
Loss for the year, representing total recognised income and expense for the year	–	–	–	–	–	–	(99,622)	(99,622)	–	(99,622)
Issue of new shares upon placing	1,910	28,459	–	–	–	–	–	30,369	–	30,369
Transaction costs attributable to issue of new shares upon placing	–	(809)	–	–	–	–	–	(809)	–	(809)
Recognition of equity – settled share based payment	–	–	–	2,260	–	–	–	2,260	–	2,260
At 31 March 2009	11,486	131,205	1,096	2,935	17,900	103,941	(216,274)	52,289	1	52,290

Note:

(a) The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992.

(b) The balance of contributed surplus arose as a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	2009	2008
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	**(99,546)**	(41,376)
Adjustments for:		
Release of non-current prepayments	**1,941**	2,240
Depreciation of plant and equipment	**4,757**	9,259
Director's emolument waived	**—**	(462)
Impairment loss recognised in respect of available-for-sale investments	**—**	3,500
(Gain) loss on changes in fair value of financial assets at fair value through profit or loss	**(131)**	643
Loss on changes in fair value of held for trading investments	**4,526**	—
Impairment loss recognised in respect of plant and equipment	**10,408**	446
Loss on written off of plant and equipment	**3,813**	—
Impairment loss recognised in respect of deposits, prepayments and other receivables	**18,985**	—
Deposits forfeited for early termination of a rental agreement	**1,600**	—
Interest income	**(1,161)**	(1,409)
Dividend income	**(134)**	—
Finance costs	**358**	2,852
(Gain) loss on disposal of plant and equipment	**(1,365)**	3,710
Loss (gain) on disposal of held for trading investments	**1,540**	(60)
Gain on redemption of financial assets at fair value through profit or loss	**(187)**	—
Loss on non-current prepayments upon sales of right of use and management of premises	**5,255**	—
Allowance for (reversal of) inventories included in cost of sales	**9,660**	(435)
Equity settled share-based payment	**2,260**	675
Allowance for bad and doubtful debts	**2,303**	1,383
Operating cash flows before movements in working capital	**(35,118)**	(19,034)
Decrease in inventories	**5,300**	36,362
(Increase) decrease in trade receivables	**(761)**	29,788
Decrease in deposits, prepayments and other receivables	**(5,843)**	(3,820)
Increase (decrease) in trade and other payables	**12,248**	(24,720)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(24,174)**	18,576

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES		
Purchase of held for trading investments	(56,961)	(369)
Increase in deposits paid to other financial institution	(16,106)	(53,697)
Purchase of plant and equipment	(333)	(1,575)
Advance to related companies	(63)	–
Proceeds from disposal of held for trading investments	41,075	429
Proceeds from redemption of financial assets at fair value through profit or loss	12,675	–
Proceeds from disposal of plant and equipment	11,334	20,008
Proceeds from sales of right of use and management of premises	7,850	–
Interest received	1,161	1,409
Dividend received	134	–
Purchase of financial assets at fair value through profit or loss	–	(13,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	766	(46,795)
FINANCING ACTIVITIES		
Issue of new shares upon placing	30,369	78,615
Principal repayment for obligations under finance leases	(2,253)	(10,584)
Net cash used in repayment of trust receipt, import loans and export loans	(1,975)	(33,941)
Transaction costs attributable to issue of new shares	(809)	(3,128)
Interest paid	(287)	(2,310)
Repayment to directors	(161)	(507)
Finance leases charges paid	(71)	(542)
Repayment of bank loans	–	(5,000)
NET CASH FROM FINANCING ACTIVITIES	24,813	22,603
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,405	(5,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,303	6,606
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(53)	313
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2,655	1,303
Analysis of cash and cash equivalents, represented by:		
Bank balances and cash	2,737	3,226
Bank overdrafts	(82)	(1,923)
	2,655	1,303

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"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. Its subsidiaries are principally engaged in trading of electronic products and design, development, production and marketing of paper products, including photo albums, gift items and stationery.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Interpretation ("INT") 12	Service Concession Arrangements
HK(IFRIC) — INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Financial Instruments Disclosures — Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC) — INT 9 & HKAS 39 (Amendments)	Embedded Derivatives[5]
HK(IFRIC) — INT 13	Customer Loyalty Programmes[6]
HK(IFRIC) — INT 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) — INT 16	Hedges of a Net Investment in a Foreign Operation[7]
HK(IFRIC) — INT 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC) — INT 18	Transfers of Assets from Customers[8]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2009.

[4] Effective for annual periods beginning on or after 1 July 2009.

[5] Effective for annual periods ending on or after 30 June 2009.

[6] Effective for annual periods beginning on or after 1 July 2008.

[7] Effective for annual periods beginning on or after 1 October 2008.

[8] Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amounts due from related companies, deposits in other financial institution and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss. (see accounting policy on impairment of financial assets below).

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as loans and receivables and financial assets at FVTPL. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at each balance sheet date subsequent to initial recognition (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors, short-term bank borrowings and obligations under finance leases are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment losses on tangible assets

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

Where 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 impairment loss is recognised as an income immediately.

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profits 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group 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 assets 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 liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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 when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for bad and doubtful debts

Allowance for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the receivables are not recoverable.

In making the judgment, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's majority of working capital is devoted to trade receivables, deposits, prepayments and other receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status, and likelihood of collection. Specific provision is only made for trade receivables, deposits, prepayments and other receivables that are unlikely to be collected.

Useful lives and impairment assessment of plant and equipment

The impairment loss of approximately HK$10,408,000 was recognised in respect of plant and equipment for the year was based on a valuation conducted by an independent qualified professional valuer not connected to the Group using valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the carrying value of the Group's plant and equipment and corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

Allowance for inventories

The management of the Group reviews the ageing analysis of inventories at each balance sheet date, and writes down the value of obsolete and slow-moving inventory items identified that are no longer suitable for trade. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions.

Provision for litigation

During the year, the Group had been involved in certain litigations in respect of trade and other payables to third parties by the Group. The directors determine the provision for litigation based on their best estimates and legal advice, if any. If the final outcome of litigations is different from the estimation made by the directors, additional provision for litigation may be required.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity, which includes issued share capital and reserves, borrowings and bank balances and cash and will conduct review to balance its overall capital structure periodically.

In order to maintain or adjust the capital structure, the Group may issue new shares or/and share options. The directors of the Company will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

The directors of the Company also endeavor to ensure the steady and reliable cash flow from the normal business operation. The Group's overall strategy remains unchanged from prior year.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2009	2008
	HK$'000	*HK$'000*
Financial assets		
Fair value through profit or loss		
— designated as at fair value through profit or loss	**—**	12,357
— held for trading investments	**9,820**	—
Loan and receivables (including cash and cash equivalents)	**84,990**	83,082
Available-for-sale investments	**—**	—
Financial liabilities		
Other financial liabilities stated at amortised cost	**51,444**	38,384

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, amounts due from related companies deposits in other financial institution, bank balances and cash, trade and other payables, amounts due to directors, obligations under finance leases and short-term bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration risk as 52% (2008: 48%) and 22% (2008: 18%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the paper products business segment. The Group limits its exposure to credit risk by prudently selecting customers. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions and collateral in the form of cash deposits or letter of credit, which are usually required from new customers. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with high credit-ratings.

Currency risk

Certain trade receivables and trade payables of the Group are denominated in foreign currencies which expose the Group to currency risk. The Group did not have a foreign currency hedging policy as at the balance sheet date. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

At the balance sheet date, the carrying amounts of the Group's foreign currency denominated financial assets and liabilities, translated into HK$ at the respective closing rates, are as follows:

	2009			2008		
	Financial assets	**Financial liabilities**	**Net exposure**	Financial assets	Financial liabilities	Net exposure
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollar ("USD")	**9,109**	**6,437**	**2,672**	6,690	97	6,593
Renminbi ("RMB")	**1,497**	**25,369**	**(23,872)**	984	11,902	(10,918)

The Group is mainly exposed to USD and RMB.

The following table details the Group's sensitivity analysis to a 10% (2008: 5%) increase or decrease in HK$ against the relevant foreign currencies. 10% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile financial market in 2008 and 2009, the management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2008: 5%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loans is in a currency other than the currency of the lender or the borrower. A negative number below indicates an increase in loss after taxation where HK$ strengthens 10% (2008: 5%) against the relevant currencies. For a 10% (2008: 5%) weakening of HK$ against the relevant currencies, there would be an equal and opposite impact on the loss after taxation and the balances below would be negative.

	USD Impact		**RMB Impact**		**Total Impact**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss after taxation	**(267)**	(330)	**2,387**	546	**2,120**	216

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see note 29 for details of these borrowings), variable-rate deposits in other financial institution and variable rate obligations under finance leases (see note 28 for details of the finance leases).

The Group's fair value interest rate risk relates primarily to the fixed rate obligations under finance leases.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's interest rate risk is mainly concentrated on the fluctuation of market interest rate arising from the Group's borrowings.

The Group currently does not have any interest rate risk hedging policy. However, the management monitors interest rate risk exposure and will consider hedging significant risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year and the assumed change in interest rate exists throughout the year. A 100 basis point increase or decrease in market rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 March 2008.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2009 would increase or decrease by approximately HK$719,000 (2008 : increase or decrease by approximately HK$243,000).

Price risk

The Group's held for trading investments comprise listed equity securities in Hong Kong. These listed equity securities are subject to market price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. Details of the held for trading investments are set out in note 22.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Sensitivity analysis (Continued)

If the prices of the respective equity instruments had been 10% (2008: nil) higher/lower, loss for the year ended 31 March 2009 would increase/decrease by HK$982,000 (2008: nil) as a result of the change in fair value of held for trading investments.

Liquidity risk

Internally generated cash flow and bank loans are the general sources of funds to finance the operations of the Group. Majority of the Group's banking lines are subject to variable interests rate and are renewable annually. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within 1 year	More than 1 year but less than 2 years	After 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount at 31 March
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2009					
Non-derivative financial liabilities					
Trade and other payables	**50,870**	**–**	**–**	**50,870**	**50,870**
Obligations under finance leases	**497**	**–**	**–**	**497**	**492**
Bank borrowings	**88**	**–**	**–**	**88**	**82**
	51,455	**–**	**–**	**51,455**	**51,444**
At 31 March 2008					
Non-derivative financial liabilities					
Trade and other payables	31,580	–	–	31,580	31,580
Amounts due to directors	161	–	–	161	161
Obligations under finance leases	1,920	934	67	2,921	2,745
Bank borrowings	3,933	–	–	3,933	3,898
	37,594	934	67	38,595	38,384

6. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

— the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices, and

— the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Company consider that the carry amounts of financial assets and financial liabilities reported in the consolidated balance sheet approximate their fair values.

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

Business segments

During the year ended 31 March 2008, the Group's entire turnover is contributed by its paper business and therefore no business segment analysis is presented for 2008.

During the year ended 31 March 2009, the Group is organised into two operating division — paper products and electronic products. The divisions which are the basis on which the Group reports its primary segment information are as follows.

Principal activities are as follows:

Paper products	—	design, development, production and marketing of paper products
Electronic products	—	trading of electronic products

7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Segment information about these businesses is presented below:

For the year ended 31 March 2009

	Paper products *HK$'000*	Electronic products *HK$'000*	Total *HK$'000*
REVENUE	66,169	3,947	70,116
SEGMENT RESULT	(25,666)	32	(25,634)
Gain on disposal of plant and equipment	1,365	–	1,365
Scrap sales of raw materials and finished goods	847	–	847
Unallocated corporate income			4,898
			7,110
Gain on redemption of financial assets at fair value through profit or loss			187
Gain on changes in fair value of financial assets at fair value through profit or loss			131
Impairment loss recognised in respect of plant and equipment	(10,408)	–	(10,408)
Impairment loss recognised in respect of deposits, prepayments and other receivables	(13,391)	–	(13,391)
Unallocated amount			(5,594)
			18,985
Loss on changes in fair value of held for trading investments			(4,526)
Loss on disposal of held for trading investments			(1,540)
Depreciation of plant and machinery	(990)	–	(990)
Loss on written off of plant and equipment	(3,813)	–	(3,813)
Allowance for bad and doubtful debts	(2,303)	–	(2,303)
Unallocated corporate expenses			(38,417)
			(45,523)
Finance costs			(358)
Loss before taxation			(99,546)
Income tax expense			(76)
Loss for the year			(99,622)

7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

As at 31 March 2009

	Paper products *HK$'000*	Electronic products *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	22,418	3,947	26,365
Unallocated corporate assets			86,673
			113,038
LIABILITIES			
Segment liabilities	48,852	3,915	52,767
Unallocated corporate liabilities			7,981
			60,748
For the year ended 31 March 2009			
OTHER INFORMATION			
Capital expenditure	(300)	–	(300)
Unallocated amount			(33)
			(333)
Depreciation of plant and equipment	(4,417)	–	(4,417)
Unallocated amount			(340)
			(4,757)
Gain on disposal of plant and equipment	1,339	–	1,339
Unallocated amount			26
			1,365
Allowance on bad and doubtful debts	(2,303)	–	(2,303)
Loss on written off of plant and equipment	(3,813)	–	(3,813)
Allowance for inventories	(9,660)	–	(9,660)
Deposits forfeited for early termination of a rental agreement	1,600	–	1,600

7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Geographical segments

The Group's operations are located in PRC and Hong Kong. The following table provides an analysis of the Group's turnover by geographical market based on the geographical location of customers, irrespective of the origin of the goods:

	Turnover by geographical market Year ended 31 March	
	2009	2008
	HK$'000	*HK$'000*
United States of America	**33,630**	78,890
Europe	**19,178**	51,398
Asia-Pacific (excluding Hong Kong)	**14,810**	25,136
Hong Kong	**497**	1,157
Others	**2,001**	10,740
	70,116	167,321

The following is an analysis of the carrying amount of segment assets, and capital expenditure, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets As at 31 March		Capital expenditure Year ended 31 March	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**16,966**	92,068	**—**	1,218
Hong Kong	**93,146**	75,978	**333**	357
Others	**2,926**	6,691	**—**	—
	113,038	174,737	**333**	1,575

8. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Other income consisted of:		
Dividend income	**134**	–
Gain on disposal of plant and equipment	**1,365**	–
Interest income	**1,161**	1,409
Rental income, gross	**3,004**	3,551
Scrap sales of raw materials	**847**	3,729
Others	**599**	1,052
	7,110	9,741

9. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on:		
— bank borrowings wholly repayable within five years	**287**	2,310
— obligations under finance leases	**71**	542
	358	2,852

10. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Current tax:		
Hong Kong Profits Tax	**76**	443
PRC Enterprise Income Tax ("EIT")	**—**	1,789
	76	2,232

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year.

The Group carries out manufacturing activities in the PRC through its subsidiaries and under the terms of a processing agreement with a third party factories, and has substantial involvement in these manufacturing activities undertaken in the PRC. The profits earned are thus considered to be partly arising and derived from the manufacturing activities carried out in the PRC and partly from other activities performed in Hong Kong. Accordingly, the Group claimed a 50:50 offshore concession in respect of Hong Kong Profits Tax.

10. INCOME TAX EXPENSE (CONTINUED)

Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The subsidiaries established in the PRC are subject to the EIT at rate of 25% (2008: 33%). No provision for EIT has been made for these subsidiaries established in the PRC for the year as they did not generate any assessable profits during the year.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the EIT rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC at 25% (2008: 33%)

The income tax expense can be reconciled to the loss before taxation per consolidated income statement as follows:

	2009	2008
	HK$'000	*HK$'000*
Loss before taxation	**(99,546)**	(41,376)
Tax at Hong Kong Profits Tax rate at 16.5% (2008: 17.5%)	**(16,425)**	(7,241)
Tax effect of expenses not deductible for tax purpose	**4,673**	8,134
Tax effect of income not taxable for tax purpose	**(999)**	(611)
Tax effect of tax losses and other deductible temporary differences not recognised	**12,725**	1,475
Income tax on concessionary rate	**2,717**	–
Utilisation of tax loss not previously recognised	**(357)**	(275)
Effect of different tax rates of subsidiaries operating in the PRC	**(2,258)**	750
	76	2,232

Details of deferred taxation are set out in note 32.

11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2009 *HK$'000*	2008 *HK$'000*
Loss for the year attributable to equity holders of the Company has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	**1,001**	5,249
Other staff costs	**24,109**	32,064
Share-based payment	**1,695**	675
Retirement benefit scheme contributions for staff	**794**	1,151
Severance payments to workers	**1,663**	603
Forfeited contributions utilised to offset employers' contributions	**(172)**	(441)
Total staff costs	**29,090**	39,301
Allowance for bad and doubtful debts	**2,303**	1,383
Allowance for (reversal of) inventories (included in cost of sales)	**9,660**	(435)
Auditor's remuneration	**1,002**	861
Release of non-current prepayments	**1,941**	2,240
Cost of inventories recognised as expenses	**91,451**	153,241
Deposits forfeited for early termination of a rental agreement	**1,600**	–
Depreciation on:		
— own assets	**4,278**	6,187
— assets held under finance leases	**479**	3,072
Loss on disposal of plant and equipment	**—**	3,710
Loss on written off of plant and equipment	**3,813**	–
Loss on non-current prepayments upon sales of right of use and management of premises	**5,255**	–
Minimum lease payment in respect of		
— rented premises	**8,944**	9,764
— hire of equipment	**—**	130
Net exchange loss	**432**	2,075
Provision for litigation	**671**	–
and after crediting:		
Rental income, net of outgoings included in administrative expenses of HK$1,941,000 (2008: HK$2,240,000)	**1,063**	1,311

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the 7 (2008: 15) directors were as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefit scheme contributions	Share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2009						
Executive directors:						
Chan Hoi Ling	60	–	–	–	–	60
Wong Hin Shek	–	–	–	–	565	565
	60	–	–	–	565	625
Non-executive directors:						
Tse On Kin (note 1)	80	–	103	–	–	183
Tse On Po, Vincent (note 1)	20	–	–	–	–	20
	100	–	103	–	–	203
Independent non-executive directors:						
Lau Man Tak	60	–	–	–	–	60
Wong Yun Kuen	60	–	–	–	–	60
Man Kwok Leung (note 2)	53	–	–	–	–	53
	173	–	–	–	–	173
	333	–	103	–	565	1,001

Notes:

(1) Resigned on 1 August 2008.

(2) Appointed on 13 May 2008.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(i) Directors' emoluments (Continued)

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Year ended 31 March 2008						
Executive directors:						
Kan Shiu Cheong, Frederick (note 1)	–	900	–	9	–	909
Chan Hoi Lam (note 1)	–	900	2,000	9	–	2,909
Yau Kang Nam (note 2)	–	320	–	4	–	324
Jiang Hai Qing (note 2)	–	638	–	11	–	649
Wong Hin Shek (note 3)	–	–	–	–	–	–
Chan Siu Mun (note 3)	–	–	–	–	–	–
Lo Miu Sheung, Betty (note 2 and 6)	–	–	–	–	–	–
	–	2,758	2,000	33	–	4,791
Non-executive directors:						
Tse On Po, Vincent (note 4)	34	–	–	–	–	34
Tse On Kin (note 4)	34	–	–	–	–	34
	68	–	–	–	–	68
Independent non-executive directors:						
Ng Sui Keung (note 5)	99	–	–	–	–	99
Lai Kin Keung (note 5)	99	–	–	–	–	99
Yueh Yung Hsin (note 5)	99	–	–	–	–	99
Wong Yun Kuen (note 6)	46	–	–	–	–	46
Chan Hoi Ling (note 6)	46	–	–	–	–	46
Lau Man Tak (note 7)	1	–	–	–	–	1
	390	–	–	–	–	390
	458	2,758	2,000	33	–	5,249

Notes:

(1) Resigned on 26 March 2008.
(2) Retired on 25 January 2008.
(3) Appointed on 18 June 2007.
(4) Appointed on 6 September 2007.
(5) Resigned on 27 March 2008.
(6) Appointed on 26 June 2007.
(7) Appointed on 27 March 2008.

No director has waived any emoluments during the year ended 31 March 2009. One director, Yan Kang Nam waived emoluments of HK$462,000 for the year ended 31 March 2008.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included nil (2008: three) director. The emolument of the remaining five (2008: two) highest paid employees, not being directors of the Company, are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	3,839	2,004
Discretionary bonuses	560	30
Retirement benefit scheme contributions	54	24
	4,453	2,058

Emoluments of these employees were within the following bands:

	Number of employee(s) 2009	2008
HK$500,001 to HK$1,000,000	2	–
HK$1,000,001 to HK$1,500,000	3	2
	5	2

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2009 and 2008.

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 March 2009, nor has any dividend been proposed since the balance sheet date (2008: HK$nil).

14. LOSS PER SHARE — BASIC

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company for the year of approximately HK$99,622,000 (2008: HK$43,608,000) and the following data:

	2009	2008
Number of shares:		
Weighted average number of shares for the purpose of basic loss per share	1,105,228,260	905,231,626

No diluted loss per share has been presented because the exercise price of the Company's outstanding share options was higher than the average market price of shares for both years.

15. PLANT AND EQUIPMENT

	Furniture and fixtures	Machinery and equipment	Motor vehicles	Moulds	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 April 2007	10,109	171,770	3,597	1,208	7,522	194,206
Currency realignment	566	1,011	107	–	68	1,752
Additions	598	613	337	–	27	1,575
Disposals	–	(73,458)	(1,870)	(1,208)	(43)	(76,579)
At 31 March 2008 and 1 April 2008	11,273	99,936	2,171	–	7,574	120,954
Currency realignment	52	117	10	–	8	187
Additions	333	–	–	–	–	333
Disposals	(103)	(37,399)	(682)	–	(46)	(38,230)
Written off	(4,237)	(5,911)	(231)	–	(760)	(11,139)
At 31 March 2009	7,318	56,743	1,268	–	6,776	72,105
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 2007	2,134	118,069	2,754	1,208	6,189	130,354
Currency realignment	97	894	52	–	48	1,091
Provided for the year	1,665	6,767	282	–	545	9,259
Impairment loss recognised during the year	–	446	–	–	–	446
Eliminated on disposals	–	(49,879)	(1,731)	(1,208)	(43)	(52,861)
At 31 March 2008 and 1 April 2008	3,896	76,297	1,357	–	6,739	88,289
Currency realignment	12	103	5	–	5	125
Provided for the year	1,385	2,794	176	–	402	4,757
Impairment loss recognised during the year	1,936	7,951	176	–	345	10,408
Eliminated on disposals	(83)	(27,619)	(527)	–	(32)	(28,261)
Eliminated on written off	(1,282)	(5,226)	(130)	–	(688)	(7,326)
At 31 March 2009	5,864	54,300	1,057	–	6,771	67,992
CARRYING VALUES						
At 31 March 2009	1,454	2,443	211	–	5	4,113
At 31 March 2008	7,377	23,639	814	–	835	32,665

15. PLANT AND EQUIPMENT (CONTINUED)

The above items of plant and equipment are depreciated over their estimated useful lives, using the straight-line method, at the following rates per annum:

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

The carrying amount of machinery and equipment includes an amount of HK$Nil after full impairment of approximately HK$1,480,000 (2008: HK$4,392,000) in respect of assets held under finance leases.

Machinery and equipment with carrying values of approximately HK$515,000 and HK$421,000 were temporarily sequestrated by 深圳市寶安區人民法院 and 廣東省東莞市第二人民法院 respectively. Details of which set out in note 33.

During the year, the directors conducted a review of the Group's plant and equipment and determined that a number of those assets were impaired, due to plant and equipment are being idle and physical damage. Accordingly, impairment loss of approximately HK$10,408,000 (2008: HK$446,000) has been recognised in respect of plant and equipment. The values of idle machinery and equipment are based on market value determined by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group.

16. PREPAYMENTS

	2009	2008
	HK$'000	*HK$'000*
Amount to be utilised within one year	**1,048**	2,240
Amount to be utilised after one year	**10,217**	24,071
	11,265	26,311
Less: Amount to be utilised within one year included in deposits, prepayments and other receivables	**(1,048)**	(2,240)
	10,217	24,071

Prepayment represents the amounts advanced by the Group to a third party (the "Landlord") for the construction of production and related facilities (the "Baoan Factory") in Baoan, the PRC. The Baoan Factory with an aggregate construction area of 97,250 square metre is divided into an aggregate construction area of 51,771 square metre (the "First Phase") and 45,479 square metre (the "Second Phase") respectively. Pursuant to the original and supplementary agreements signed between a subsidiary of the Company and the Landlord, the Group is entitled to use the production and related facilities for a term of 30 years up to 31 December 2019 free of charge as consideration for the settlement of the advances. The amount charged to the consolidated income statement as consideration for the settlement for the year was approximately HK$1,941,000 (2008: HK$2,240,000).

The Group relocated its production lines from the Baoan Factory to Dongguan, the PRC and in August 2006, the Group entered into an agreement with the Landlord to lease back the Baoan Factory to the Landlord in two phases for terms commencing on 1 September 2006 and 1 June 2007 respectively until 31 December 2019. For the year ended 31 March 2009, the Group recorded a gross rental income of approximately HK$3,004,000 (2008: HK$3,551,000).

16. PREPAYMENTS (CONTINUED)

During the year ended 31 March 2009, the Group entered into an agreement with the Landlord, pursuant to which the lease of the First Phase is terminated on 1 January 2009 and the Group agreed to transfer the rights of use and management of the First Phase for the period from 1 January 2009 to 31 December 2019 at the consideration of approximately RMB7,041,000 (equivalent to approximately HK$7,850,000) to the Landlord. Accordingly, the difference of approximately HK$5,255,000 between the consideration and carrying value of the First Phase was recognised as a loss in the consolidated income statement during the year ended 31 March 2009.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	HK$'000	*HK$'000*
Unlisted equity securities, at cost	**9,500**	9,500
Less: Impairment loss recognised	**(9,500)**	(9,500)
	–	–

The above investments represent unlisted equity investments in Vevion Hong Kong Limited ("Vevion"), a company incorporated in Hong Kong, in which the Company acquired 1,900,000 shares or 8.26% of the equity interests in 2006. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that these fair values cannot be measured reliably.

During the year ended 31 March 2008, impairment loss of HK$3,500,000 was recognised by reference to the estimated recoverable amount of the investments. Valuation has been conducted by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group, for the purpose of assessing the recoverable amounts. Such valuation has been carried out using cash flow projections based on financial budgets approved by management and applying the discounted cash flow technique.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 March 2008, the Group subscribed for convertible note at principal amount of HK$13,000,000 issued by Wai Yuen Tong Medicine Holdings Limited (the "CN") which is listed in Hong Kong ("the CN issuer") at a total consideration equal to the principal amount. The Group has designated this convertible note as financial assets at fair value through profit or loss.

The details of the convertible notes were set out below:

Date of issue	3 August 2007
Aggregate principal amount	HK$13,000,000
Coupon rate	1 percent per annum
Conversion price	HK$0.58
Conversion period	3 August 2007 to 2 August 2009
Collaterals	Nil
Maturity date	2 August 2009

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

In case of early redemption, at any time after six months of the issuance of the CN, the CN issuer shall be entitled at its discretion by giving not less than 30 days notice to the holders of the CN to redeem all (but not some only) outstanding CN.

In case of redemption on maturity, 100% of the principal amount with any accrued and unpaid interest will be repaid.

As at 31 March 2008, the CN was valued at HK$12,357,000, which is determined by reference to the valuation report issued by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group. A decrease in fair value of HK$643,000 is recognised in the consolidated income statement for the year ended 31 March 2008.

The fair value of the CN was calculated using the Binomial Model. The inputs into the models were as follows:

	18 September 2008	31 March 2008
Stock price	**HK$0.14**	HK$0.207
Exercise price	**HK$0.58**	HK$0.58
Expected volatility	**79.74%**	82.70%
Expected dividend yield	**0%**	0%
Risk free Rate	**Hong Kong Exchange Fund Bills & Notes as at 18 September 2008**	Hong Kong Exchange Fund Bills & Notes as at 31 March 2008
Credit Spread (1.333 years)	**N/A**	485b.p.

On 18 September 2008, the CN issuer had early redeemed the CN with consideration of approximately HK$12,675,000. Accordingly, as the carrying amount of the CN on the date of redemption is approximately HK$12,488,000 which is determined by reference to the valuation report issued by BMI Appraisals Limited, an independent qualified professional valuer not connected to the Group, gain on changes in fair value of the CN and redemption of the CN of approximately HK$131,000 and HK$187,000 respectively was recognised in the consolidated income statement during the year ended 31 March 2009. The value of the CN varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of the CN.

19. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	–	9,135
Work in progress	–	4,925
Finished goods	200	1,100
	200	15,160

During the year ended 31 March 2008, there was an increase in the estimated net realisable value of certain finished goods due to change in demand in market. As a result, a reversal of write-down of finished goods of approximately HK$435,000 had been recognised and included in cost of sales.

20. TRADE RECEIVABLES

Trade receivables consisted of:

	2009 HK$'000	2008 HK$'000
Trade receivables	14,261	13,500
Less: Allowance for bad and doubtful debts	(7,037)	(4,734)
	7,224	8,766

The aged analysis of trade receivables net of allowance for bad and doubtful debts at the balance sheet date is as follow:

	2009 HK$'000	2008 HK$'000
0–30 days	6,062	4,249
31–60 days	1,123	1,694
61–90 days	16	897
91–120 days	16	447
Over 120 days	7	1,479
	7,224	8,766

The Group allows a credit period of 30–120 days (2008: 30–120 days) to its customers.

Included in the Group's trade receivables balance are receivables with an aggregate carrying amount of approximately HK$346,000 (2008: HK$4,178,000) which are past due but not impaired at the reporting date for which the Group has not provided for impairment loss.

20. TRADE RECEIVABLES (CONTINUED)

Aging of trade receivables which are past due but not impaired:

	2009 HK$'000	2008 HK$'000
0–30 days	289	1,565
31–60 days	18	636
61–90 days	16	151
91–120 days	16	347
Over 120 days	7	1,479
	346	4,178

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the allowance for bad and doubtful debts:

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	4,734	4,858
Allowance for bad and doubtful debts	2,303	1,383
Amount written off as uncollectible	—	(1,507)
Balance at end of the year	7,037	4,734

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$7,037,000 (2008: HK$4,734,000) since the management considered the prolonged outstanding balances were uncollectible. The Group does not hold any collateral over these balances.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Deposits and other receivables	24,595	21,574
Less: Impairment loss recognised	(17,116)	—
	7,479	21,574
Prepayments	3,251	3,221
Less: impairment loss recognised	(1,869)	—
	8,861	24,795

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movement in the impairment on deposits, prepayments and other receivables:

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	–	–
Impairment loss recognised during the year	18,985	–
Balance at end of the year	18,985	–

Included in the impairment on deposits, prepayments and other receivables are individually impaired other receivables with an aggregate balance of approximately HK$18,985,000 (2008: HK$Nil) since the management considered the prolonged outstanding balances were uncollectible. The Group does not hold any collateral over these balances.

22. HELD FOR TRADING INVESTMENTS

The held for trading investments comprise equity securities listed in Hong Kong and are stated at fair values which are based on the quoted market bid prices on the Stock Exchange.

23. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of related party	Maximum amount outstanding during the year ended 31 March 2009 HK$'000	2009 HK$'000	2008 HK$'000
Easyfil (Hong Kong) Limited ("Easyfil") (Note)	24	24	–
Always Online (Hong Kong) Company Limited ("Always") (Note)	39	39	–
		63	–

Note: Mr. Chan Hoi Ling, a director of the Company, is also the common director in these companies.

The above balances are unsecured, interest-free and repayable on demand.

24. DEPOSITS IN OTHER FINANCIAL INSTITUTION

The amounts represented deposits placed with securities brokers for trading listed securities in Hong Kong and carrys interest at prevailing market rates.

25. BANK BALANCES AND CASH

Bank balances and cash comprise bank balances carry interest at prevailing market rates.

At the balance sheet date, bank balances and cash were substantially denominated in Hong Kong dollars.

26. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**30,926**	30,233
Other payables	**4,533**	1,347
Provision for litigation	**671**	–
Accruals	**21,714**	14,016
	57,844	45,596

Ageing analysis of trade payables is as follows:

	2009	2008
	HK$'000	*HK$'000*
0–30 days	**5,395**	4,854
31–60 days	**412**	2,909
61–90 days	**31**	2,753
91–120 days	**452**	2,745
Over 120 days	**24,636**	16,972
	30,926	30,233

The average credit period for purchases ranged from 30 days to 120 days.

27. AMOUNTS DUE TO DIRECTORS

	2009	2008
	HK$'000	*HK$'000*
Executive director:		
Ms. Chan Hoi Ling	**–**	46
Independent non-executive directors:		
Mr. Wong Yun Kuen	**–**	46
Mr. Lau Man Tak	**–**	1
Non-executive directors:		
Mr. Tse On Kin (note)	**–**	34
Mr. Tse On Po, Vincent (note)	**–**	34
	–	161

Note: Resigned on 1 August 2008.

The amounts were unsecured, interest-free and fully repaid during the year ended 31 March 2009.

28. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 3 to 4 years. Interest rates are either fixed at the contract date or variable with reference to the prevailing market rates. For the year ended 31 March 2009, the average effective borrowing rate (which was also equal to contracted interest rates) ranged from 6.63% to 10.5% (2008: 6.63% to 10.5%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum leases payments	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases				
Within one year	**497**	1,920	**492**	1,794
In more than one year but not more than two years	**—**	934	**—**	885
In more than two years but less but not more than three years	**—**	67	**—**	66
	497	2,921	**492**	2,745
Less: Future finance charges	**(5)**	(176)	**N/A**	N/A
Present value of lease obligations	**492**	2,745	**492**	2,745
Less: Amount due within one year shown under current liabilities			**(492)**	(1,794)
Amount due for settlement after one year			**—**	951

The Group's obligations under finance leases are denominated in Hong Kong dollars, which is the functional currency of the Group, and secured by the lessors' charge over the leased assets.

29. SHORT-TERM BANK BORROWINGS

	2009	2008
	HK$'000	*HK$'000*
Export loans (note a)	**—**	1,470
Trust receipts and import loans (note a)	**—**	505
Bank overdrafts (note b)	**82**	1,923
	82	3,898

Notes:

a. Export loans, trust receipts and import loans carry at variable interest rates ranging from 4.28% to 5.19% per annum in 2008.

b. Bank overdrafts carry at interest rate of 9% (2008: 7.25% to 9%) per annum.

As at 31 March 2008, all the bank borrowings were granted to the subsidiaries of the Company by banks and were guaranteed by the Company.

30. SHARE CAPITAL

	Notes	Number of shares	Par value per ordinary share HK$	Share capital HK$'000
Authorised:				
At 1 April 2007, 31 March 2008 and 31 March 2009		10,000,000,000	0.01	100,000
Issued and fully paid:				
At 1 April 2007		618,061,134		6,180
Issue of new shares upon placing	(a)	339,600,000	0.01	3,396
At 31 March 2008		957,661,134		9,576
Issue of new shares upon placing	(b)	191,000,000	0.01	1,910
Exercise of share option	(c)	6	0.01	–
At 31 March 2009		1,148,661,140		11,486

Notes:

(a) (i) On 26 April 2007, 33,000,000 ordinary shares of HK$0.01 each at price of HK$0.171 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.

(ii) On 8 May 2007, 33,000,000 ordinary shares of HK$0.01 each at price of HK$0.180 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.

(iii) On 5 July 2007, 136,800,000 ordinary shares of HK$0.01 each at price of HK$0.26 each in the capital of the Company were issued pursuant to a placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.

(iv) As the Company announced on 6 June 2007, 24 August 2007 and 26 November 2007, the Company conditionally agreed to place, through Kingston Securities Limited (the "Placing Agent") on a best effort basis, a maximum of 273,600,000 ordinary shares of HK$0.01 each in the capital of the Company by two equal tranches. Completion of the tranche 1 placing took placed on 26 July 2007 that the Placing Agent has fully placed a total of 136,800,000 tranche 1 placing shares at price of HK$0.23 per Placing share. Up to 24 November 2007, none of the tranche II placing shares have been placed and the tranche II Placing Agreement has expired and ceased thereafter.

(b) On 23 June 2008, 191,000,000 ordinary shares of HK$0.01 each at price of HK$0.159 each in the capital of the Company were issued pursuant to a placing and subscription agreements in relation to the placing of new shares of the Company.

(c) On 30 September 2008, the Company issued 6 ordinary shares of HK$0.01 each for cash at the exercise price of HK$0.174 each upon exercise of share options granted on 17 June 2008.

All the shares issued during the year rank pari passu with then existing shares in all respects.

31. SHARE OPTIONS

On 29 August 2002, the Company adopted a share option scheme (the "Scheme") which complies with the new requirements of Chapter 17 of the Listing Rules effective 1 September 2001.

During the year ended 31 March 2009, 36,000,000 (2008: 6,180,000) options were granted under the Scheme to employees of the Group.

The fair value of the share options granted during the year at the date of grant is HK$0.062799 (2008: HK$0.109293) each, which were valued by RHL Appraisal Limited, an independent qualified professional valuers not connected to the Group

The fair values of the share options granted during the year were calculated using the Trinomial Model and the Binomial Model. The inputs into model were as follows:

	17 June 2008	30 April 2007
Weighted average share price	**HK$0.171**	HK$0.2084
Weighted average exercise price	**HK$0.174**	HK$0.2084
Expected volatility	**78.86%**	66.17%
Expected life	**3**	3
Risk free rate	**3.382%**	3.994%
Expected dividend yield	**N/A**	N/A
Valuation model used	**Trinomial Model**	Binomial Model

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly annualised volatility of the underlying stock.

During the year ended 31 March 2009, the Group recognised the total expenses of approximately HK$2,260,000 (2008: HK$675,000) in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2009

31. SHARE OPTIONS (CONTINUED)

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

Year ended 31 March 2009

Category name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Exercise price per share HK$	Number of share options: Outstanding at 1.4.2008	Granted during the year	Exercised during the period	Lapsed during the period	Outstanding at 31.3.2009	Weighted average closing price (Note 3)
Director									
Wong Hin Shek	17.6.2008	17.6.2008 to 16.6.2011	0.1740	–	9,000,000	–	–	9,000,000	–
				–	9,000,000	–	–	9,000,000	
Employees and others									
In aggregate	26.4.2005	26.4.2005 to 25.4.2008	0.5330	2,554,970	–	–	2,554,970	–	–
	20.9.2005	20.9.2005 to 6.10.2008 (Note 4)	0.4190	5,175,452	–	–	5,175,452	–	–
	30.4.2007	30.4.2007 to 29.4.2010	0.2084	6,180,000	–	–	–	6,180,000	–
	17.6.2008	17.6.2008 to 16.6.2011	0.1740	–	27,000,000	6	–	26,999,994	0.1503
				13,910,422	27,000,000	6	7,730,422	33,179,994	
				13,910,422	36,000,000	6	7,730,422	42,179,994	

31. SHARE OPTIONS (CONTINUED)

Year ended 31 March 2008

Category name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Exercise price per share	Number of share options		
				Outstanding at 1.4.2007	Granted during the year	Outstanding at 31.3.2008
			HK$			
Directors						
Kan Shiu Cheong, Frederick (note)	20.9.2005	20.9.2005 to 19.9.2008	0.4190	2,587,726	–	2,587,726
Chan Hoi Lam (note)	20.9.2005	20.9.2005 to 19.9.2008	0.4190	2,587,726	–	2,587,726
				5,175,452	–	5,175,452
Employees						
In aggregate	26.4.2005	26.4.2005 to 25.4.2008	0.5330	2,554,970	–	2,554,970
	30.4.2007	30.4.2007 to 29.4.2010	0.2084	–	6,180,000	6,180,000
				2,554,970	6,180,000	8,734,970
Total				7,730,422	6,180,000	13,910,422

Note: Resigned as directors on 26 March 2008 and become employees of the Group.

Notes:

(1) All dates are shown day/month/year.

(2) The vesting period of the options is from the date of grant until the commencement of the exercise period.

(3) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.

(4) The exercise period was extended from 19 September 2008 to 6 October 2008.

32. DEFERRED TAXATION

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

	Accelerated tax depreciation *HK$'000*	Estimated tax losses *HK$'000*	Total *HK$'000*
At 1 April 2007	(2,009)	2,009	–
(Charge) credit to the consolidated income statement for the year	(677)	677	–
At 31 March 2008	(2,686)	2,686	–
(Charge) credit to the consolidated income statement for the year	(2,659)	(2,659)	–
Change in tax rate	27	(27)	–
At 31 March 2009	–	–	–

At 31 March 2009, the Group has unused tax losses and other deductible temporary difference of approximately HK$216,856,000 (2008: HK$187,811,000) and HK$24,759,000 (2008: HK$6,000) respectively available for offsetting against future profits. A deferred tax assets has been recognised in respect of HK$16,115,000 (2008: HK$3,869,000) of such losses. No deferred tax assets has been recognised in respect of the remaining tax losses of approximately HK$200,741,000 (2008: HK$183,942,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$11,279,000 (2008: nil) that will expire in 2014, Other losses maybe carried forward indefinitely.

33. LITIGATION AND POST BALANCE SHEET EVENTS

As at 31 March 2009, a number of lawsuits and claims were lodged against the Group which remain outstanding as at the balance sheet date as follow:

(a) Golddoor Company Limited ("Golddoor")

On 27 August 2008, one of the Group's customers, Golddoor brought an action in High Court of Hong Kong under HCA 1606 of 2008 against a wholly-owned subsidiary of the Company, Climax Paper Converters, Limited ("CPCL") for the balance of deposit of approximately RMB1,435,000 (equivalent to approximately HK$1,624,000) together with interest, further and/or other relief and cost of this action. CPCL has already filed a defence on 13 October 2008.

On 29 October 2008, Golddoor also brought an action in the People's Court of Dongguan, Guangdong Province under (2008) 東法民四初字第1105號 against CPCL and Climax Paper Products Manufacturing (Dongguan) Co., Ltd. ("CPD") for the balance of deposit of RMB1,429,000 (equivalent to approximately HK$1,617,000). CPCL and CPD have already filed a defence on 2 December 2008.

Up to the date of this report, these actions are still in progress and no hearing date has been fixed. With the advice from the Group's legal adviser, the directors of the Company are of the opinion that the Group has proper and valid defence to Golddoor, accordingly, no provision for the claim has been made further to the deposit received recognised for the consolidated financial statements.

33. LITIGATION AND POST BALANCE SHEET EVENTS (CONTINUED)

(b) Hang Seng Bank ("Hang Seng")

One of the Group's suppliers, Kai Sung Papers Co. Ltd. ("Kai Sung") entered into a factoring agreement with Hang Seng pursuant to which the ownership of any debts owed to Kai Sung to vest in Hang Seng. From May to August 2007, CPCL entered into various contracts with Kai Sung pursuant to which Kai Sung agreed to sell and deliver to CPCL and CPCL agreed to purchase goods from Kai Sung for the total purchase price of approximately HK$1,795,000. On 18 March 2009, Hang Seng brought an action in High Court of Hong Kong under HCA 769 of 2009 against CPCL for the outstanding balance of approximately HK$1,404,527 plus cost and interest on the said balance. Since no defence have been served by CPCL, judgment has been issued by High Court on 8 April 2009, pursuant to which CPCL should pay approximately HK$1,405,000 plus costs of HK$1,000 and interest of approximately HK$624,000 from 8 August 2007 to 1 June 2009 and continuing to accrue at the judgment rate until payment. For the year ended 31 March 2009, the Group had accrued for such outstanding balance plus cost and interest.

(c) Lockey Paper Products Factory Limited ("Lockey Paper")

On 30 March 2009, one of the Group's suppliers, Lockey Paper brought an action in District Court of Hong Kong under DCCJ 1606 of 2009 against a wholly-owned subsidiary of the Company, Shiu's Investments Limited ("SIL") for approximately HK$357,000 and an action in High Court of Hong Kong under HCA 889 of 2009 against CPCL for approximately HK$3,756,000 being the total outstanding balances of the price for goods sold and delivered to SIL and CPCL together with interest, further and/or other relief and cost. Since no defence has been given by SIL and CPCL, notices of intention to enter into judgment were served on SIL and CPCL on 20 April 2009. Subsequently, judgment have been issued by District Court and High Court on 15 July 2009 and 7 July 2009 respectively, pursuant to which SIL and CPCL do pay the sum of outstanding balances together with interest until payment and costs to Lockey Paper. For the year ended 31 March 2009, the Group had accrued for such outstanding balance plus cost of HK$2,000 and interest of HK$160.

(d) Champion Basic International Limited ("Champion Basic")

On 29 May 2009, one of the Group's suppliers, Champion Basic brought an action in District Court of Hong Kong under DCCJ 2551 of 2009 against a wholly-owned subsidiary of the Company, Climax Marketing Company Limited ("CMCL") for approximately HK$281,000 being the outstanding balance of the price for goods sold and delivered to CMCL together with interest, further and/or other relief and cost. Since no defence has been given by CMCL, notice of intention to enter judgment was served on CMCL on 10 July 2009. For the year ended 31 March 2009, the Group had accrued for such outstanding balance. This legal action is still in progress up to the date of the consolidated financial statements.

33. LITIGATION AND POST BALANCE SHEET EVENTS (CONTINUED)

(e) Orix Asia Limited ("Orix")

By lease agreements dated 18 March 2005 and 7 April 2005 made between Orix and SIL, Orix agreed to let and SIL agreed to take on lease certain machines for a period of 48 months. The Company and CPCL have provided financial guarantees to SIL. On 5 March 2009, Orix brought an action in District Court of Hong Kong under DCCJ 693 of 2009 against the Company, SIL and CPCL for recovery of approximately HK$199,000 under the lease and guarantees agreements together with interest and costs. Since no defence have been given by the Company, SIL or CPCL, judgment has been issued by District Court on 16 April 2009, pursuant to which the Company, SIL and CPCL do jointly and severally pay the sum of outstanding balances together with interest until payment and costs to Orix. For the year ended 31 March 2009, the Group had accrued for such outstanding balances plus cost and interest.

(f) Fook Woo Assort Paper Co. Ltd. ("Fook Woo")

On 31 July 2008, one of the Group's suppliers, Fook Woo brought an action in High Court of Hong Kong under HCA 782 of 2008 against the Company for approximately HK$1,201,000 being the outstanding balance of the price for goods sold and delivered to the CPCL together with interest, further and/or other relief and cost. Since no defence have been given by the Company, judgment has been issued by High Court on 11 August 2008, pursuant to which the Company do pay the sum of outstanding balance together with interest until payment and costs to Fook Woo. However, no payment has been made and no further legal action taken by Fook Woo up to the date of these financial statements. For the year ended 31 March 2009, the Group had accrued for such outstanding balance plus cost and interest.

(g) 深圳市恒輝印刷包裝有限公司 ("Heng Hui")

On 17 February 2008, one of the Group's suppliers, Heng Hui brought an action in深圳市寶安區人民法院 under (2009) 深寶法民二初字第752號 against the 東莞長安肇業文具制品廠 ("SILF", a factory held by SIL), SIL, CPD, CPCL and CMCL (collectively referred to as the "Defendants for Heng Hui") for approximately RMB1,002,000 being the outstanding balance of the price for goods sold and delivered to 東莞長安肇業文具制品廠 and CPD together with interest, further and/or other relief and cost. On 5 March 2009, three sets of machines of the Defendants for Heng Hui were temporarily sequestrated by 深圳市寶安區人民法院 upon application of Heng Hui (with net carrying value as at 31 March 2009 of nil). On 15 May 2009, judgment has been issued by 深圳市寶安區人民法院, pursuant to which the Defendants for Heng Hui should accept the delivery of remaining goods of approximately RMB443,000 (equivalent to approximately HK$501,000) and do pay the sum of outstanding balance together with interest until payment and costs to Heng Hui. The Defendants for Heng Hui have subsequently made an appeal to 深圳市中級人民法院 on 7 July 2009. This legal action is still in progress up to the date of the consolidated financial statements. For the year ended 31 March 2009, the Group had accrued for such outstanding balance plus cost RMB20,000 (equivalent to approximately HK$22,000) and interest.

33. LITIGATION AND POST BALANCE SHEET EVENTS (CONTINUED)

(h) 東莞市華彰紙業有限公司 ("Hua Zhang")

On 6 March 2009, one of the Group's suppliers, Hua Zhang brought an action in 廣東省東莞市第二人民法院 under (2009) 東二法民四初字第188號 against SILF, SIL and CPD (collectively referred to as the "Defendants for Hua Zhang") for RMB558,000 (equivalent to approximately HK$632,000) being the outstanding balance of the price for goods sold and delivered to Defendants for Hua Zhang together with interest, further and/or other relief and cost. On 11 March 2009, 廣東省東莞市第二人民法院issued judgment pursuant to which the bank account of CPD with a value of RMB558,000 (equivalent to approximately HK$632,000) should be frozen or machines and assets of SIL with equivalent value should be sequestrated upon application of Hua Zhang. On 18 March 2009, a bank balance of RMB129 (equivalent to approximately HK$146) was frozen and 11 machines were temporarily sequestrated (with net carrying value of eleven sets of machines as at 31 March 2009 of approximately HK$421,000). On 11 May 2009, Hua Zhang and Defendants for Hua Zhang reached an accommodation that the Defendants for Hua Zhang only need to repay RMB466,000 (equivalent to approximately HK$528,000) by three installments instead of RMB558,000 (equivalent to approximately HK$632,000). Hua Zhang agreed to release the sequestration of assets when the second installment is paid. On 21 May 2009, the properties (i.e. the bank balance and eleven sets of machines) arrested were released by 廣東省東莞市第二人民法院. For the year ended 31 March 2009, the Group had accrued for such outstanding balance.

(i) 北京康得新複合材料股份有限公司 ("Kang De Xin")

On 5 November 2008, one of the Group's suppliers, Kang De Xin brought an action in 北京市第一中級人民法院 under (2008) 中民初字第15766號 against SILF, CPC and CPD (collectively referred to as the "Defendants for Kang De Xin") for approximately RMB417,000 (equivalent to approximately HK$472,000) being the outstanding balance of the price for goods sold and delivered to Defendants for Kang De Xin together with interest, further and/or other relief and cost. The writ was served on Defendants for Kang De Xin on 10 February 2009. This legal action is still in progress up to the date of the consolidated financial statements. For the year ended 31 March 2009, the Group had accrued for the outstanding balance.

(j) 宋留坡 ("Song")

On 9 June 2009, one of the Group's employee, Song brought an action in 東莞市勞動爭議仲裁庭長安分庭 under (2009) 第1029號 against SILF for approximately RMB863,000 (equivalent to approximately HK$978,000) being the compensation of medication and treatment as Song suffered from leukemia. On 15 June 2009, two machines of the SILF were temporarily sequestrated by 廣東省東莞市第二人民法院 upon application of Song. On 16 July 2009, judgment has been issued by 東莞市勞動爭議仲裁庭長安分庭 pursuant to which SILF do pay approximately RMB53,000 (equivalent to approximately HK$60,000) and withdraw the institute proceedings from Song to SILF. Up to the date of the consolidated financial statements, the two sets of machines arrested have not been released by 廣東省東莞市第二人民法院.

33. LITIGATION AND POST BALANCE SHEET EVENTS (CONTINUED)

(k) 廣州市榮天豪油墨塗料有限公司 ("Rong Tian Hao")

On 5 November 2008, one of the Group's suppliers, Rong Tian Hao brought an action in 廣東省東莞市人民法院 under (2009) 東二法執字第3320號 against SIL and SILF (collectively referred to as the "Defendants for Rong Tian Hao") for RMB107,000 (equivalent to approximately HK$121,000) being the outstanding balance of the price for goods sold and delivered to Defendants for Rong Tian Hao together with interest, further and/or other relief and cost. On 20 April 2009, Rong Tian Hao and Defendants for Rong Tian Hao reached an accommodation that the Defendants for Rong Tian Hao would pay an aggregate amount of RMB119,000 (equivalent to HK$135,000) by three installments. For the year ended 31 March 2009, the Group had accrued for the outstanding balance.

During the year ended 31 March 2009, trade and other payables of approximately HK$11,322,000 and provision for litigation of approximately HK$695,000 has been recorded for the above litigations against the Group.

34. COMMITMENTS

	2009 *HK$'000*	2008 *HK$'000*
Capital commitments		
Capital expenditure in respect of acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**12,742**	13,695
Other commitments		
Expenditure in respect of construction project in related to non-current prepayment contracted for but not provided in the consolidated financial statements	**902**	902
	13,644	14,597

35. OPERATING LEASE COMMITMENTS

The Group as lessee

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	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**6,189**	11,071	**–**	130
In the second to fifth year inclusive	**11,606**	41,472	**–**	194
Over five years	**–**	12,148	**–**	–
	17,795	64,691	**–**	324

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 from one to ten years. The lease payments are fixed and no arrangements have been entered into for contingent rental.

The Group as lessor

As explained in note 16, the Group leased back the Baoan Factory, which the Group had the right of usage upto 31 December 2019, back to the Landloard. At the balance sheet date, the Group had contracted for the following future minimum lease payments receivable in respect of the Baoan Factory:

	Rented premises	
	2009	2008
	HK$'000	*HK$'000*
Within one year	**2,314**	5,052
In the second to fifth year inclusive	**9,256**	20,208
Over five years	**10,220**	26,671
	21,790	51,931

36. RETIREMENT BENEFIT SCHEME

Hong Kong

A retirement plan has been established for all eligible employees of the Group in Hong Kong starting from 1 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 1 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:

	2009	2008
	HK$'000	*HK$'000*
Employers' contributions under defined contribution schemes	**254**	397
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	**(172)**	(441)
	82	(44)

At 31 March 2009 and 2008, no 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.

PRC

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. All employees of the Group in PRC 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 31 March 2009 was approximately HK$778,000 (2008: HK$754,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

37. RELATED PARTY TRANSACTIONS

Other than the details as disclosed elsewhere in the consolidated financial statements, during the year the Group entered into the following related party transactions:

i) the Group sold goods, amounting approximately HK$20,000, HK$2,000 and HK$Nil (2008: HK$75,000, HK$Nil and HK$21,000), to Vevion, Always and Easyfil respectively, in which Mr. Chan Hoi Lam, the director of a subsidiary of the Company, has a beneficial interest.

ii) the Group paid rent and building management fee, amounting approximately HK$542,000 (2008: HK$589,000), to Vevion.

iii) the Group paid compensation for breach of contract in respect of disposal of a branch office in Beijing of HK$419,000 to Vevion for the year ended 31 March 2008.

The remuneration of key management of the Group are set out in note 12.

38. 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 indirectly by the Company %	Principal activities
Climax Management Company Limited	Hong Kong	HK$2	100	Provision of management services
CMCL	Hong Kong	HK$2	100	Provision of marketing services for the Group/Outsourcing manufacturing and sales of goods.
CPCL	Hong Kong	Ordinary HK$100,000 Deferred (Note) HK$20,000,000	100	Manufacture and distribution of paper products
CPD	PRC	HK$47,630,000**/ HK$47,630,000	100	Manufacture and distribution of paper products
New Able Investments Limited	British Virgin Islands	US$1	100	Investment holding
New Able Trading Limited	Hong Kong	HK$1	100	Trading of electronic products
SIL	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.

** The subsidiary decreased its registered capital from HK$68,000,000 to HK$47,630,000 during the year ended 31 March 2009.

38. 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 debt securities outstanding at 31 March 2009 or at any time during the year.

39. BALANCE SHEET INFORMATION OF THE COMPANY

	Notes	**2009** *HK$'000*	2008 *HK$'000*
Non-current assets			
Plant and equipment		**1,420**	1,481
Investments in subsidiaries		**55,122**	75,988
		56,542	77,469
Current assets			
Amounts due from subsidiaries	(a)	**—**	146,779
Deposits, prepayments and other receivables		**2,549**	2,565
Bank balances		**10**	5
		2,559	149,349
Current liabilities			
Trade and other payables		**3,818**	2,482
Amount due to a director	(a)	**—**	161
Amounts due to subsidiaries	(a)	**98,256**	98,308
Financial guarantee liabilities		**—**	5,762
		102,074	106,713
Net current (liabilities) assets		**(99,515)**	42,636
		(42,973)	120,105
Capital and reserves			
Share capital		**11,486**	9,576
Reserves	(b)	**(54,459)**	110,529
		(42,973)	120,105

39. BALANCE SHEET INFORMATION OF THE COMPANY (CONTINUED)

Note

(a): The amounts are unsecured, non-interest bearing and repayable on demand.

(b): The movement of reserves is as follows:

	Share premium	Share option reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	31,464	1,392	103,941	(56,400)	80,397
Loss for the year	–	–	–	(42,634)	(42,634)
Issue of new shares upon placing	75,219	–	–	–	75,219
Transaction costs attributable to issue of new shares upon placing	(3,128)	–	–	–	(3,128)
Recognition of equity — settled share based payment	–	675	–	–	675
At 31 March 2008 and 1 April 2008	103,555	2,067	103,941	(99,034)	110,529
Loss for the year				(194,898)	(194,898)
Cancellation of share options	–	(1,392)	–	1,392	–
Issue of new shares upon placing	28,459	–	–	–	28,459
Transaction costs attributable to issue of new shares upon placing	(809)	–	–	–	(809)
Recognition of equity — settled share based payment	–	2,260	–	–	2,260
At 31 March 2009	131,205	2,935	103,941	(292,540)	(54,459)

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Financial Summary

For the year ended 31 March 2009

CONSOLIDATED RESULTS

	Year ended 31 March				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**70,116**	167,321	258,910	267,176	311,341
(Loss)/profit before taxation	**(99,546)**	(41,376)	(59,711)	(23,762)	3,550
Taxation	**(76)**	(2,232)	–	–	–
(Loss)/profit for the year	**(99,622)**	(43,608)	(59,711)	(23,762)	3,550
Attributable to:					
Equity holders of the Company	**(99,622)**	(43,608)	(59,711)	(23,762)	3,550
Minority interests	**–**	–	–	–	–
(Loss)/profit for the year attributable to equity holders of the Company	**(99,622)**	(43,608)	(59,711)	(23,762)	3,550

CONSOLIDATED BALANCE SHEET

	As at 31 March				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	**4,113**	32,665	63,852	64,689	69,477
Prepayments	**10,217**	24,071	26,311	28,550	30,789
Available-for-sale investments	**–**	–	3,500	9,500	–
Financial assets at fair value through profit or loss	**–**	12,357	–	–	–
Net current assets/(liabilities)	**37,960**	51,963	(2,903)	16,038	33,082
	52,290	121,056	90,760	118,777	133,348
Share capital	**11,486**	9,576	6,180	59,310	39,416
Reserves	**40,803**	110,528	80,396	51,026	74,254
Total equity attributable to equity holders of the company	**52,289**	120,104	86,576	110,336	113,670
Minority interests	**1**	1	1	1	1
Obligations under finance leases	**–**	951	4,183	8,440	16,349
Bank borrowings	**–**	–	–	–	3,328
	52,290	121,056	90,760	118,777	133,348