

INTERIM REPORT 2009-10

2009-10



CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code : 439)

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

WONG Hin Shek (*Chief Executive Officer*)

Independent Non-executive Directors

LAU Man Tak

MAN Kwok Leung

WONG Yun Kuen

COMPANY SECRETARY

TSANG Kwai Ping

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

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SOLICITOR

Edward Lau, Wong & Lou, Solicitors

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

STOCK CODE

439

Condensed Consolidated Income Statement

The board of directors (the "Board") of Climax International Company Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009 as follows:

	Notes	Six months ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	3	99,520	47,973
Cost of sales		(99,329)	(51,827)
Gross profit/(loss)		191	(3,854)
Other income		1,587	4,267
Selling and distribution costs		(811)	(2,489)
Administrative expenses		(13,988)	(18,964)
Impairment loss on plant and equipment		—	(1,914)
Profit on disposal of financial assets at fair value through profit or loss		—	318
Changes in fair value of held for trading investments		(3,882)	(5,667)
Finance costs		(14)	(298)
Loss before taxation		(16,917)	(28,601)
Income tax expenses	4	—	(927)
Loss for the period	5	(16,917)	(29,528)
Loss for the period attributable to:			
Owners of the Company		(16,917)	(29,528)
Non-controlling interests		—	—
		(16,917)	(29,528)
Loss per share (in Hong Kong cents)	6		
— Basic		(1.47 cents)	(2.77 cents)
Interim dividend	7	—	—

Condensed Consolidated Statement of Comprehensive Income

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(16,917)	(29,528)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	—	57
Total comprehensive loss for the period, net of tax	(16,917)	(29,471)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(16,917)	(29,471)
Non-controlling interests	—	—
	(16,917)	(29,471)

Condensed Consolidated Statement of Financial Position

		At 30 September 2009	At 31 March 2009
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Plant and equipment	8	1,266	4,113
Prepayments		9,693	10,217
Available-for-sale investments		—	—
		<u>10,959</u>	<u>14,330</u>
Current assets			
Inventories		—	200
Trade receivables	9	50,221	7,224
Deposits, prepayments and other receivables		9,317	8,861
Held for trading investments		5,938	9,820
Amounts due from related companies		—	63
Deposits in other financial institution		80	69,803
Bank balances and cash		67,580	2,737
		<u>133,136</u>	<u>98,708</u>
Current liabilities			
Trade and other payables	10	106,018	57,844
Tax payables		2,212	2,330
Obligation under finance leases		492	492
Short-term bank borrowings		—	82
		<u>108,722</u>	<u>60,748</u>
Net current assets		<u>24,414</u>	<u>37,960</u>
Net assets		<u>35,373</u>	<u>52,290</u>
Capital and reserves			
Share capital	11	11,486	11,486
Reserves		23,886	40,803
Total equity attributable to the owners of the company		<u>35,372</u>	<u>52,289</u>
Non-controlling interests		<u>1</u>	<u>1</u>
Total equity		<u>35,373</u>	<u>52,290</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company										
	Share									Minority interest	Total
	Share capital	Share premium	Translation reserve	Share option reserve	Capital reserve	Contributed surplus	Accumulated losses	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2009 (audited)	11,486	131,205	1,096	2,935	17,900	103,941	(216,274)	52,289	1	52,290	
Total comprehensive loss for the period	–	–	–	–	–	–	(16,917)	(16,917)	–	(16,917)	
At 30 September 2009 (unaudited)	11,486	131,205	1,096	2,935	17,900	103,941	(233,191)	35,372	1	35,373	

	Attributable to the owners of the Company										
	Share									Minority interest	Total
	Share capital	Share premium	Translation reserve	Share option reserve	Capital reserve	Contributed surplus	Accumulated losses	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2008 (audited)	9,576	103,555	1,109	2,067	17,900	103,941	(118,044)	120,104	1	120,105	
Issue of new shares upon placing	1,910	28,459	–	–	–	–	–	30,369	–	30,369	
Transactions costs attributable to issue of new shares upon placing	–	(809)	–	–	–	–	–	(809)	–	(809)	
Recognition of equity-settled share based payment	–	–	–	2,261	–	–	–	2,261	–	2,261	
Total comprehensive loss for the period	–	–	57	–	–	–	(29,528)	(29,471)	–	(29,471)	
At 30 September 2008 (unaudited)	11,486	131,205	1,166	4,328	17,900	103,941	(147,572)	122,454	1	122,455	

Condensed Consolidated Statement of Cash Flow

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH USED IN OPERATING ACTIVITIES	<u>(5,012)</u>	<u>(5,128)</u>
INVESTING ACTIVITIES		
Interest received	165	591
Dividend received	—	134
Proceeds from disposal of plant and equipment	—	3,876
Acquisition of investments at fair value through profit or loss	—	(51,642)
Proceeds from disposal of investments at fair value through profit or loss	—	26,492
Proceeds from disposal of financial assets at fair value through profit or loss	—	12,675
Repayment from related companies	63	—
Decrease (increase) in deposits paid in other financial institution	<u>69,723</u>	<u>(69,155)</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>69,951</u>	<u>(77,029)</u>
FINANCING ACTIVITIES		
Net cash used in repayment of trust receipt, import loans, export loans and discount bills	—	(960)
Principal repayment for obligations under finance leases	—	(940)
Interest on bank borrowings	(14)	(241)
Finance leases charges paid	—	(57)
Repayment to directors	—	(101)
Issue of new shares upon placing	—	30,369
Transaction costs attributable to issue of new shares	—	(809)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(14)</u>	<u>27,261</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>64,925</u>	<u>(54,896)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,655	55,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	—	1
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by	<u>67,580</u>	<u>105</u>
Bank balances and cash	67,580	290
Bank overdrafts	—	(185)
	<u>67,580</u>	<u>105</u>

Notes to the Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 March 2009.

The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2009 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRS") that are adopted for the first time for the current period's financial information.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009, in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, Jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – Interpretation ("INT") 9 and HKAS 39 (Amendments)	Embedded derivatives
HK (IFRIC) INT 13	Customer loyalty programmes
HK (IFRIC) INT 15	Agreements for the construction of real estate
HK (IFRIC) INT 16	Hedges of a net investment in a foreign operation
HK (IFRIC) INT 18	Transfers of assets from customers

The adoption of the new HKFRS 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.

HKAS 1 (Revised) "Presentation of financial statements" has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

Notes to the Condensed Consolidated Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 8 “Operating segments” is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “Segment reporting”, required the identification of two sets of segment (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3).

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures (Revised 2009) ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of right issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) – INT 14 (Revised)	Prepayments of a minimum funding requirement ⁹
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners ¹
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments ⁷

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

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

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2013.

⁷ Effective for annual periods beginning on or after 1 July 2010.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

Notes to the Condensed Consolidated Financial Statements

3. TURNOVER AND SEGMENT INFORMATION

The group has adopted HKFRS 8 “Operating Segments” with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports on the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to these segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments.

In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a re-designation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For the six months ended 30 September 2009

	Paper products	Electronic products	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Revenue	12,768	86,752	99,520
Segment results	(1,382)	761	(621)
Scrap sales of raw materials and finished goods	24	—	24
Loss on written off of plant and equipment	(2,659)	—	(2,659)
Depreciation of plant and equipment	—	(3)	(3)
Release of non-current prepayments			(524)
Changes in fair value of held for trading investments			(3,882)
Unallocated corporate income			1,563
Unallocated corporate expenses			(10,801)
Finance costs			(14)
Loss before taxation			(16,917)
Income tax expenses			—
Loss for the period			(16,917)

For the six months period ended 30 September 2008, the Group’s operation is regarded as a single business segment, being manufacturing and trading of paper products. Accordingly, no segment information was presented.

Notes to the Condensed Consolidated Financial Statements

4. INCOME TAX EXPENSES

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	—	927

The Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the period.

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

No provision for PRC Enterprise Income Tax has been provided in the condensed consolidated financial statements for the six months ended 30 September 2009 as the Group did not have any assessable profits for the jurisdiction in that period.

Notes to the Condensed Consolidated Financial Statements

5. LOSS FOR THE PERIOD

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the company has been arrived at after charging:		
Release of non-current prepayments	524	1,119
Allowance for inventories	200	1,685
Depreciation of plant and equipment	188	2,750
Loss on disposal of plant and equipment	—	113
Loss on written off of plant and equipment	2,659	—
and after crediting:		
Dividend income	—	134
Interest income	165	591
Profit on disposal of financial assets at fair value through profit or loss	—	318
Profit on disposal of investments at fair value through profit or loss	—	865

Notes to the Condensed Consolidated Financial Statements

6. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30 September 2009 and 2008 is computed based on the following data:

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the company and loss for the purposes of basic loss per share	<u>(16,917)</u>	<u>(29,528)</u>
	'000	'000
Number of shares:		
Weighted average number of shares for the purpose of basic loss per share	<u>1,148,661</u>	<u>1,065,164</u>

No diluted loss per share has been presented for the period ended 30 September 2009 and 2008 as there was no diluting events existed during the periods.

7. INTERIM DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2009 (Nil for the six months ended 30 September 2008).

8. ADDITIONS TO PLANT AND EQUIPMENT

For the six months ended 30 September 2009 and 2008, the Group had no addition of plant and equipment.

Notes to the Condensed Consolidated Financial Statements

9. TRADE RECEIVABLES

Trade receivables consisted of:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Trade receivables	57,258	14,261
Less: Allowance for bad and doubtful debts	(7,037)	(7,037)
	<u>50,221</u>	<u>7,224</u>

The aged analysis of trade receivables net of allowance for bad and doubtful debts at the reporting date is as follows:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0-30 days	18,718	6,062
31-60 days	30,572	1,123
61-90 days	93	16
91-120 days	73	16
Over 120 days	765	7
	<u>50,221</u>	<u>7,224</u>

The Group allows a credit period of 30 days to 120 days to its customers.

Notes to the Condensed Consolidated Financial Statements

10. TRADE AND OTHER PAYABLES

At 30 September 2009, the balance of the trade and other payables included trade payables of HK\$81,516,000 (31 March 2009: HK\$30,926,000). The aged analysis of trade payables at the reporting date is as follows:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0-30 days	22,321	5,395
31-60 days	30,419	412
61-90 days	25	31
91-120 days	73	452
Over 120 days	28,678	24,636
	81,516	30,926

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

11. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2009 and 30 September 2009	1,148,661,140	11,486

Notes to the Condensed Consolidated Financial Statements

12. COMMITMENTS

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Capital commitments		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	12,742	12,742
Other commitments		
Expenditure in respect of construction contracts contracted for but not provided in the consolidated financial statements	902	902
	<u>13,644</u>	<u>13,644</u>

13. LITIGATION

As at 30 September 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. Up to the date of this report, this action is 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 these financial statements.

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. On 15 November 2009, Golddoor applied a withdrawal of the action in 廣東省東莞市第二人民法院 under (2009) 東二法民四初字第97號 and the action has been withdrawn on 16 November 2009.

Notes to the Condensed Consolidated Financial Statements

13. LITIGATION (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. Up to 14 September 2009, payment of HK\$100,000 has been made and no further legal action taken by Hang Seng up to the date of these financial statements. 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. However, no payment has been made and no further legal action taken by Lockey Paper up to the date of these financial statements. The Group had accrued for such outstanding balance plus cost and interest.

Notes to the Condensed Consolidated Financial Statements

13. LITIGATION (CONTINUED)

(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. On 28 August 2009, judgment has been issued by District Court, pursuant to which CMCL do pay the sum of outstanding balances together with interest until payment and costs of HK\$7,130. Subsequently, garnishee orders were issued by District Court with Standard Chartered Bank (Hong Kong) Limited, DBS Bank (Hong Kong) Limited and Wing Hang Bank, Limited on 16 September 2009, 29 September 2009 and 30 September 2009 respectively. The garnishee Standard Chartered Bank (Hong Kong) Limited made a payment of HK\$110,078 with a cashier order dated 6 November 2009 for partial payment of the outstanding balances. On 8 December 2009, a winding-up petition was issued by High Court of Hong Kong under HCCW 705 of 2009 against CMCL. The hearing date is on 10 February 2010. The Group had accrued for such outstanding balance.

(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. Subsequently, a statutory demand was received by the Company and CPCL on 24 September 2009 for the outstanding balances. On 14 October 2009, the Company has settled the 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. The Group had accrued for such outstanding balance plus cost and interest.

Notes to the Condensed Consolidated Financial Statements

13. LITIGATION (CONTINUED)

(g) 深圳市恆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 sequestered 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 these financial statements. The Group had accrued for such outstanding balance plus cost RMB20,000 (equivalent to approximately HK\$22,000) and interest.

(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 sequestered 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 sequestered (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. The legal action is still in progress up to the date of these financial statements. The Group had accrued for the outstanding balance.

Notes to the Condensed Consolidated Financial Statements

13. LITIGATION (CONTINUED)

(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, CPCL 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. On 3 November 2009, 北京市第一中級人民法院 issued judgement pursuant to which CPCL do pay the outstanding balance together with interest until payment and legal costs. Subsequently, CPCL and CPD made an appeal jointly on 17 November 2009. This legal action is still in progress up to the date of these financial statements. 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 sequestered 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) as the compensation of medication for the period from 18 December 2008 to 29 May 2009 and withdraw the institute proceedings from Song to SILF. On 17 August 2009, Song brought another action in 東莞市勞動爭議仲裁庭長安分庭 under (2009) 第641號 against SILF for approximately RMB29,000 (equivalent to approximately HK\$33,000) being the compensation of medication from 13 May 2009 to 17 August 2009. On 27 September 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 RMB25,000 (equivalent to approximately HK\$28,000) for the period from 29 May 2009 to 17 August 2009. Subsequently, Song applied to 廣東省東莞市第二人民法院 for auction of the sequestered machines. The auction was held on 23 October 2009. The amount from auction was approximately RMB256,000 (equivalent to approximately HK\$290,000) and part of which was used to settle the outstanding balances of approximately RMB53,000 (equivalent to approximately HK\$60,000) and approximately RMB25,000 (equivalent to approximately HK\$28,000).

Notes to the Condensed Consolidated Financial Statements

13. LITIGATION (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. However, no payment has been made and no further legal action taken by Rong Tian Hao up to the date of these financial statements. The Group had accrued for the outstanding balance.

(l) Chan Ming Fung (“Chan”)

On 20 October 2009, one of the Group’s employee, Chan brought an action in the Labour Tribunal against CPCL for approximately HK\$359,000 being the outstanding salaries. Pursuant to an order issued by the Labour Tribunal, CPCL do pay the outstanding balance in eleven instalments. A certificate of award/order was registered in the District Court on 30 October 2009. CPCL settled the first and second instalments in October 2009. However, no further payment has been made and no further legal action taken by Chan up to the date of these financial statements. The Group had accrued for the outstanding balance.

14. POST BALANCE SHEET EVENTS

On 8 October 2009, the Company entered into a sale and purchase agreement to dispose of its interest in Climax Investments Limited (“CIL”), a wholly-owned subsidiary of the Company, and the indebtedness owned by CIL and its subsidiaries to the Company at a consideration of HK\$2.5 million. For more details, please refer to the announcement of the Company dated 10 November 2009.

15. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2009, the Group had paid emoluments to directors of the Company approximately HK\$120,000 (six months ended 30 September 2008: HK\$316,000), who are also considered as the key management of the Company.

Management Discussion and Analysis

PERFORMANCE REVIEW

For the six months ended 30 September 2009 (the “Interim Period”), the Group’s turnover was HK\$99.5 million, increased by 108% as comparing with HK\$48 million for the six months ended 30 September 2008 (“2008”). The loss attributable to the owners of the Company was about HK\$17 million which has been improved by HK\$12.5 million as compared with the loss of HK\$29.5 million for 2008.

The significant increase in turnover in the Interim Period was mainly contributed by the electronic products business which was newly developed in March 2009. The turnover of the electronic products business segment represented 87% of the total turnover for the Interim Period.

For the paper products segment, the turnover was dropped dramatically from HK\$48 million recorded for 2008 to HK\$13 million for the Interim Period. The customers generally adopted a more cautious approach in placing orders and requested more accommodating pricing for their orders that gave great challenges to the paper products business.

OUTLOOK

Given the increasingly difficult in operating the paper products business and continuous improvement in the electronic products business, the Company has entered into a sale and purchase agreement on 8 October 2009 to dispose the paper products business (the “Disposal”). For more details, please refer to the announcement of the Company dated 10 November 2009. It is believe that upon the completion of the Disposal, more resources can be reallocated to the electronic products business to further improve its performance. The Group will continuous to enlarge the customer base and improve the quality of the products in achieving the aim of profitability. Furthermore, the Group will closely monitor the condition of electronic consumer products to seize new market opportunities.

On the other hand, the Group will take advantage of the market adversities and seize upon suitable investment opportunities to provide tremendous value-added to shareholders.

SHARE CAPITAL

During the Interim Period, there is no movement in the share capital of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2009, the Group shareholders’ equity was HK\$35 million (31 March 2009: HK\$52 million), the current assets and current liabilities of the Group amounted to HK\$133 million (31 March 2009: HK\$99 million) and HK\$109 million (31 March 2009: HK\$61 million) respectively. The Group’s working capital turned to HK\$24 million net current assets (31 March 2009: HK\$38 million).

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

The Group recorded about HK\$5 million outflow of cash used in operating activities for the six months ended 30 September 2009 (2008: HK\$5 million) and the gearing ratio as of 30 September 2009, defined as the percentage of total interest bearing debt to net asset value, was 1% (31 March 2009: 1%).

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 the Interim Period, the Group had no addition of plant and equipment. The Group recognised a loss on written off of approximately HK\$2.6 million in respect of plant and equipment.

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 30 September 2009, the Group held a portfolio of shares with fair value of approximately HK\$6 million, after recognising unrealised loss of approximately HK\$4 million attributed from the lower market prices compared with the purchase price.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 30 September 2009, the Group has pledged plant and equipment with carrying value of HK\$nil (31 March 2009: HK\$nil) after full impairment in prior year to financial institutions to secure the Group's obligation under finance lease.

As at 30 September 2009, the Group had no significant contingent liabilities (31 March 2009 : Nil).

EMPLOYEES

As at 30 September 2009, the Group had 28 employees. The Group provides competitive remuneration packages to employees with attractive discretionary bonus payable to those with outstanding performance and contribution.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2009, the directors of the Company (the "Directors") had the following interests in the shares and underlying shares of the Company, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"):

Name of directors	Nature of interests	Number of shares/underlying shares held			Approximate percentage of the issued share capital
		Beneficial interests in shares	Beneficial interests in underlying shares	Total interest	
			(Notes 1 & 2)		
Wong Hin Shek	Personal	—	9,000,000	9,000,000	0.78%

Notes:

1. The interests stated above represent long positions.
2. The interests in underlying shares attributed to the Director represents share options to subscribe for new shares in the Company, exercisable at a price of HK\$0.174 per share and granted pursuant to the Company's share option scheme as adopted on 29 August 2002.

Save as disclosed above, as at 30 September 2009, no interests and 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 for Securities Transactions by Directors of Listed Companies (the "Model Code") or which are required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2009, the following persons (other than the Directors) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Interests in shares held	Approximate percentage of the adjusted issued share capital
Good Power International Limited	Beneficial owner	176,000,000	15.32%
Tse On Kin	Interests of a controlled corporation	176,000,000	15.32%

Save as disclosed above, as at 30 September 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 required to be kept by the Company under section 336 of the SFO.

Share Option

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

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

Category or name of participant	Date of grant	Exercise period	Original exercise price per share	Number of share options				
				Outstanding at 1.4.2009	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2009
<i>HK\$</i>								
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 In aggregate	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	26,999,994	—	—	—	26,999,994
				33,179,994	—	—	—	33,179,994
				42,179,994	—	—	—	42,179,994

Notes:

- All dates are shown day/month/year.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.

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 period.

Corporate Governance

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence.

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 (the “CG Code”) to the Listing Rules during the six months ended 30 September 2009.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 of 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 six months ended 30 September 2009.

Purchase, Sale or Redemption of the Company's Listed Securities and Review of Interim Results

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

REVIEW OF INTERIM RESULTS

Based on limited information available, the Audit Committee of the Company has reviewed the unaudited interim financial report of the Group for the six months ended 30 September 2009 as certain accounting books and records of the Group's subsidiaries engaged in the paper products business were lost and not able to be recovered.

By order of the Board

CLIMAX INTERNATIONAL COMPANY LIMITED

Wong Hin Shek

Executive Director

Hong Kong, 28 December 2009