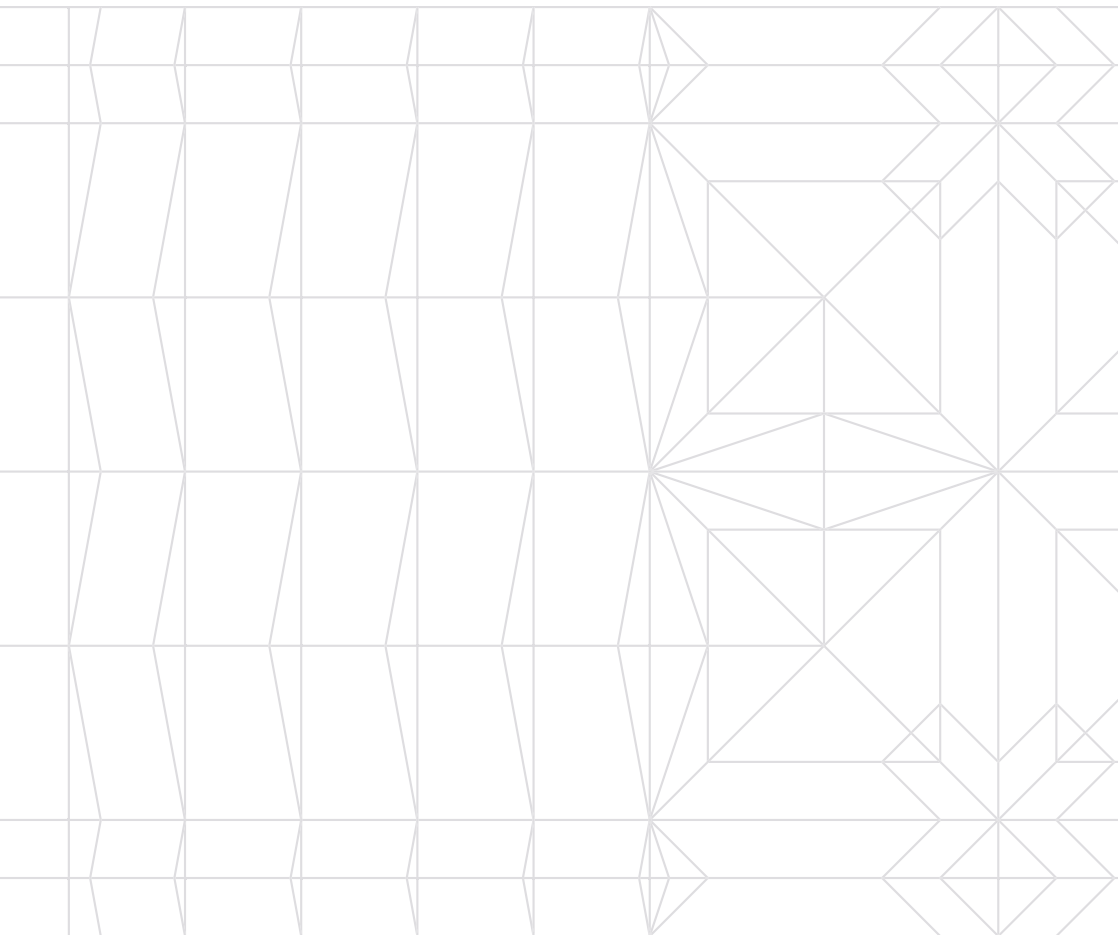




CLIMAX INTERNATIONAL COMPANY LIMITED

英發國際有限公司

Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司



2002-2003
Interim Report
中期報告

INTERIM RESULTS

The board of directors (the “Directors”) of Climax International Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002 as follow:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended	
		30 September	
	<i>Notes</i>	2002	2001
		HK\$'000	<i>HK\$'000</i>
Turnover	2	209,994	190,932
Cost of sales		(174,267)	(155,327)
Gross profit		35,727	35,605
Other income		5,996	7,707
Distribution costs		(11,039)	(9,528)
Administrative expenses		(22,986)	(24,668)
Provision for claims of shares by former employees written back		—	1,528
Provision for long service payments written back		—	1,165
Profit from operations	3	7,698	11,809
Interest on bank borrowings wholly repayable within five years		(586)	(1,718)
Profit before taxation		7,112	10,091
Taxation	4	—	(6)
Profit before minority interests		7,112	10,085
Minority interests		—	(66)
Net profit for the period		7,112	10,019
Earnings per share	5		
— Basic		HK0.19cent	HK0.28 cent
— Diluted		HK0.19cent	HK0.27 cent

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2001 HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	6	44,522	41,109
Prepaid rentals		36,386	37,506
		<u>80,908</u>	<u>78,615</u>
Current assets			
Inventories		51,506	71,325
Debtors, deposits and prepayments	7	46,253	37,557
Compensation receivable		—	8,176
Pledged bank balances		—	131
Bank balances and cash		13,993	8,620
		<u>111,752</u>	<u>125,809</u>
Current liabilities			
Creditors and accrued charges	8	76,005	59,240
Loans from directors		—	4,000
Bank borrowings		7,311	41,313
		<u>83,316</u>	<u>104,553</u>
Net current assets		<u>28,436</u>	<u>21,256</u>
Total assets less current liabilities		109,344	99,871
Minority interests		1	1
Net assets		<u>109,343</u>	<u>99,870</u>
CAPITAL AND RESERVES			
Share capital		37,938	36,197
Reserves		71,405	63,673
Shareholders' funds		<u>109,343</u>	<u>99,870</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves							Subtotal HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000			
At 1 April 2001	36,197	482,314	(5,240)	18,759	—	(447,787)	48,046	84,243	
Realised upon disposal of a subsidiary	—	—	(74)	—	—	—	(74)	(74)	
Net profit for the period	—	—	—	—	—	10,019	10,019	10,019	
At 30 September 2001	36,197	482,314	(5,314)	18,759	—	(437,768)	57,991	94,188	
Realised upon winding up of subsidiaries	—	—	4,410	(859)	—	—	3,551	3,551	
Net profit for the period	—	—	—	—	—	2,131	2,131	2,131	
At 31 March 2002	36,197	482,314	(904)	17,900	—	(435,637)	63,673	99,870	
Issue of new shares upon exercise of options	1,741	620	—	—	—	—	620	2,361	
Transfer to set off accumulated losses and contributed surplus account upon capital reduction (Note)	—	(482,934)	—	—	47,297	435,637	—	—	
Net profit for the period	—	—	—	—	—	7,112	7,112	7,112	
At 30 September 2002	<u>37,938</u>	<u>—</u>	<u>(904)</u>	<u>17,900</u>	<u>47,297</u>	<u>7,112</u>	<u>71,405</u>	<u>109,343</u>	

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH FROM OPERATING ACTIVITIES	40,267	25,728
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,501	(1,012)
NET CASH USED IN FINANCING	<u>(36,395)</u>	<u>(11,356)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,373	13,360
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>8,620</u>	<u>15,749</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>13,993</u>	<u>29,109</u>

Notes:

1. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention.

The interim report has been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 March 2002 except as described below.

In the current period, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants. The adoption of these new or revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. Turnover and Segment Information

An analysis of the Group's turnover and profit before taxation by principal activity is as follows:

	Turnover		Profit before taxation	
	Six months ended		Six months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activity:				
OEM paper products manufacturing	198,728	177,877	6,700	4,700
House brand and agency products	11,266	13,055	973	3,350
	<u>209,994</u>	<u>190,932</u>	<u>7,673</u>	<u>8,050</u>
Interest expenses — net			(561)	(1,266)
Provision for claims of shares by former employees written back			—	1,528
Provision for long service payments written back			—	1,165
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income			—	614
Profit before taxation			<u>7,112</u>	<u>10,091</u>

An analysis of the Group's turnover by geographical market is as follows:

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
United States of America	129,922	101,424
Europe	36,257	46,859
Asia-Pacific	34,082	32,431
Hong Kong	3,361	3,602
Canada	2,715	2,653
Others	3,657	3,963
	<u>209,994</u>	<u>190,932</u>

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall group ratio of profit to turnover.

3. Profit from Operations

Six months ended
30 September
2002 2001
HK\$'000 **HK\$'000**

Profit from operations has been arrived at after charging:

Amortisation of prepaid rentals	1,120	1,120
Depreciation and amortisation of property, plant and equipment	5,691	6,125
Loss on disposal of property, plant and equipment	92	996

and after crediting:

Interest income	25	452
Negative goodwill arising on acquisition of additional interest in a subsidiary recognised as income	—	614
	<u> </u>	<u> </u>

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the estimated assessable profits of the Group for the periods were wholly absorbed by taxation losses brought forward from previous years.

The charge for the period ended 30 September 2001 represented taxation arising in other jurisdictions which is calculated at the rates prevailing in the respective jurisdictions.

Deferred taxation has not been provided for in the financial statements as there were no significant timing differences arising during the period or at the balance sheet date.

5. Earnings per Share

The calculation of the basic and diluted earnings per share for the six months ended 30 September 2002 and 2001 is computed based on the following data:

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Earnings:		
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>7,112</u>	<u>10,019</u>
	Six months ended 30 September	
	2002	2001
	'000	'000
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	3,738,897	3,619,718
Effect of dilutive potential shares:		
Share options	74,104	77,977
Warrants	—	65,925
Weighted average number of shares for the purpose of dilutive earnings per share	<u>3,813,001</u>	<u>3,763,620</u>

The computation of diluted earnings per share does not assume the exercise of the warrants as the exercise price of the warrants is higher than the average market price of shares of the Company for the six months ended 30 September 2002.

6. Additions to Property, Plant and Equipment

For the six months ended 30 September 2002, the Group spent approximately HK\$9,516,000 (HK\$1,523,000 for the six months ended 30 September 2001) for the acquisition of property, plant and equipment to expand its operations.

7. Debtors, Deposits and Prepayments

At 30 September 2002, the balance of debtors, deposits and prepayments included trade debtors of HK\$40,864,000 (HK\$30,695,000 at 31 March 2002) and the aged analysis of trade debtors at the same date is as follows:

	30 September 2002 HK\$'000	31 March 2001 HK\$'000
0 - 30 days	27,047	24,487
31 - 60 days	8,301	3,687
61 - 90 days	2,766	1,375
91 - 120 days	1,599	313
Over 120 days	1,151	833
	<u>40,864</u>	<u>30,695</u>

The Group allows an average credit period of 35 days (35 days for the year ended 31 March 2001) to its trade customers.

8. Creditors and Accrued Charges

At 30 September 2002, the balance of creditors and accrued charges included trade creditors of HK\$50,197,000 (HK\$38,307,000 at 31 March 2002) and the aged analysis of trade creditors at the same date is as follows:

	30 September 2002 HK\$'000	31 March 2001 HK\$'000
0 - 30 days	20,880	22,115
31 - 60 days	6,552	3,994
61 - 90 days	6,023	4,487
91 - 120 days	4,635	3,507
Over 120 days	12,107	4,204
	<u>50,197</u>	<u>38,307</u>

9. Capital Commitments

At the balance sheet date, the Group had contracted for the acquisition of property, plant and equipment amounting to approximately HK\$782,000 (HK\$7,997,000 at 31 March 2002).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

The Group's turnover recorded a 10% increase to approximately HK\$209,994,000 as compared to the corresponding period last year. Despite the global economy had passed its trough in the near term, price competition remained severe. Gross profit margin of the Group dropped by 1.6% as compared to the corresponding period last year. During the reporting period, the Group kept on carrying out the cost saving program. Operating cost remained steady and finance cost was reduced by approximately 66% as compared with the corresponding period last year. Unaudited net profit attributable to shareholders for the six months ended 30 September 2002 was approximately HK\$7,112,000 representing a 29% decrease from the corresponding period in 2001.

Operation Performance Review

OEM Paper Product

OEM business remained the major revenue generator of the Group and represented 95% of the Group's turnover. Sales of OEM paper product boosted up by approximately HK\$20,851,000 or 12% as compared to the corresponding period last year. The increase was mainly contributed by the American market which recorded a remarkable increase of approximately HK\$28,498,000 or 28% as compared to the corresponding period last year. Performance in the European market was unsatisfactory. Sales to the European market dropped by approximately HK\$10,602,000 or 23% as compared to last period, which partly offset the increase in sales to the American market. Performance of other regions remained stable.

Wal-Mart of United States of America, one of our biggest customers, continued to place confidence on the Group. Sales to Wal-Mart recorded a satisfactory increase of over 30% as compared to the corresponding period last year. Sales to Tri-Coastal Design Group Inc., another well-known big name, also boosted up by double. This proves that our direction towards quality product and service is correct. We have attained international recognition and we have the ability to capture business from well-known international giants.

Drop in sales to the European market was temporary because we were under transformation from doing business indirectly through sales agent to directly through our own sales team. We believe that our concentration on providing quality products and excellent service will enable us to recapture the European market in the near future.

Owing to our well planning and good communication with our suppliers and customers, the West Coast docker strike in the United States of America had limited effect on business of the Group so far.

House Brand Stationery Distribution

Sales of our house brand stationery decreased by HK\$1,789,000 or 14% as compared to last period. Sluggish market together with severe price competition adversely affects our performance in the segment. We are going to overcome the situation by enhancing our product design and development so as to produce much innovative products. Together with our approach to enlarge our distribution network in Mainland China through establishment of branch and recruitment of sales distributors, we believe the future contribution of house brand stationery to the Group will be much significant.

Other information

Cost control

We always emphasize the importance of stringent cost control to the performance of the Group. We started cost saving program both in Hong Kong and Mainland China last year. Our effort proved to be valuable as our gross profit margin had only reduced by 1.6% despite the keen price competition and administrative expenses dropped by over 6% as compared to the corresponding period last year. Finance costs recorded a remarkable decrease by over 60%. The encouraging outcome of the program enables us to maintain competitiveness in the current slackening market condition. For the remaining fiscal year, we will continue our cost control through further streamlining the production process. We hope that our action can bring along a much healthy cost structure to the Group.

Enterprise Resources Planning (ERP) System

The second phase of the ERP system has been launched in this period. We are undergoing familiarizing and fine-tuning process. We believe the system will improve the operation efficiency of the Group.

Financial Position

After the successful bank debt restructuring and the early settlement of all indebtedness in July 2002, the financial position of the Group becomes much healthy than before. Interest bearing debt reduced substantially by approximately 82% as compared to the most recent year end. Finance cost dropped significantly by approximately 66% as compared to the corresponding period last year. Gearing ratio (calculated by dividing interest bearing debt to net assets of the Group) decreased significantly from approximately 41% as at the most recent year end to 7% as at the balance sheet date. Cash position of the Group improved simultaneously as well as the cash and cash equivalents increased by over 60% as compared to the most recent year end. This healthy financial position enables the management to concentrate on business development.

The Group's banking facilities are offered by Hong Kong banks and bear interest at premium over cost of fund per annum.

Pledge of Assets

After the early repayment of the remaining installments of rescheduled loan under the bank debt restructuring agreement in July 2002, all the secured obligations and all other obligations were discharged in September 2002. The Group does not pledge any of its assets to secure any banking facilities as at the balance sheet date.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The Group's bank loans are denominated in Hong Kong Dollars. While most of the Group's foreign currency receipts are dominated in US Dollar, we are of the view that the existing currency peg with US Dollar in Hong Kong SAR will remain unchanged in the foreseeable future.

Employees and Remuneration Policies

As at the balance sheet date, the Group employed a total of 3,780 employees and workers in Hong Kong and Mainland China which represented 26% increase from the most recent year end. In order to enhance production efficiency, the Group implemented the 2-shift working arrangement during this period. Additional workers were employed in Mainland China to cope with the new arrangement. The remuneration policies and bonus schemes remained unchanged during the period. On 29 August 2002, the Company adopted a new share option scheme under which the Directors may offer share options to Directors and employees of the Group to subscribe for shares in the Company.

Contingent Liabilities

The Group has no significant contingent liabilities as at the balance sheet date.

Management Outlook

The first half of the fiscal year is tough but we are able to overcome the difficulty and continue to recover from the downturn. In the remaining months of the fiscal year, we are going to strengthen our product design and development so as to enhance the reputation of our own house brands “Easyfil” and “Greenery”. At the same time, we will continue to explore opportunities in the international market in order to widen our customer base. As the worldwide market environment has gradually recovered from the recession after the 911 incident in the United States of America, we believe, with our commitment on quality product and service as well as our thorough global market understanding, we will maintain our leadership in the market.

DIRECTORS’ INTERESTS IN SECURITIES

As at 30 September 2002, the interests of the Directors in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI” Ordinance”) were as follows:

Name of Director	Number of shares held Personal interest
Kan Shiu Cheong, Frederick	76,358,000
Chan Hoi Lam	100,000
Yau Kang Nam	20,000,000

Save as disclosed above, as at 30 September 2002, none of the Directors or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTION AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company adopted a share option scheme (the "Old Share Option Scheme") on 19 February 1992 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Old Share Option Scheme expired on 18 February 2002 and no further options can be granted under the Old Share Option Scheme thereafter. On 29 August 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Share Option Scheme") under which the Directors may, at their discretion, offer any eligible participant (including any director of the Company or any of its subsidiaries) options to subscribe for shares in the Company subject to the terms and conditions stipulated in the scheme.

No share option has been granted under the New Share Option Scheme during the period under review and up to the date of this report. Details in the number of options outstanding at the beginning and at the end of the period which have been granted previously under the Old Share Option Scheme are as follows:

Name	Number of share options				Date of grant *	Exercise period	Exercise price per share HK\$	Weighted average closing price of the Company's share immediately before the date of exercise HK\$
	At 01.04.02	Exercised during the period	Lapsed during the period	At 30.09.02				
Directors								
Kan Shiu Cheong,								
Frederick	90,458,000	(90,458,000)	—	—	31.08.01	31.08.01 to 30.08.04	0.01344	0.03087
Chu Hung Lin, Victor	36,182,000	(10,000,000)	—	26,182,000	31.08.01	31.08.01 to 30.08.04	0.01344	0.03300
Chan Hoi Lam	36,182,000	(10,000,000)	—	26,182,000	31.08.01	31.08.01 to 30.08.04	0.01344	0.03510
Yau Kang Nam	20,000,000	(20,000,000)	—	—	31.08.01	31.08.01 to 30.08.04	0.01344	0.03300
Jiang Hai Qing	10,000,000	—	—	10,000,000	18.02.02	18.02.02 to 17.02.05	0.02400	—
	<u>192,822,000</u>	<u>(130,458,000)</u>	<u>—</u>	<u>62,364,000</u>				
Other Employees								
The aggregate	10,000,000	—	—	10,000,000	31.08.01	31.08.01 to 30.08.04	0.01344	—
	26,000,000	(16,000,000)	—	10,000,000	31.08.01	01.03.02 to 28.02.05	0.01344	0.03213
	32,100,000	(25,100,000)	(4,000,000)	3,000,000	31.08.01	01.06.02 to 31.05.05	0.01344	0.02869
	500,000	(500,000)	—	—	31.08.01	15.06.02 to 14.06.05	0.01344	0.02900
	6,000,000	(2,000,000)	—	4,000,000	18.02.02	01.06.02 to 31.05.05	0.02400	0.02900
	<u>74,600,000</u>	<u>(43,600,000)</u>	<u>(4,000,000)</u>	<u>27,000,000</u>				
Total	<u>267,422,000</u>	<u>(174,058,000)</u>	<u>(4,000,000)</u>	<u>89,364,000</u>				

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following shareholder with interest representing 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares held
First Century Holdings Limited	2,058,869,889

Save as disclosed above, the Company has not been notified of any other interest representing 10% or more in the issued share capital of the Company as at 30 September 2002.

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 period.

REVIEW OF INTERIM RESULTS

The interim financial report of the Group for the six months ended 30 September 2002 has not been audited, but has been reviewed by the Company's Audit Committee and auditors, Deloitte Touche Tohmatsu.

CORPORATE GOVERNANCE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the period in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Kan Shiu Cheong, Frederick
Chairman

Hong Kong, 6 December 2002