

INTERIM REPORT 2007-08

2007-08



**CLIMAX INTERNATIONAL COMPANY LIMITED**

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

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

KAN Shiu Cheong, Frederick (*Chairman*)

CHAN Hoi Lam (*Chief Executive Officer*)

YAU Kang Nam

JIANG Hai Qing

WONG Hin Shek

CHAN Siu Mun

LO Miu Sheung, Betty

### Non-executive Directors

TSE On Po, Vincent

TSE On Kin

### Independent Non-executive Directors

NG Sui Keung

LAI Kin Keung

YUEH Yung Hsin

WONG Yun Kuen

CHAN Hoi Ling

## COMPANY SECRETARY

CHU Kiu Fat

## AUDIT COMMITTEE

YUEH Yung Hsin (*Chairman*)

NG Sui Keung

LAI Kin Keung

## REMUNERATION COMMITTEE

KAN Shiu Cheong, Frederick (*Chairman*)

CHAN Hoi Lam

NG Sui Keung

LAI Kin Keung

YUEH Yung Hsin

## AUDITORS

SHINWING (HK) CPA Limited

## REGISTERED OFFICE

Clarendon House  
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Hamilton HM11  
Bermuda

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[www.irasia.com/listco/climax/index.htm](http://www.irasia.com/listco/climax/index.htm)

## REGISTRARS

### Hong Kong

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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.  
Anthony Chiang & Partners

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited  
CITIC Ka Wah Bank Limited  
DBS 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 2007 as follows:

	Notes	Six months ended 30 September	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	3	101,095	162,685
Cost of sales		<u>(99,034)</u>	<u>(138,679)</u>
Gross profit		2,061	24,006
Other income		4,918	6,100
Distribution costs		(8,072)	(7,767)
Administrative expenses		(25,727)	(18,411)
Impairment loss recognised in respect of investment at fair value through profit or loss		(239)	-
Finance costs		<u>(1,698)</u>	<u>(2,994)</u>
 (Loss) profit for the period attributable to equity holders of the Company	4	<u>(28,757)</u>	<u>934</u>
 (Loss) earnings per share	6		
– Basic		<u>(HK3.65 cents)</u>	<u>HK0.299 cents</u>
– Diluted		<u>N/A</u>	<u>HK0.292 cents</u>
Interim dividend	7	<u>-</u>	<u>-</u>

# Condensed Consolidated Balance Sheet

		At 30 September 2007	At 31 March 2007
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	51,716	63,852
Prepayment		25,191	26,311
Investment at fair value through profit or loss		12,761	-
Available-for-sale investments		3,500	3,500
		<u>93,168</u>	<u>93,663</u>
<b>Current assets</b>			
Inventories		20,643	51,087
Debtors, deposits and prepayments	9	54,294	60,912
Bank balances and cash		55,520	17,594
		<u>130,457</u>	<u>129,593</u>
<b>Current liabilities</b>			
Creditors and accrued charges	10	64,032	70,316
Amounts due to directors		560	1,130
Obligations under finance leases			
- amount due within one year	11	5,161	9,146
Short-term bank borrowings	12	18,080	51,904
		<u>87,833</u>	<u>132,496</u>
Net current assets (liabilities)		<u>42,624</u>	<u>(2,903)</u>
Total assets less current liabilities		<u>135,792</u>	<u>90,760</u>
<b>Non-current liability</b>			
Obligations under finance leases			
- amount due after one year	11	1,720	4,183
		<u>134,072</u>	<u>86,577</u>
<b>Capital and reserves</b>			
Share capital	13	9,577	6,180
Reserves		124,494	80,396
Total equity attributable to equity holders of the Company		<u>134,071</u>	<u>86,576</u>
Minority interests		<u>1</u>	<u>1</u>
		<u>134,072</u>	<u>86,577</u>

# Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share option reserve	Translation reserve	Capital reserve	Contributed surplus	Accumulated (losses) profits	Total	Minority Interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	59,310	(396)	1,392	(442)	17,900	47,297	(14,725)	110,336	1	110,337
Issue of new shares upon exercise of share options	315	189	-	-	-	-	-	504	-	504
Issue of new shares upon placing	390	7,800	-	-	-	-	-	8,190	-	8,190
Transaction costs attributable to issue of new shares upon placing	-	(290)	-	-	-	-	-	(290)	-	(290)
Recognition of equity-settled share based payments	-	-	223	-	-	-	-	223	-	223
Capital reduction	(56,644)	-	-	-	-	56,644	-	-	-	-
Net profit for the period	-	-	-	-	-	-	934	934	-	934
At 30 September 2006	3,371	7,303	1,615	(442)	17,900	103,941	(13,791)	119,897	1	119,898
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	577	-	-	-	577	-	577
Net profit for the period	-	-	-	-	-	-	(60,645)	(60,645)	-	(60,645)
Total recognised expenses for the period	-	-	-	577	-	-	(60,645)	(60,068)	-	(60,068)
Issue of new shares upon open offer	2,809	25,284	-	-	-	-	-	28,093	-	28,093
Transaction costs attributable to issue of new shares upon open offer	-	(1,123)	-	-	-	-	-	(1,123)	-	(1,123)
Recognition of equity-settled share based payments	-	-	(223)	-	-	-	-	(223)	-	(223)
At 31 March 2007	6,180	31,464	1,392	135	17,900	103,941	(74,436)	86,576	1	86,577
Issue of new shares upon placings	3,397	73,688	-	-	-	-	-	77,085	-	77,085
Transaction costs attributable to issue of new shares upon placings	-	(1,508)	-	-	-	-	-	(1,508)	-	(1,508)
Recognition of equity - settled share based payment	-	-	675	-	-	-	-	675	-	675
Net loss for the period	-	-	-	-	-	-	(28,757)	(28,757)	-	(28,757)
At 30 September 2007	9,577	103,644	2,067	135	17,900	103,941	(103,193)	134,071	1	134,072

# Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Net cash generated from operating activities	<u>12,882</u>	<u>15,436</u>
Net cash (used in) generated from investing activities		
Purchase of property, plant and equipment	(1,007)	(5,734)
Proceeds from disposal of property, plant and equipment	6,014	2,207
Acquisition of investment at fair value through profit or loss	(13,000)	-
	<u>(7,993)</u>	<u>(3,527)</u>
Net cash used in financing activities		
Net cash (outflow) inflow from trust receipt, import loans and export loans	(22,749)	(4,326)
Principal repayments for obligations under finance leases	(6,448)	(5,263)
(Decrease) increase in bank overdrafts	(6,075)	(2,829)
Interest on bank borrowings paid	(1,320)	(2,240)
Finance leases charges paid	(378)	(631)
Issue of shares for cash upon exercise of share options	-	504
Issue of shares for cash upon placings	75,577	7,900
Repayments of loan from directors	(570)	(3,450)
Repayments of bank loans	(5,000)	(2,163)
	<u>33,037</u>	<u>(12,498)</u>
Net increase (decrease) in cash and cash equivalents	37,926	(589)
Cash and cash equivalents at the beginning of the period	<u>17,594</u>	<u>4,541</u>
Cash and cash equivalents at the end of the period	<u>55,520</u>	<u>3,952</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>55,520</u>	<u>3,952</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 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 convention except for certain financial instruments which are measured at fair value.

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

In the current period, the Group has applied, for the first time, a number of new standards, amendment and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1 April 2007. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – Interpretation (“INT”) 12	Service concession arrangements <sup>2</sup>
HK(IFRIC) – INT 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008.



# Notes to the Condensed Consolidated Financial Statements

## 3. TURNOVER AND SEGMENT INFORMATION

The Group's operation is mainly engaged in manufacturing of OEM paper products which constitutes over 92% of the Group's turnover, segment results and total assets. Accordingly, no segment information is presented.

## 4. (LOSS) PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to equity holders of the Company has been arrived at after charging:		
Release of prepaid rentals	1,120	1,120
Depreciation of property, plant and equipment	4,517	4,835
Loss on disposal of property, plant and equipment	2,613	-
and after crediting:		
Interest income	24	12
Gain on disposal of property, plant and equipment	-	1,596

## 5. TAXATION

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not have any assessable profit for both periods.

The applicable income tax rate for subsidiaries operating in the PRC is 33% (2006: 33%). No provision for PRC Enterprise Income Tax has been made in the consolidated financial statements as the Group did not have any assessable profit for both periods.

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the PRC. The new EIT law will be effective as of 1 January 2008, and the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the PRC on Enterprise Income Tax" both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT law but is not yet in a position to state the accurate impact on the Group's results of operations in the future.

# Notes to the Condensed Consolidated Financial Statements

## 6. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share for the six months ended 30 September 2007 and 2006 is computed based on the following data:

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) earnings for the period attributable to equity holders of the Company and (loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(28,757)</u>	<u>934</u>
	'000	'000
Number of shares:		
Weighted average number of shares for the purpose of basic (loss) earnings per share	788,750	312,351
Effect of dilutive potential shares:		
Share options	<u>N/A</u>	<u>7,801</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>320,152</u>

No diluted loss per share has been presented for the six months ended 30 September 2007 as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares.

## 7. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2007 (Nil for the six months ended 30 September 2006).

## 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 September 2007, the Group spent approximately HK\$1,008,000 (HK\$11,234,000 for the six months ended 30 September 2006) for the acquisition of property, plant and equipment to expand its operations.

# Notes to the Condensed Consolidated Financial Statements

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2007, the balance of debtors, deposits and prepayments included trade debtors of HK\$31,085,000 (HK\$39,937,000 at 31 March 2007). The aged analysis of trade debtors at the reporting date is as follows:

	30 September 2007 HK\$'000 (Unaudited)	31 March 2007 HK\$'000 (Audited)
0 – 30 days	24,127	28,034
31 – 60 days	270	1,188
61 – 90 days	1,024	1,188
91 – 120 days	1,191	826
Over 120 days	4,473	8,701
	<u>31,085</u>	<u>39,937</u>

The Group allows credit period of 30 days to 120 days (30 days to 120 days for the year ended 31 March 2007) to its trade customers.

## 10. CREDITORS AND ACCRUED CHARGES

At 30 September 2007, the balance of creditors and accrued charges included trade creditors of HK\$41,051,000 (HK\$43,899,000 at 31 March 2007). The aged analysis of trade creditors at the reporting date is as follows:

	30 September 2007 HK\$'000 (Unaudited)	31 March 2007 HK\$'000 (Audited)
0 – 30 days	9,924	18,407
31 – 60 days	3,660	4,599
61 – 90 days	4,373	4,283
91 – 120 days	4,560	5,060
Over 120 days	18,534	11,540
	<u>41,051</u>	<u>43,889</u>

# Notes to the Condensed Consolidated Financial Statements

## 11. 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 period ended 30 September 2007, the average effective borrowing rate (which was also equal to contracted interest rates) ranged from 6.5% to 8.7% (2006: 6.4% to 7.4%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

## 12. SHORT-TERM BANK BORROWINGS

	30 September 2007 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
Export loans	3,636	18,108
Discounted bills	7,745	4,135
Trust receipts and import loans	1,786	13,673
Short-term bank loans	-	5,000
Bank overdrafts	4,913	10,988
	<u>18,080</u>	<u>51,904</u>

All the above short-term bank borrowings were granted to the subsidiaries of the Company by banks and are guaranteed by the Company.

## 13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2007	618,061,134	6,181
Issue of new shares upon placings (Note)	339,600,000	3,396
At 30 September 2007	<u>957,661,134</u>	<u>9,577</u>

# Notes to the Condensed Consolidated Financial Statements

Note:

On 26 April 2007, 33,000,000 ordinary shares of HK\$0.01 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.

On 8 May 2007, 33,000,000 ordinary shares of HK\$0.01 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.

On 5 July 2007, 136,800,000 ordinary shares of HK\$0.01 each in the capital of the Company were issued pursuant to a placing and subscription agreement in relation to the placing of existing shares and subscription for new shares of the Company.

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 I placing took place on 26 July 2007 that the Placing Agent has fully placed a total of 136,800,000 tranche I placing shares.

## 14. CAPITAL COMMITMENTS

	30 September 2007 HK\$'000 (Unaudited)	31 March 2007 HK\$'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>8,580</u>	<u>5,730</u>

## 15. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2007, the Group had paid emoluments to directors of the Company amounted to HK\$2,046,000 (six months ended 30 September 2006: HK\$1,228,000), who are also considered as the key management of the Company.

# Management Discussion and Analysis

## Performance Review

For the six months ended 30 September 2007 (the "Interim Period"), the Group's turnover was HK\$101 million (2006: HK\$163 million), representing a decrease of 38% over the same period of last year. Gross profit margin reduced to 2% (2006: 15%) with a loss attributable to equity holders of the Company turned to HK\$29 million (2006: HK\$1 million profit).

With continuing keen competition in the industry, the Interim Period was still a challenging period to the Group. Customers were putting increasing pressure on price and more cautious in placing orders. On the other hand, with further rise in raw material costs, labour wages and benefit in the mainland China as well as the ongoing appreciation of Renminbi, the profit margin of the Group for the Interim Period was intensively pressed. During the Interim Period, the Group took cautious sales strategy by redirecting its resources to customers and products with better profit margin while the turnover for the Interim Period was negatively affected.

Subsequent to the Group entered into an agreement to leaseback its factory premises in Shenzhen as announced by the Company on 23 August 2006, the Group ceased all its manufacturing operations in Shenzhen and handed over the factory premises in June 2007. In the course of cessation of the Shenzhen manufacturing operations, certain materials and equipment were written off and the related extra costs constituted a negative effect to the Group's results for the Interim Period.

## Outlook

With the completion of relocation and consolidation of the Group's production lines from Shenzhen to the Group's two nearby factories in Dongguan in July 2007, fixed manufacturing costs of the Group were reduced accordingly. The management will make further effort to streamline the operating procedures and it is expected that the production efficiency would be further improved in the coming future.

It is foreseeable that the intensive competition in the industry, the unfavourable economic environment and government policies for the Group's manufacturing operations in the mainland China will be continuing, the Group will put continuous efforts on enhancing its value-added activities, redesigning its existing products and developing new product lines to improve the Group's profitability and to capture more business opportunities in the competitive and dynamic environment to broaden the Group's revenue stream.

# Management Discussion and Analysis

## Share Capital

During the Interim Period, the share capital of the Company had the following changes:

On 26 April 2007, 33,000,000 ordinary shares of HK\$0.01 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.

On 8 May 2007, 33,000,000 ordinary shares of HK\$0.01 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.

On 5 July 2007, 136,800,000 ordinary shares of HK\$0.01 each in the capital of the Company were issued pursuant to a placing and subscription agreement in relation to the placing of existing shares and subscription for new shares of the Company.

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 I placing took place on 26 July 2007 that the Placing Agent has fully placed a total of 136,800,000 tranche I placing shares. Up to 24 November 2007, being the latest completion date of the tranche II placing, none of the tranche II placing shares have been placed by the Placing Agent, accordingly, the tranche II placing has expired and ceased after 24 November 2007.

## Liquidity and Financial Resources

As at 30 September 2007, the Group equity holders' equity was HK\$134 million (31 March 2007: HK\$87 million), the current assets and current liabilities of the Group amounted to HK\$130 million (31 March 2007: HK\$130 million) and HK\$88 million (31 March 2007: HK\$132 million) respectively. The Group's working capital positively turned to HK\$43 million (31 March 2007: HK\$3 million net current liabilities).

During the Interim Period, the Group recorded a stream of HK\$13 million generated from operations (2006: HK\$15 million) and the gearing ratio as of 30 September 2007, defined as the percentage of total interest bearing debt to net asset value, significantly decreased to 19% (31 March 2007: 75%).

Most of the Group's banking facilities are dominated in Hong Kong dollars with interest charged at certain percentage over the HIBOR and 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.

# Management Discussion and Analysis

As all borrowings are in Hong Kong dollars and the Group's businesses are carried out mainly in Hong Kong dollars, US dollars and Renminbi. The exchange rate of US dollars/Hong Kong dollars is relatively stable due to the currency peg system adopted in Hong Kong. On the other hand, the Renminbi denominated sales revenue of the Group helps to reduce the Group's commitments in Renminbi denominated operating expenses.

## Investment Position and Planning

During the Interim Period, the Group spent approximately HK\$1 million (2006: HK\$11 million) for the acquisition of property, plant and equipment.

The leaseback of the Group's Shenzhen factory premises has generated a stable income stream for the Group. During the Interim Period, HK\$1.6 million (2006: Nil) was recognized as rental income.

During the Interim Period, the Group has subscribed for convertible notes at principal amount of HK\$13 million (the "CN") issued by a company listed in Hong Kong (the "CN Issuer") at a total consideration equal to the principal amount. Under the terms of the CN, the Group entitles to convert the CN at an initial conversion price of HK\$0.58 per share into the ordinary shares of the CN Issuer. The maturity date of the CN is the date falling on the second anniversary of the date of issue of the CN. The interest of the CN is 1% per annum payable half yearly in arrears. As at 30 September 2007, the CN was valued at HK\$12.8 million.

As at 30 September 2007, the Group's interest in Vevion Hong Kong Limited, a company engaged in the photo-finishing business and trading and sales of photographic and audio-visual products, was valued at HK\$3.5 million (31 March 2007: HK\$3.5 million).

The Group did not have any other significant investment position in stocks, bonds or other financial derivatives and there are no acquisition and disposal of subsidiaries and associated company during the Interim Period.

## Charges on the Group's Assets and Contingent Liabilities

As at 30 September 2007, approximately 56% (31 March 2007: 56%) of the Group's property, plant and equipment were pledged to financial institutions to secure the Group's obligation under the finance leases.

As at 30 September 2007, the Group had no significant contingent liabilities (31 March 2007: Nil).

## Employees

As at 30 September 2007, the Group had 973 employees, with 49 staff in Hong Kong and 924 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.



# Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2007, 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 interest	Number of shares/underlying shares held			Aggregate percentage of the issued share capital
		Beneficial interest in shares (Note 1)	Beneficial interest in underlying shares (Notes 1 & 2)	Total interests	
Kan Shiu Cheong, Frederick	Personal	18,832,135	2,587,726	21,419,861	2.24%
Chan Hoi Lam	Personal	228,941,697	2,587,726	231,529,423	24.18%
Yau Kang Nam	Personal	2,622,710	-	2,622,710	0.27%

Notes:

- 1 The interests stated above represent long positions.
- 2 These include the interests of Directors in the underlying shares of the Company in respect of the share options granted to them pursuant to the share option scheme adopted by the Company on 29 August 2002. Each option gives the holder the right to subscribe for one ordinary share of the Company.

Save as disclosed above, as at 30 September 2007, 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 2007, 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	Direct interest in shares held	Approximate Percentage of the issued share capital
Kingston Finance Limited	Person having a security interest in shares	350,717,325	36.62%
Chu Yuet Wah	Interest of corporation controlled by the substantial shareholder	350,717,325	36.62%
Ma Siu Fong	Interest of corporation controlled by the substantial shareholder	350,717,325	36.62%
First Century Holdings Limited (Note)	Beneficial owner	102,943,494	10.75%

Note: Mr. Kan Shiu Cheong, Frederick and Mr. Chan Hoi Lam, both are directors of the Company, are also directors of First Century Holdings Limited.

Save as disclosed above, as at 30 September 2007, 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 (Notes 1&2)	Exercise period (Note 1)	Original	Adjusted	Adjusted	Number of share options				Weighted	
			exercise price per share	exercise price per share	exercise price per share	Outstanding at 1.4.2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2007	average closing price
			HK\$	HK\$	HK\$						HK\$
<b>Directors</b>											
Kan Shiu Cheong, Frederick	20.9.2005	20.9.2005 to 19.9.2008	0.0244	0.4680	0.4190	2,587,726	-	-	-	2,587,726	-
Chan Hoi Lam	20.9.2005	20.9.2005 to 19.9.2008	0.0244	0.4680	0.4190	2,587,726	-	-	-	2,587,726	-
						5,175,452	-	-	-	5,175,452	
<b>Employees</b>	26.4.2005	26.4.2005 to 25.4.2008	0.0322	0.6440	0.5530	2,554,970	-	-	-	2,554,970	-
In aggregate	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	
						7,730,422	6,180,000	-	-	13,910,422	

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.
- The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.
- The reorganization 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 reorganization becoming effective.
- 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.

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.

## 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 to the Rules governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “CG Code”) during the six months ended 30 September 2007, otherwise considered reasons are given below:

### Code Provision A.4.1

The code provision stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

The non-executive Directors and independent non-executive Directors of the Company were appointed during the interim period (the “Newly Appointed Non-executive Directors”) have no fixed term of services with the Company but 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.

To comply with this code provision, the Company will fix the term of services of the Newly Appointed non-executive Directors with the Company.

## 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 2007.

# 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 2007.

## **REVIEW OF INTERIM RESULTS**

The unaudited interim financial report of the Group for the six months ended 30 September 2007 has been reviewed by the Audit Committee of the Company.

By Order of the Board  
**CLIMAX INTERNATIONAL COMPANY LIMITED**  
Kan Shiu Cheong, Frederick  
*Chairman*

Hong Kong, 21 December 2007