

INTERIM REPORT 2008-09

2008-09



CLIMAX INTERNATIONAL COMPANY LIMITED

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

CHAN Hoi Ling (*Chairman*)

WONG Hin Shek (*Chief Executive Officer*)

Independent Non-executive Directors

WONG Yun Kuen

LAU Man Tak

MAN Kwok Leung

COMPANY SECRETARY

CHAN Hoi Ling

AUDIT COMMITTEE

LAU Man Tak (*Chairman*)

WONG Yun Kuen

MAN Kwok Leung

REMUNERATION COMMITTEE

LAU Man Tak (*Chairman*)

WONG Yun Kuen

MAN Kwok Leung

AUDITORS

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Bermuda

The Bank of Bermuda Limited

6 Front Street

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Bermuda

SOLICITOR

Hastings & Co

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) 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 2008 as follows:

	Notes	Six months ended 30 September	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	3	47,973	101,095
Cost of sales		(51,827)	(99,034)
Gross (loss)/profit		(3,854)	2,061
Other income		4,267	4,918
Selling and distribution costs		(2,489)	(8,072)
Administrative expenses		(18,964)	(25,727)
Impairment loss recognised in respect of financial assets at fair value through profit or loss		—	(239)
Impairment loss on property, plant and equipment		(1,914)	—
Profit on disposal of financial assets at fair value through profit or loss		318	—
Changes in fair value of investments at fair value through profit or loss		(5,667)	—
Finance costs		(298)	(1,698)
Loss before taxation		(28,601)	(28,757)
Income tax expenses	4	(927)	—
Loss for the period attributable to equity holders of the company	5	(29,528)	(28,757)
Loss per share (<i>in Hong Kong cents</i>)	6		
— Basic		(2.77 cents)	(3.65 cents)
Interim dividend	7	—	—

Condensed Consolidated Balance Sheet

		At 30 September 2008	At 31 March 2008
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	24,101	32,665
Prepayments		22,952	24,071
Financial assets at fair value through profit or loss		—	12,357
		<u>47,053</u>	<u>69,093</u>
Current assets			
Inventories		9,684	15,160
Trade receivables	9	5,535	8,766
Deposits, prepayments and other receivables		30,603	24,795
Investments at fair value through profit or loss		20,348	—
Deposits in other financial institution		69,155	53,697
Bank balances and cash		290	3,226
		<u>135,615</u>	<u>105,644</u>
Current liabilities			
Trade and other payables	10	53,956	45,596
Amount due to directors		60	161
Tax payables		3,192	2,232
Obligation under finance leases			
— amount due within one year	11	1,771	1,794
Short-term bank borrowings	12	1,200	3,898
		<u>60,179</u>	<u>53,681</u>
Net current assets		<u>75,436</u>	<u>51,963</u>
Total assets less current liabilities		<u>122,489</u>	<u>121,056</u>
Non-current liability			
Obligations under finance leases			
— amount due after one year	11	34	951
Net assets		<u>122,455</u>	<u>120,105</u>
Capital and reserves			
Share capital	13	11,486	9,576
Reserves		110,968	110,528
Total equity attributable to equity holders of the company		<u>122,454</u>	<u>120,104</u>
Minority interests		1	1
		<u>122,455</u>	<u>120,105</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Translation reserve	Share			Accumulated		Minority interest	Total
				option reserve	Capital reserve	Contributed surplus	profits (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 2007	6,180	31,464	135	1,392	17,900	103,941	(74,436)	86,576	1	86,577
Issue of new shares upon exercise of share options	3,396	75,219	–	–	–	–	–	78,615	–	78,615
Transactions costs attributable to issue of new shares upon placing	–	(3,038)	–	–	–	–	–	(3,038)	–	(3,038)
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	9,576	103,645	135	2,067	17,900	103,941	(103,193)	134,071	1	134,072
Exchange differences on translation of foreign operations recognised directly in equity	–	–	974	–	–	–	–	974	–	974
Net loss for the period	–	–	–	–	–	–	(14,851)	(14,851)	–	(14,851)
Total recognised expenses for the period	–	–	974	–	–	–	(14,851)	(13,877)	–	(13,877)
Transactions costs attributable to issue of new shares upon placing	–	(90)	–	–	–	–	–	(90)	–	(90)
At 31 March 2008	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
Issue of new shares upon exercise of share options	–	–	–	–	–	–	–	–	–	–
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
Exchange differences on translation of foreign operations recognised directly in equity	–	–	57	–	–	–	–	57	–	57
Net loss for the period	–	–	–	–	–	–	(29,528)	(29,528)	–	(29,528)
At 30 September 2008	11,486	131,205	1,166	4,328	17,900	103,941	(147,572)	122,454	1	122,455

Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	<u>(5,128)</u>	<u>12,882</u>
INVESTING ACTIVITIES		
Interest received	591	—
Dividend received	134	—
Purchase of property, plant and equipment	—	(1,007)
Proceeds from disposal of property, plant and equipment	3,876	6,014
Acquisition of financial assets at fair value through profit or loss	—	(13,000)
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	<u>12,675</u>	<u>—</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(7,874)</u>	<u>(7,993)</u>
FINANCING ACTIVITIES		
Net cash used in repayment of trust receipt, import loans, export loans and discount bills	(960)	(22,749)
Principal repayment for obligations under finance leases	(940)	(6,448)
Interest on bank borrowings	(241)	(1,320)
Finance leases charges paid	(57)	(378)
Repayment to directors	(101)	—
Repayment of loan from directors	—	(570)
Repayment of bank loans	—	(5,000)
Issue of new shares upon placing	30,369	78,615
Transaction costs attributable to issue of new shares	<u>(809)</u>	<u>(3,038)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>27,261</u>	<u>39,112</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>14,259</u>	<u>44,001</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	55,000	6,606
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>1</u>	<u>—</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by	<u>69,260</u>	<u>50,607</u>
Bank balances and cash	290	2,749
Deposits in other financial institution	69,155	52,771
Bank overdrafts	<u>(185)</u>	<u>(4,913)</u>
	<u>69,260</u>	<u>50,607</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 (the “HKFRSs”) issued by the HKICPA. In addition, the condensed 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.

The Group has not early adopted or applied the following new and amended HKFRSs that have been issued but are not yet effective. The directors are currently assessing the impact of these new and amended HKFRSs on the Group’s operation but are not yet in a position to state whether they would have any material financial impact.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 (Amendment)	Financial Instruments: Reclassification of financial assets ³
HKAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items ³
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 1 and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ¹
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ³
HKFRS 7 (Amendment)	Financial Instruments: Reclassification of financial assets ³
HKFRS 8	Operating Segments ¹
HK (IFRIC) – Interpretation 13	Customer Loyalty Programmes ²
HK (IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate ¹
HK (IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁴
HK (IFRIC) – Interpretation 17	Distribution of Non-Cash Assets to Owners ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

Notes to the Condensed Consolidated Financial Statements

3. TURNOVER AND SEGMENT INFORMATION

The Group's operation is regarded as a single business segment, being manufacturing and trading of OEM paper products. Accordingly, no segment information is presented.

4. INCOME TAX EXPENSES

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	927	—

The Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) 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 2008 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 ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to equity holders of the company has been arrived at after charging:		
Release of non-current prepayments	1,119	1,120
Allowance for/ (Reversal of) inventories	1,685	(372)
Depreciation of property, plant and equipment	2,750	4,517
Loss on disposal of property, plant and equipment	113	2,613
and after crediting:		
Dividend income	134	—
Interest income	591	24
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 2008 and 2007 is computed based on the following data:

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to equity holders of the company and loss for the purposes of basic loss per share	<u>(29,528)</u>	<u>(28,757)</u>
	'000	'000
Number of shares:		
Weighted average number of shares for the purpose of basic loss per share	<u>1,065,164</u>	<u>791,228</u>

No diluted loss per share has been presented because the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's shares for both periods and the exercise of the Company's outstanding share options was anti-dilutive.

7. INTERIM DIVIDEND

The Board has resolved not to declare any Interim Dividend for the six months ended 30 September 2008 (Nil for the six months ended 30 September 2007).

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 September 2008, the Group had no addition of property, plant and equipment. For the six months ended 30 September 2007, the Group spent HK\$1,007,000 for the acquisition of property, plant and equipment to expand its operations.

Notes to the Condensed Consolidated Financial Statements

9. TRADE RECEIVABLES

Trade receivables consisted of:

	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
Trade receivables	10,269	13,500
Less: Allowance for bad and doubtful debts	(4,734)	(4,734)
	<u>5,535</u>	<u>8,766</u>

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

	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
0-30 days	2,112	4,249
31-60 days	866	1,694
61-90 days	323	897
91-120 days	256	447
Over 120 days	1,978	1,479
	<u>5,535</u>	<u>8,766</u>

The Group allows a credit period of 30 days to 120 days (30 days to 120 days for the year ended 31 March 2008) to its customers.

Notes to the Condensed Consolidated Financial Statements

10. TRADE AND OTHER PAYABLES

At 30 September 2008, the balance of the trade and other payables included trade payables of HK\$30,600,000 (HK\$30,233,000 at 31 March 2008). The aged analysis of trade payables at the reporting date is as follows:

	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
0-30 days	1,864	4,854
31-60 days	2,737	2,909
61-90 days	2,784	2,753
91-120 days	2,584	2,745
Over 120 days	20,631	16,972
	<u>30,600</u>	<u>30,233</u>

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 six months ended 30 September 2008, the average effective borrowing rate (which was also equal to contracted interest rates) ranged from 3.89% to 10.5% (2007: 6.5% to 8.7%). 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.

Notes to the Condensed Consolidated Financial Statements

12. SHORT-TERM BANK BORROWINGS

	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
Export loans	1,015	1,470
Trust receipts and import loans	—	505
Bank overdrafts	185	1,923
	<u>1,200</u>	<u>3,898</u>

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2008	957,661,134	9,576
Issue of new shares upon placing (note 1)	191,000,000	1,910
Exercise of share option (note 2)	6	—
At 30 September 2008	<u>1,148,661,140</u>	<u>11,486</u>

Notes:

- (1) On 23 June 2008, 191,000,000 ordinary shares of HK\$0.01 each in the capital of the Company were issued pursuant to a placing agreement in relation to the placing of new shares of the Company at the price of HK\$0.159 per placing share.
- (2) On 30 September 2008, 6 ordinary shares of HK\$0.01 each in the capital of the Company were issued to an employee upon exercise of share options granted on 17 June 2008.

Notes to the Condensed Consolidated Financial Statements

14. CAPITAL COMMITMENTS

	30 September 2008 HK\$'000 (Unaudited)	31 March 2008 HK\$'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	13,695	13,695
Capital expenditure in respect of construction contracts contracted for but not provided in the consolidated financial statements	919	902
	<u>14,614</u>	<u>14,597</u>

15. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2008, the Group had paid emoluments to directors of the Company approximately HK\$316,000 (six months ended 30 September 2007: HK\$2,366,000), who are also considered as the key management of the Company.

Management Discussion and Analysis

PERFORMANCE REVIEW

For the six months ended 30 September 2008 (the "Interim Period"), the Group's turnover was HK\$48 million, declined by 53% comparing with HK\$101 million achieved for the six months ended 30 September 2007. The loss attributable to equity holders was about HK\$30 million, that was HK\$1 million higher than the loss of HK\$29 million recorded for the six months ended 30 September 2007.

The current global financial turmoil continuously reduced the demand on the paper products. The customers were getting more and more cautious in placing purchase orders, thus lowered our sale orders received. In addition, higher raw material costs and production costs without corresponding increment in selling prices squeezed the profit margin and forced us to refuse certain unprofitable sale orders.

As a consequence of plunging sales volume, it drove down the production level of the group's manufacturing plant to below the economy scale of production. It resulted in higher manufacturing overhead cost per unit and adversely affected the overall gross profit.

To cope with the business downturn, the Group has been expanding its sales activities to cover paper products that could be produced more cost effectively through other external subcontractors. The Group has been streamlining its operation, reducing its excess manufacturing capacity through further downsizing its labour force and realising unnecessary plant and equipment. Moreover, the Group has also succeeded in carrying out stringent cost control measures to reduce the operating expenses, especially the administrative and selling expenses.

OUTLOOK

It is hard to believe that the global economy will turn around in the coming few months. On the contrary, the business environment will grow worse and become far more challenging. The Group continues its plan of streamlining the business operation, reducing its own manufacturing scale but building up flexible production facilities through a network of external subcontractors. The Group leverages its advantage in technology knowledge and market knowledge, developing new products manufactured by new production technology for its customers.

The Group is also looking for other attractive business opportunities to diversify its core business and provide sustainable growth of the Group.

Management Discussion and Analysis

SHARE CAPITAL

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2008, the consolidated equity holders' equity was HK\$122 million (31 March 2008 : HK\$120 million), the current assets and liabilities of the Group amounted to HK\$136 million (31 March 2008 : HK\$106 million) and HK\$60 million (31 March 2008 : HK\$54 million) respectively. The Group's working capital further increased to HK\$75 million (31 March 2008 : HK\$52 million).

During the Interim Period, the Group recorded about HK\$5 million outflow of cash used in operating activities, compared with HK\$13 million inflow of cash generated from operating activities. The gearing ratio as at 30 September 2008, defined as the percentage of total interest bearing debt to net asset value, further decreased to 2% (31 March 2008 : 6%).

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

As all the borrowings are in Hong Kong dollars and the Group's business are carried out mainly in Hong Kong dollars and US dollars, foreign exchange risk is relatively low assuming the peg rate of US dollars and Hong Kong dollars remains unchanged.

INVESTMENT POSITION AND PLANNING

During the Interim Period, the Group had no addition of property, plant and equipment. The Group recognised an impairment loss of approximately HK\$1.9 million in respect of the machinery.

The Group sold out all convertible notes to its issuer in September 2008, realising a profit of approximately HK\$318,000.

Management Discussion and Analysis

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 2008, the Group held a portfolio of shares with fair value of approximately HK\$20 million, after recognising unrealised loss of approximately HK\$6 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 2008, approximately 7% (31 March 2008 : 13%) of the Group's property, plant and equipment were pledged to financial institutions to secure the Group's obligation under finance leases.

As at 30 September 2008, the Group had no significant contingent liabilities (31 March 2008 : Nil).

EMPLOYEES

As at 30 September 2008, the Group had 382 employees, with 43 staff in Hong Kong and 339 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 2008, 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 2008, 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 2008, 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	Adjusted interests in shares held	Approximate percentage of the adjusted issued share capital	Notes
First King Holdings Limited ("First King")	Beneficial owner	88,000,000	14.71%	1, 2
Kingston Securities Limited	Beneficial owner	408,006,632	68.22%	1, 3
Ma Siu Fong	Interests of a controlled corporation	408,006,632	68.22%	1, 4
Chu Yuet Wah	Interests of a controlled corporation	496,006,632	82.93%	1, 5

Notes:

- On 11 September 2008, the Company proposed to effect a capital reorganisation which involves (i) share consolidation of every 10 shares of HK\$0.01 each into 1 consolidated share of HK\$0.10 each ("Consolidated Share(s)"); (ii) capital reduction by cancelling the issued share capital to the extent of HK\$0.09 on each issued Consolidated Share; and (iii) proposed reduction of the nominal value of all Consolidated Shares in the authorized share capital of the Company from HK\$0.10 each to HK\$0.01 each (the "Capital Reorganisation").

Subject to the Capital Reorganisation becoming effective, the Company proposed a rights issue on the basis of four rights shares for every one share adjusted by the Capital Reorganisation at a price of HK\$0.08 per rights share (the "Rights Issue").

The adjusted interests in shares held represents the interests in shares after taking into account of the following assumptions:

- all the outstanding share options were exercised; and,
- the Capital Reorganisation and Rights Issue, assuming that no rights shares are subscribed for by the other shareholders except First King, were completed.

The adjusted issued share capital represents issued share capital after taking into account of the above assumptions which is 598,008,290.

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

Details of the Capital Reorganization and Rights Issue refer to the announcements of the Company dated 11 September 2008 and 18 September 2008 and the circular of the Company dated 8 October 2008.

2. First King held 176,000,000 shares before the Capital Reorganisation and the Rights Issue proposed and announced by the Company.
3. Kingston Securities Limited, the underwriter of the Rights Issue, has no interests in the Company before the Capital Reorganisation and the Rights Issue and has conditionally agreed to underwrite the rights shares on a fully underwritten basis.
4. Ma Siu Fong is a controlling shareholder of Kingston Securities Limited. She is deemed to be interest in the shares in which Kingston Securities Limited hold an interest.
5. Chu Yuet Wah is a controlling shareholder of each of First King and Kingston Securities Limited. She is deemed to be interest in the shares in which First King and Kingston Securities Limited hold an interest.

Save as disclosed above, as at 30 September 2008, 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	exercise	exercise	Outstanding at 1.4.2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2008	average closing price (Note 3)
			price per share	price per share	price per share						
			HK\$	HK\$	HK\$					HK\$	
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	26.4.2005	26.4.2005 to 25.4.2008	0.0322	0.6440	0.5530	2,554,970	-	-	2,554,970	-	-
	20.9.2005	20.9.2005 to 6.10.2008 (Note 6)	0.0244	0.4880	0.4190	5,175,452	-	-	-	5,175,452	-
	30.4.2007	30.4.2007 to 29.4.2010	0.2084	-	-	6,180,000	-	-	-	6,180,000	-
	17.6.2008	17.6.2008 to 16.6.2011	0.1740	-	-	-	27,000,000	6	-	26,999,994	0.1503
						13,910,422	27,000,000	6	2,554,970	38,355,446	
						13,910,422	36,000,000	6	2,554,970	47,355,446	

Share Option

Notes:

1. All dates are shown day/month/year.
2. The vesting period of the options is from the date of grant until the commencement of the exercise period.
3. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.
4. The 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.
5. An open offer was completed on 15 March 2007. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for pursuant to the Scheme are required to be adjusted upon the completion of the open offer.
6. The exercise period was extended from 19 September 2008 to 6 October 2008.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the 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 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 2008.

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 2008.

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 2008.

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 September 2008 has been reviewed by the Audit Committee of the Company.

By Order of the Board
CLIMAX INTERNATIONAL COMPANY LIMITED
Chan Hoi Ling
Chairman

Hong Kong, 22 December 2008