
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Climax International Company Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is addressed to the shareholders of the Company for information in connection with the special general meeting of the Company to be held on 31 October 2008. This circular is not an offer of, nor is it intended to invite offers for, securities of the Company.

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CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

PROPOSED CAPITAL REORGANISATION AND

CONNECTED TRANSACTION:

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN
459,464,456 RIGHTS SHARES BUT NOT MORE THAN
478,406,632 RIGHTS SHARES AT HK\$0.08 EACH
ON THE BASIS OF
FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD
ON RECORD DATE**

Financial adviser to Climax International Company Limited



KINGSTON CORPORATE FINANCE LIMITED

Underwriter to the Rights Issue



KINGSTON SECURITIES LIMITED

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



**大華證券(香港)有限公司
GRAND CATHAY SECURITIES (HONG KONG) LIMITED**

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 22 October 2008. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 7 November 2008 to Monday, 17 November 2008 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any dealing in the Rights Shares in their nil-paid form during the period from Friday, 7 November 2008 to Monday, 17 November 2008 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares or Adjusted Shares (as the case may be) or the Rights Shares in their nil-paid form, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may in its absolute discretion terminate the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination, if at or prior to such time:

- (A) the Underwriter becomes aware of the fact that there shall develop, occur, exist or come into effect:
 - (I) any new law or regulation or any change in existing laws or regulations in Hong Kong or any other place that is the place of incorporation of the Company, or in which the Company conducts or carries on business; or
 - (II) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; or
 - (III) any significant change (whether or not permanent) in local, national or international securities market conditions (any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise) or exchange controls; or
 - (IV) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, and in the reasonable opinion of the Underwriter, such change has or would have a material and adverse effect on the business, financial or trading position or prospects of the Company or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or
- (B) there comes to the notice of the Underwriter that the Company has committed any breach of or omits to observe any of its obligations or undertakings under the Underwriting Agreement, and such breach or omission will have a material and adverse effect of the business, financial or trading position or prospect of the Company or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

A letter of advice from Grand Cathay, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 41 of this circular.

A notice convening a special general meeting of the Company to be held at Suite 303, Festival Walk Tower, 80 Tat Chee Avenue, Kowloon Tong, Hong Kong at 3:00 p.m. on Friday, 31 October 2008 is set out on pages 107 to 109 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it to Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

8 October 2008

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EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation, the Change in Board Lot Size and the Rights Issue is set out below:

2008

Last day of dealings in the Shares on a cum-rights basis Tuesday, 21 October

First day of dealings in the Shares on an ex-rights basis Wednesday, 22 October

Latest time for lodging transfers of the Shares

in order to be qualified for the Rights Issue 4:30 p.m. Thursday, 23 October

Register of members closes Friday, 24 October to
Friday, 31 October
(both dates inclusive)

SGM Friday, 31 October

Record Date Friday, 31 October

Effective date of the Capital Reorganisation 4:30 p.m. Friday, 31 October

Commencement in dealings in Adjusted Shares 9:30 a.m. Monday, 3 November

Designated broker starts to stand in the market to
provide matching services for the sale and

purchase of odd lots of Adjusted Shares 9:30 a.m. Monday, 3 November

Original counter for trading in existing Shares

in existing share certificates in board lots of

8,000 existing Shares temporarily closes 9:30 a.m. Monday, 3 November

Temporary counter for trading in board lots

of 800 Adjusted Shares (in the form of

existing share certificates) opens 9:30 a.m. Monday, 3 November

First day of free exchange of certificates for Shares

into new certificates for Adjusted Shares

in board lot of 20,000 Adjusted Shares 9:30 a.m. Monday, 3 November

Register of members re-opens 9:30 a.m. Monday, 3 November

Despatch of the Prospectus Documents Wednesday, 5 November

First day of dealings in nil-paid Rights 9:30 a.m. Friday, 7 November

Latest time for splitting nil-paid Rights 4:30 p.m. Wednesday, 12 November

Last day of dealings in nil-paid Rights 4:10 p.m. Monday, 17 November

EXPECTED TIMETABLE

2008

Original counter for trading in Adjusted Shares in board lots of 20,000 Adjusted Shares (only new certificates for the Adjusted Shares can be traded at this counter) reopens	9:30 a.m. Monday, 17 November
Effective date of the Change in Board Lot Size	Monday, 17 November
Parallel trading commences	9:30 a.m. Monday, 17 November
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. Thursday, 20 November
Latest time for termination of the Underwriting Agreement	4:00 p.m. Tuesday, 25 November
Announcement of results of the Rights Issue	Wednesday, 26 November
Refund cheques in respect of wholly or partially unsuccessful applications for excess Right Shares expected to be posted on or before	Friday, 28 November
Certificates for the Rights Shares expected to be despatched on or before	Friday, 28 November
Dealings in fully-paid Rights Shares commence on	Tuesday, 2 December
Temporary counter for trading in board lots of 800 Adjusted Shares (in the form of existing share certificates) closes	4:10 p.m. Friday, 5 December
Parallel trading in Adjusted Shares (in the form of new share certificates for Adjusted Shares and existing share certificates) ends	4:10 p.m. Friday, 5 December
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of Adjusted Shares	4:10 p.m. Friday, 5 December
Last day of free exchange of certificates for Shares into new certificates for Adjusted Shares in board lot of 20,000 Adjusted Shares	Wednesday, 10 December

Note: All references to time in this circular are references to Hong Kong time.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if there is:

- tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 20 November 2008. Instead the latest time of acceptance of and payment for the Right Shares will be extended to 5:00 p.m. on the same Business Day;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 20 November 2008. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on Thursday, 20 November 2008, the dates mentioned in the revised expected timetable in this circular may be affected. A press announcement will be made by the Company in such event.

Dates or deadlines specified above are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders as and when appropriate.

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Adjusted Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company immediately after the Capital Reorganisation becoming effective
“Announcement”	the announcement of the Company dated 11 September 2008 relating to, inter alia, the Rights Issue and the Capital Reorganisation
“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	board of Directors
“Business Day”	a day on which banks in Hong Kong are open for business other than a Saturday or Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon
“Bye-Laws”	the bye-laws of the Company
“Capital Reduction”	upon the Share Consolidation taking effect, (i) the proposed reduction of the issued share capital of the Company by cancelling the issued share capital to the extent of HK\$0.09 on each issued Consolidated Share in the share capital of the Company; and (ii) the 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
“Capital Reorganisation”	the Share Consolidation and the Capital Reduction
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the change of board lot size of the Adjusted Shares for trading on the Stock Exchange to 20,000 Adjusted Shares upon the original counter for trading in Adjusted Shares in board lots of 20,000 Adjusted Shares reopens and subject to the Capital Reorganisation becoming effective
“Company”	Climax International Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Companies Act”	Companies Act 1981 of Bermuda
“connected persons”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Consolidated Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company immediately following and arising from the Share Consolidation
“Director(s)”	director(s) of the Company
“Excess Application Form(s)” or “EAF(s)”	the form of application for excess Rights Shares
“Excluded Shareholders”	the Overseas Shareholders on the Record Date where the Directors, after making enquiries, consider it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to such Shareholders
“First King”	First King Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Grand Cathay”	Grand Cathay Securities (Hong Kong) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising the three independent non-executive Directors, namely Dr. Wong Yun Kuen, Mr. Lau Man Tak and Mr. Man Kwok Leung, which has been established for the purpose of advising the Independent Shareholders regarding the Rights Issue
“Independent Shareholders”	Shareholders other than the controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates, and for the purpose of the Rights Issue, Shareholders other than First King and its associates

DEFINITIONS

“Irrevocable Undertakings”	irrevocable undertakings dated 8 September 2008 and 17 September 2008 respectively under which First King has provided the irrevocable undertakings to the Company as described under the section headed “Irrevocable Undertakings” in this circular
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Last Trading Day”	16 September 2008, being the last trading day for the Shares on the Stock Exchange before the release of the announcement relating to, inter alia, the Supplemental Underwriting Agreement and the Change in Board Lot Size
“Latest Practicable Date”	3 October 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Latest Time for Termination”	4:00 p.m. on Tuesday, 25 November 2008, or such other time as may be agreed between the Company and the Underwriter
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mrs. Chu”	Mrs. Chu Yuet Wah, the controlling shareholder of Kingston Securities and the ultimate beneficial owner of First King
“Overseas Shareholders”	the Shareholders whose addresses on the register of member of the Company are outside Hong Kong
“Posting Date”	Wednesday, 5 November 2008, being the date of despatch of the Prospectus Documents
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be despatched to the Shareholders on the Posting Date in connection with the Rights Issue in such form as may be agreed between the Company and the Underwriter
“Prospectus Documents”	the Prospectus, the PALs and the EAFs
“Provisional Allotment Letter(s)” or “PAL(s)”	the provisional allotment letter(s) for the Rights Shares

DEFINITIONS

“Qualifying Shareholders”	the Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date, other than the Excluded Shareholders
“Record Date”	Friday, 31 October 2008, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, the Company’s Hong Kong branch share registrar
“Revised Subscription Price”	the revised subscription price of HK\$0.08 per Rights Share agreed by the Company and the Underwriter under the Supplemental Underwriting Agreement
“Rights Issue”	the proposed issue of the Rights Shares by way of rights issue to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarized herein
“Rights Share(s)”	not less than 459,464,456 Adjusted Shares but not more than 478,406,632 Adjusted Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of four Rights Shares for every Adjusted Share held on the Record Date pursuant to the Rights Issue
“SFC”	Securities and Futures Commission
“SFO”	The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened at Suite 303, Festival Walk Tower, 80 Tat Chee Avenue, Kowloon Tong, Hong Kong at 3:00 p.m. on Friday, 31 October 2008 to consider and, if thought fit, approve the proposed Capital Reorganisation and the Rights Issue
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Consolidation”	the consolidation of every 10 issued and unissued Shares of HK\$0.01 each in the capital of the Company into 1 Consolidated Share of HK\$0.10 each
“Shareholder(s)”	holder(s) of the Shares or Adjusted Shares (as the case may be)
“Share Option(s)”	the options granted by the Company to subscribe for Shares pursuant to the Share Option Scheme

DEFINITIONS

“Share Option Scheme”	the share option scheme adopted by the Company on 29 August 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.12 per Rights Share agreed by the Company and the Underwriter under the Underwriting Agreement
“Supplemental Underwriting Agreement”	the supplemental agreement dated 17 September 2008 entered into between the Company and the Underwriter to amend the Subscription Price from HK\$0.12 per Rights Share to HK\$0.08 per Rights Share
“Underwriter”	Kingston Securities
“Underwriting Agreement”	the underwriting agreement dated 8 September 2008 entered into between the Company and the Underwriter in relation to the Rights Issue, which is amended and supplemented by the Supplemental Underwriting Agreement
“Underwritten Shares”	the total number of Rights Shares less such number of Rights Shares agreed to be taken up by First King pursuant to the Irrevocable Undertaking, being not less than 389,064,452 Rights Shares but not more than 408,006,632 Rights Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

LETTER FROM THE BOARD



CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

Executive Directors:

CHAN Hoi Ling
WONG Hin Shek

Independent non-executive Directors:

WONG Yun Kuen
LAU Man Tak
MAN Kwok Leung

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal

Place of Business:

Suite 303
Festival Walk Tower
80 Tat Chee Avenue
Kowloon Tong
Hong Kong

8 October 2008

To the Shareholders

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION
AND**

CONNECTED TRANSACTION:

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN
459,464,456 RIGHTS SHARES BUT NOT MORE THAN
478,406,632 RIGHTS SHARES AT HK\$0.08 EACH**

**ON THE BASIS OF
FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD
ON RECORD DATE**

INTRODUCTION

On 11 September 2008, the Board announced that the Company proposed to effect the Capital Reorganisation which involves:

- (i) Share Consolidation: the consolidation of every 10 issued and unissued Shares of HK\$0.01 each into 1 Consolidated Share of HK\$0.10 each; and

LETTER FROM THE BOARD

- (ii) Capital Reduction: upon the Share Consolidation taking effect, (i) the proposed reduction of the issued share capital of the Company by cancelling the issued share capital to the extent of HK\$0.09 on each issued Consolidated Share in the share capital of the Company; and (ii) the 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.

Subject to the Capital Reorganisation becoming effective, the Company proposes to raise not less than approximately HK\$55.14 million but not more than approximately HK\$57.41 million before expenses, by way of the Rights Issue of not less than 459,464,452 Right Shares but not more than 478,406,632 Rights Shares at a price of HK\$0.12 per Rights Share on the basis of four Rights Shares for every one Adjusted Share held on the Record Date.

Pursuant to the requirements of Rule 7.19(6) of the Listing Rules, the Rights Issue must be made conditional on approval by Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of such resolution.

As at the Latest Practicable Date, First King, which is beneficially owned as to 100% by Mrs. Chu, is interested in 176,000,000 Shares, representing approximately 15.32% of the issued share capital of the Company. First King and its associates will abstain from voting in favour of the Rights Issue at the SGM. The vote of the Independent Shareholders at the SGM to approve the Rights Issue will be taken by poll.

Upon passing of the resolutions approving the Capital Reorganisation and the Rights Issue by the Shareholders and the Independent Shareholders respectively at the SGM and the Capital Reorganisation becoming effective, the Prospectus Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable whereas the Prospectus will be despatched to the Excluded Shareholders for information only.

On 17 September 2008, the Company and the Underwriter entered into the Supplemental Underwriting Agreement to amend the Subscription Price from HK\$0.12 per Rights Share to the Revised Subscription Price of HK\$0.08 per Rights Share.

Based on the Revised Subscription Price, the estimated net proceeds from the Rights Issue will be changed to not less than approximately HK\$34.42 million but not more than approximately HK\$35.90 million and are still intended to be used for general working capital purpose.

The Shares are currently traded in board lots of 8,000 Shares each. In order to raise the board lot value, the Company announced that the board lot size of the Adjusted Shares for trading on the Stock Exchange will be changed to 20,000 Adjusted Shares upon the original counter for trading in Adjusted Shares in board lots of 20,000 Adjusted Shares reopens and

LETTER FROM THE BOARD

subject to the Capital Reorganisation becoming effective. Besides, the board lot size of the Rights Shares in their nil-paid form for trading on the Stock Exchange will be changed to 20,000 nil-paid Rights Shares.

The purpose of this circular is to provide you, among other things, (i) further details about the Capital Reorganisation, the Change in Board Lot Size and the Rights Issue; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) the letter of advice from Grand Cathay to the Independent Board Committee and the Independent Shareholders on the Rights Issue; and (iv) the notice convening the SGM.

PROPOSED CAPITAL REORGANISATION

The Company proposed to effect the Capital Reorganisation which involves:

- (i) Share Consolidation: the consolidation of every 10 issued and unissued Shares of HK\$0.01 each into 1 Consolidated Share of HK\$0.10 each; and
- (ii) Capital Reduction: upon the Share Consolidation taking effect:
 - (a) the reduction of the issued share capital of the Company by cancelling the issued share capital to the extent of HK\$0.09 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Shares will be reduced from HK\$0.10 each to HK\$0.01 each; and
 - (b) the 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, resulting in the reduction of the authorized share capital of the Company from HK\$100,000,000 divided into 1,000,000,000 Consolidated Shares to HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorized share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, of which 1,148,661,140 Shares have been issued and are fully paid. On the assumption that no further Shares will be issued after the Latest Practicable Date, a credit of approximately HK\$10,337,950 will arise as a result of the Capital Reorganisation. The credit will be transferred to the contributed surplus account of the Company and may be applied by the Directors to set off against the accumulated losses of the Company.

The existing issued share capital of the Company is HK\$11,486,611.40 divided into 1,148,661,140 Shares as at the Latest Practicable Date. Subject to the approval by the Shareholders of the Capital Reorganisation, the authorised share capital of the Company upon the Capital Reorganisation becoming effective will be HK\$10,000,000 comprising

LETTER FROM THE BOARD

1,000,000,000 Adjusted Shares, of which 114,866,114 Adjusted Shares will be in issue. Fractional Adjusted Shares will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefit of the Company.

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Capital Reorganisation will not have any adverse effect on the financial position of the Company and its subsidiaries and the Board believes that on the date the Capital Reorganisation is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reorganisation and, except for the expenses involved in relation to the Capital Reorganisation which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reorganisation becoming effective. The Capital Reorganisation does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company. The Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Reasons for the Capital Reorganisation

The Board believes that the Capital Reorganisation is beneficial to the Company and the Shareholders as a whole. The Board is of the opinion that the Capital Reorganisation will provide the Company with greater flexibility for the issue of new Adjusted Shares in the future and the credit in the contributed surplus account arising as a result of the Capital Reorganisation may be applied by the Directors to set off against the accumulated losses of the Company.

Conditions of the Capital Reorganisation

The Capital Reorganisation (which will be effected in accordance with the Bye-Laws and the Companies Act) is conditional upon:

- (i) the passing of a special resolution by the Shareholders to approve the Share Consolidation and the Capital Reduction at the SGM to be convened by the Company;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares in issue arising from the Capital Reorganisation; and
- (iii) the compliance with the requirements of section 46(2) of the Companies Act, including (i) publication of a notice in relation to the Capital Reduction in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the date on which the Capital Reduction is to take effect;

LETTER FROM THE BOARD

and (ii) that on the date of the Capital Reduction is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reduction, unable to pay its liabilities as they become due.

Assuming the above conditions are fulfilled, it is expected that the Capital Reorganisation will become effective at 4:30 p.m. on the date of passing the relevant resolutions to approve the Capital Reorganisation.

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Change in Board Lot Size

The Shares are currently traded in board lots of 8,000 Shares each. In order to raise the board lot value, the Company announced that the board lot size of the Adjusted Shares for trading on the Stock Exchange will be changed to 20,000 Adjusted Shares upon the original counter for trading in Adjusted Shares in board lots of 20,000 Adjusted Shares reopens and subject to the Capital Reorganisation becoming effective. Besides, the board lot size of the Rights Shares in their nil-paid form for trading on the Stock Exchange will be changed to 20,000 nil-paid Rights Shares.

Assuming the Capital Reorganisation and the Change in Board Lot Size become effective, the Adjusted Shares will be traded in board lots of 20,000 Adjusted Shares and the estimated market value per board lot of the Adjusted Shares will be HK\$2,240, based on the theoretical ex-rights price of approximately HK\$0.112 per Adjusted Share, upon completion of the Capital Reorganisation and the Rights Issue. The Change in Board Lot Size is conditional on the Capital Reorganisation becoming effective.

Free exchange of Share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may submit certificates for the existing Shares in board lot of 8,000 Shares to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for exchange from Monday, 3 November 2008

LETTER FROM THE BOARD

to Wednesday, 10 December 2008 (both dates inclusive), at the expense of the Company for certificates of the Adjusted Shares in board lot of 20,000 Adjusted Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each share certificate of the Shares cancelled or each new share certificate issued for the Adjusted Shares in board lot of 20,000 Adjusted Shares, whichever number of certificates cancelled/issued is higher. The existing certificates will be valid for trading and settlement up to 4:10 pm, Friday, 5 December 2008, being the latest time for trading in board lot of 800 Adjusted Shares in the form of existing certificates (or such other date which will be announced by the Company) and will continue to be good evidence of legal title after the Capital Reorganisation has become effective and may be exchanged for certificates of the Adjusted Shares in board lot of 20,000 Adjusted Shares at any time in accordance with the foregoing.

Odd Lot Arrangements

In order to alleviate the difficulties arising from the existence of odd lots of Adjusted Shares, the Company has agreed to procure an arrangement with the Underwriter to stand in the market to provide matching services for the odd lots of Adjusted Shares on the best effort basis, during the period from 9:30 a.m., Monday, 3 November 2008 to 4:10 p.m., Friday, 5 December 2008 (both dates inclusive). Shareholders should note that matching of the sale and purchase of odd lots of Adjusted Shares is not guaranteed. Holders of the Adjusted Shares in odd lots who wish to take advantage of this matching facility either to dispose of their odd lots of Adjusted Shares or to top up to a board lot of 20,000 Adjusted Shares, may contact Ms. Rosita Kiu of Kingston Securities at telephone number (852) 2298-6215 during office hours. Shareholders are advised to consult their professional advisers if they are in doubt about the above arrangement.

LETTER FROM THE BOARD

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reorganisation and the Change in Board Lot Size becoming effective pursuant to the Underwriting Agreement, which is amended and supplemented by the Supplemental Underwriting Agreement.

Issue statistics

Basis of the Rights Issue	:	Four Rights Shares for every one Adjusted Share held on the Record Date
Revised Subscription Price	:	HK\$0.08 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	1,148,661,140 Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	114,866,114 Adjusted Shares (assuming no rights attaching to the outstanding Share Options are exercised before the Record Date) or 119,601,658 Adjusted Shares (assuming all rights attaching to the outstanding Share Options are exercised before the Record Date)
Number of Rights Shares	:	Not less than 459,464,456 Rights Shares but not more than 478,406,632 Rights Shares
Total Number of Adjusted Shares in issue upon completion of the Rights Issue	:	Not less than 574,330,570 Adjusted Shares but not more than 598,008,290 Adjusted Shares

LETTER FROM THE BOARD

The Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represent four times of the Company's then issued share capital and approximately 80% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

As at the Latest Practicable Date, there were outstanding Share Options granted under the Share Option Scheme which entitle the holders thereof to subscribe for 47,355,446 Shares.

Save for the outstanding Share Options, the Company had no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of the Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrar in Hong Kong by 4:30 p.m. (Hong Kong time) on Thursday, 23 October 2008. The branch share registrar of the Company in Hong Kong is:

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

The Company will send the Prospectus Documents to the Qualifying Shareholders and will send the Prospectus (without the Provisional Allotment Letters and Excess Application Forms), for information only, to the Excluded Shareholders on the Posting Date.

Excluded Shareholders

The Company will ascertain whether there is any Overseas Shareholders on the Record Date. If there is any Overseas Shareholders at the close of business on the Record Date, the Company will make enquiry regarding the legal restrictions (if any) under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges in relation to the Company's offering of the Rights Issue to the Excluded Shareholders in compliance with the Listing Rules. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Right Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Excluded Shareholders.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a

LETTER FROM THE BOARD

premium (net of expenses) can be achieved. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for its own benefit.

Closure of register of members

The register of members of the Company, in relation to the Rights Issue, will be closed from Friday, 24 October 2008 to Friday, 31 October 2008, both dates inclusive. No transfer of Shares will be registered during this period.

Revised Subscription Price

The Revised Subscription Price is HK\$0.08 per Rights Share payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Revised Subscription Price represents:

- (i) a discount of approximately 66.67% to the adjusted closing price of HK\$0.24 per Adjusted Share, based on the closing price of HK\$0.024 per Share as quoted on the Stock Exchange on Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 88.83% to the adjusted average closing price of approximately HK\$0.716 per Adjusted Share, based on the average closing price of approximately HK\$0.0716 as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 92.23% to the adjusted average closing price of approximately HK\$1.029 per Adjusted Share, based on the average closing price of approximately HK\$0.1029 as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iv) a discount of approximately 28.57% to the theoretical ex-rights price of approximately HK\$0.112 per Adjusted Share, based on the closing price of HK\$0.024 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (v) a discount of approximately 29.82% to the theoretical ex-rights price of approximately HK\$0.114 per Adjusted Share, based on the closing price of HK\$0.025 per Share as quoted on the Stock Exchange on the last trading day prior to the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and

LETTER FROM THE BOARD

- (vi) a discount of approximately 92.38% to the audited consolidated net assets value per Adjusted Share as at 31 March 2008 of approximately HK\$1.05 per Adjusted Share and adjusted for the effect of the Capital Reorganisation.

The Revised Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter. The Company agreed to revise the Subscription Price as announced on 18 September 2008 by the Company in view of the volatility in the Hong Kong stock market and the uncertainty in the investment conditions in general. The Directors consider that the discount of the Revised Subscription Price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Rights Issue, the Directors (including the independent non-executive Directors) consider that the terms of the Rights Issue (including the rate of commission) are on normal commercial terms and to be fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

Basis of provisional allotments

Four Rights Shares (in nil-paid form) for every one Adjusted Share held by Qualifying Shareholders as at the close of business on the Record Date.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank pari passu with the Adjusted Shares in issue on the date of issue of the fully-paid Rights Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the fully-paid Rights Shares as the case may be.

Certificates for the Rights Shares

Subject to the fulfillment or the waiver in whole or in part by the Underwriter of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted on or before Friday, 28 November 2008 to those Qualifying Shareholders who have paid for and have accepted the Rights Shares, at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Friday, 28 November 2008 at their own risk.

Fractions of the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be made available for excess application.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold Rights Shares provisionally allotted but not accepted by Qualifying Shareholders. Application may be made by completing the Excess Application Form and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares, at their discretion, but on a fair and reasonable basis on the following principles:

- (1) preference will be given to applications where they appear to the Directors that such applications are made to topping up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive less number of Rights Shares; whereas Qualifying Shareholders applying for larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive higher number of Rights Shares).

The Qualifying Shareholders whose Adjusted Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Qualifying Shareholders whose Adjusted Shares are registered in the name of the nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary document with the Registrar for completion of the relevant registration by 4:30 p.m. on Thursday, 23 October 2008.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be allotted and issued pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such

LETTER FROM THE BOARD

other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, or any other applicable fees and charges in Hong Kong.

Irrevocable Undertakings

As at the Latest Practicable Date, First King held 176,000,000 Shares, representing approximately 15.32% of the issued share capital of the Company.

On 8 September 2008 and 17 September 2008, First King has irrevocably undertaken to the Company that it will not dispose of the 176,000,000 Shares beneficially owned by it as at the date of the Announcement from 8 September 2008 to the Record Date (both days inclusive) and that it will accept and subscribe in full for all the Rights Shares in which it is entitled under the Rights Issue or the provisional allotment of Rights Shares to it in respect of the Adjusted Shares held by it as at the close of business on the Record Date and subject to the terms and conditions of the Rights Issue, representing 70,400,000 Rights Shares.

Conditions of the Rights Issue and the Underwriting Agreement

The Rights Issue and the Underwriting Agreement are conditional upon the following:

- (a) the Company publishing the Announcement (in the form approved by the Stock Exchange and (if applicable) the SFC) containing, among other matters, details of the Capital Reorganisation and the Rights Issue;
- (b) the Company despatching this circular (in the form approved by the Stock Exchange and (if applicable) the SFC) to the Shareholders containing, among other matters, details of the Capital Reorganisation and the Rights Issue together with proxy form and notice of SGM;
- (c) the Company despatching the Prospectus Documents (in the form approved by the Stock Exchange and (if applicable) the SFC) to the Qualifying Shareholders on the Posting Date;
- (d) the passing by the Independent Shareholders (or, where appropriate, Shareholders) at the SGM of relevant resolutions to approve the Capital Reorganisation and the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholders), the Underwriting Agreement and the transactions contemplated thereunder by no later than the Posting Date;

LETTER FROM THE BOARD

- (e) the Capital Reorganisation becoming unconditional in all respects on or before the Record Date;
- (f) the Listing Committee of the Stock Exchange having granted or having agreed to grant in principle (subject to such conditions as imposed by the Stock Exchange) the listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms), and such listing and permission not subsequently being revoked or withdrawn prior to the Latest Time for Termination;
- (g) the filing and registration of all documents relating to the Rights Issue, which are required by law to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance or in Bermuda in accordance with the relevant rules and regulations;
- (h) (if required) the Bermuda Monetary Authority granting consent to the issue of the Rights Shares (in their nil-paid and fully paid forms), the Capital Reduction and the Share Consolidation by no later than the Posting Date;
- (i) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination; and
- (j) the trading of the Shares on the Stock Exchange not having been suspended for more than ten (10) consecutive Business Days at any time prior to Latest Time for Acceptance (excluding any suspension in connection with the clearance of the Announcement, Prospectus Documents or other announcements or documents in connection with the Rights Issue).

If any of the above conditions is not satisfied and/or waived (in whole or in part) at or prior to the respective time stipulated therein, the Underwriting Agreement shall be terminated accordingly and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses (excluding sub-underwriting fees and related expenses) as have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Shares by the Underwriter shall to the extent agreed by the Company be borne by the Company, and the Rights Issue will not proceed.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

The Underwriting Agreement

Date	:	8 September 2008, (entered into before trading hours) which is amended and supplemented by the Supplemental Underwriting Agreement dated 17 September 2008
Underwriter	:	Kingston Securities
Total number of Rights Shares being underwritten by the Underwriter	:	The Underwriter has conditionally agreed pursuant to the Underwriting Agreement to underwrite the balance of the Rights Shares (excluding the number of the Rights Shares agreed to be taken up by First King pursuant to the Irrevocable Undertakings) not subscribed by the Shareholders on a fully underwritten basis, (i) being 389,064,452 Rights Shares (assuming no rights attaching to the outstanding Share Options has been exercised before the Record Date); or (ii) being 408,006,632 Rights Shares (assuming all rights attaching to the outstanding Share Options have been exercised in full before the Record Date), subject to the terms and conditions of the Underwriting Agreement
Commission	:	2.5% of the aggregate Revised Subscription Price in respect of the maximum number of Underwritten Shares

First King, being a substantial Shareholder (as defined in the Listing Rules) interested in 176,000,000 Shares as at the Latest Practicable Date, is beneficially owned as to 100% by Mrs. Chu, the controlling shareholder of the Underwriter. Therefore, the Underwriter is a connected person of the Company. As the maximum underwriting commission to be received by the Underwriter pursuant to the Underwriting Agreement is approximately HK\$1,224,019.90 and the percentage ratios (other than the profits ratio) is equal to or more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the entering into of the Underwriting Agreement constitutes a connected transaction for the Company that is exempted from the independent Shareholders' approval under Rule 14A.32 of the Listing Rules.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may in its absolute discretion terminate the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination, if at or prior to such time:

- (A) the Underwriter becomes aware of the fact that there shall develop, occur, exist or come into effect:
 - (I) any new law or regulation or any change in existing laws or regulations in Hong Kong or any other place that is the place of incorporation of the Company, or in which the Company conducts or carries on business; or
 - (II) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; or
 - (III) any significant change (whether or not permanent) in local, national or international securities market conditions (any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise) or exchange controls; or
 - (IV) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, and in the reasonable opinion of the Underwriter, such change has or would have a material and adverse effect on the business, financial or trading position or prospects of the Company or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or
- (B) there comes to the notice of the Underwriter that the Company has committed any breach of or omits to observe any of its obligations or undertakings under the Underwriting Agreement, and such breach or omission will have a material and adverse effect of the business, financial or trading position or prospect of the Company or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

The changes in the shareholding structure of the Company arising from the Rights Issue are as follows:

- (i) assuming no exercise of the outstanding Share Options between the Latest Practicable Date and the Record Date.

Name of shareholders	As at the Latest Practicable Date		Immediately after the Capital Reorganisation but before completion of the Rights Issue		Immediately after the completion of the Rights Issue (all Rights Shares are subscribed for by the Qualifying Shareholders)		Immediately after the completion of the Rights Issue (no Rights Shares are subscribed for by the Qualifying Shareholders except those undertaken by First King pursuant to the Irrevocable Undertakings)	
	Shares	Approximate %	Adjusted Shares	Approximate %	Adjusted Shares	Approximate %	Adjusted Shares	Approximate %
First King (<i>Note 1</i>)	176,000,000	15.32%	17,600,000	15.32%	88,000,000	15.32%	88,000,000	15.32%
Public:								
Underwriter	—	—	—	—	—	—	389,064,456	67.74%
Other public Shareholders	972,661,140	84.68%	97,266,114	84.68%	486,330,570	84.68%	97,266,114	16.94%
Sub-total	972,661,140	84.68%	97,266,114	84.68%	486,330,570	84.68%	486,330,570	84.68%
Total	1,148,661,140	100.00%	114,866,114	100.00%	574,330,570	100.00%	574,330,570	100.00%

- (ii) assuming the exercise of the outstanding Share Options in full between the Latest Practicable Date and the Record Date.

Name of shareholders	As at the Latest Practicable Date		Immediately after the Capital Reorganisation but before completion of the Rights Issue		Immediately after the completion of the Rights Issue (all Rights Shares are subscribed for by the Qualifying Shareholders)		Immediately after the completion of the Rights Issue (no Rights Shares are subscribed for by the Qualifying Shareholders except those undertaken by First King pursuant to the Irrevocable Undertakings)	
	Shares	Approximate %	Adjusted Shares	Approximate %	Adjusted Shares	Approximate %	Adjusted Shares	Approximate %
First King (<i>Note 1</i>)	176,000,000	15.32%	17,600,000	14.72%	88,000,000	14.72%	88,000,000	14.72%
Share Options holders	—	—	4,735,544	3.95%	23,677,720	3.95%	4,735,544	0.78%
Public:								
Underwriter	—	—	—	—	—	—	408,006,632	68.23%
Other public Shareholders	972,661,140	84.68%	97,266,114	81.33%	486,330,570	81.33%	97,266,114	16.27%
Sub-total	972,661,140	84.68%	97,266,114	81.33%	486,330,570	81.33%	505,272,745	84.50%
Total	1,148,661,140	100.00%	119,601,658	100.00%	598,008,290	100.00%	598,008,290	100.00%

Note:

- 1) First King is beneficially owned as to 100% by Mrs. Chu, who does not hold any position in the Company.

LETTER FROM THE BOARD

Kingston Securities will sub-underwrite its underwriting obligations under the Underwriting Agreement to sub-underwriters. Kingston Securities has undertaken to the Company that (i) it will ensure that the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters are third parties independent of and not acting in concert with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates; (ii) no such subscriber or purchaser of the Underwritten Shares shall be procured by it or by the sub-underwriters if allotment and issue of any Rights Shares to it would result in it and its associates and concert parties, when aggregated with the Adjusted Shares (if any) already held by them holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Rights Issue; and (iii) in performing its underwriting obligations under the Underwriting Agreement, no subscriber or purchaser of the Underwritten Shares will become a substantial Shareholder immediately after completion of the Rights Issue. In the view of the above, the Company will ensure the compliance of the public float requirement pursuant to Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The principal activity of the Company is to design, development, production and marketing of paper products, including photo albums, gift items and stationery.

The Board considers that the Rights Issue will enable the Group to strengthen its capital base and to enhance its financial position for future strategic investments as and when opportunities arise. The Board is of the view that the Rights Issue will allow the Qualifying Shareholders to maintain their shareholding in the Company and considers fund raising through the Rights Issue is in the interest of the Company and the Shareholders as a whole.

The gross proceeds from the Rights Issue will be not less than approximately HK\$36.76 million but not more than approximately HK\$38.27 million. The estimated net proceeds from the Rights Issue will be not less than approximately HK\$34.42 million but not more than approximately HK\$35.90 million and are intended to be used for working capital purpose.

FINANCIAL AND TRADING PROSPECTS

Sales turnover from the market of the United States of America continue contributing the highest portion of the Group total sales turnover since the year ended 31 March 2008. With the ongoing uncertainty in sentiment of customers in the United States of America and adverse operating environment for the Group's manufacturing business, the Group has proactively enlarged its portfolio of customers to lowering the risk of relying on sales to its current major customers. On the other hand, the Group also proactively enlarged its portfolio of vendors and sub-contractors to reduce the impact of upsurge in raw materials prices and production costs. The Group has also imposed various cost control measures to reduce operating costs.

LETTER FROM THE BOARD

As it is expected that the unfavourable economic and operating environment of the Group will be continued, the Group will reduce its reliance on manufacturing activities and explore other business opportunities to drive the Group's long-term sustainable growth.

The Directors consider the Rights Issue can effectively enlarge the Company's capital base and strengthen the financial position of the Group.

POSSIBLE ADJUSTMENT TO THE SHARE OPTIONS

The Capital Reorganisation and the Rights Issue may lead to adjustments to the exercise price and/or the number of Shares or Adjusted Shares (as the case may be) to be issued upon exercise of the Share Options. The Company will notify the holders of Share Options regarding adjustments to be made (if any) pursuant to the terms of the Share Option Scheme.

PREVIOUS FUND RAISING EXERCISE IN THE PRIOR 12-MONTH PERIOD

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement:

Date of announcement	Event	Net proceeds (<i>approximately</i>)	Intended use of proceeds as announced	Actual use of proceeds
26 May 2008	Placing of 191,000,000 Shares	HK\$29.0 million	For general working capital of the Group	Fully utilized as intended

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" above). Accordingly, the Rights Issue may or may not proceed.

Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, the Adjusted Shares or the Rights Shares in their nil-paid form, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Wednesday, 22 October 2008. The Rights Shares will be dealt in their nil-paid form from Friday, 7 November 2008 to Monday, 17 November 2008, both dates inclusive. Shareholders should note that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Rights Issue is

LETTER FROM THE BOARD

subject are fulfilled (which is expected to be Tuesday, 25 November 2008), and dealing in the Rights Shares in their nil-paid form, will accordingly bear the risk that the Rights Issue will not become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares or Adjusted Shares (as the case may be) or the Rights Shares in their nil-paid form, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

SGM

The notice convening the SGM is set out on pages 107 to 109 of this circular. The SGM will be convened at Suite 303, Festival Walk Tower, 80 Tat Chee Avenue, Kowloon Tong, Hong Kong at 3:00 p.m. on Friday, 31 October 2008 for the purpose of, considering and, if thought fit, to approve the Capital Reorganisation and the Rights Issue.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to the Bye-law 66 of the Bye-laws of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

LETTER FROM THE BOARD

RECOMMENDATION

In relation to the Rights Issue, your attention is drawn to the letter from the Independent Board Committee on pages 29 to 30 and the letter from Grand Cathay set out on pages 31 to 41 of this circular. The Directors believe that the proposed resolutions in relation to the Capital Reorganisation and the Rights Issue are in the interest of the Shareholders as a whole and, accordingly, the Directors recommend the Shareholders to vote in favour of the aforesaid resolutions to be proposed at the SGM.

GENERAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to III to this circular.

Yours faithfully,
By Order of the Board
Climax International Company Limited
Chan Hoi Ling
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Rights Issue:



CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

8 October 2008

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION
AND
CONNECTED TRANSACTION:
PROPOSED RIGHTS ISSUE OF NOT LESS THAN
459,464,456 RIGHTS SHARES BUT NOT MORE THAN
478,406,632 RIGHTS SHARES AT HK\$0.08 EACH
ON THE BASIS OF
FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD
ON RECORD DATE**

We refer to the circular of the Company dated 8 October 2008 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Rights Issue is fair and reasonable insofar as the Independent Shareholders are concerned. Grand Cathay has been appointed as the independent financial adviser to advise you and us in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal reasons and factors considered by, and the advice of, Grand Cathay as set out in its letter of advice to you and us on pages 31 to 41 of the Circular, we are of the opinion that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,

For and on behalf of

Independent Board Committee

Wong Yun Kuen, Lau Man Tak, Man Kwok Leung

Independent non-executive Directors



大華證券(香港)

GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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8 October 2008

*To the Independent Board Committee
and the Independent Shareholders of
Climax International Company Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN 459,464,456 RIGHTS
SHARES BUT NOT MORE THAN 478,406,632 RIGHTS SHARES AT HK\$0.08
EACH ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY
ADJUSTED SHARE HELD ON RECORD DATE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, details of which are set out in the section headed "Letter from the Board" (the "Letter") in the Company's circular dated 8 October 2008 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As set out in the Letter, the Company proposes to conduct the Rights Issue of not less than 459,464,456 Rights shares but not more than 478,406,632 Rights Shares in proportion of four Rights Shares for every Adjusted Share held by Qualifying Shareholders on the Record Date at the Revised Subscription Price of HK\$0.08 per Rights Share payable in full on acceptance. The estimated net proceeds from the Rights Issue will be not less than approximately HK\$34.4 million but not more than approximately HK\$35.9 million which are intended to be used for working capital purpose.

Pursuant to Rule 7.19(6) of the Listing Rules, the Rights Issue must be made conditional on approval by Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As stated in the Letter, First King, which is beneficially owned as to 100% by Mrs. Chu, is interested in 176,000,000 Shares, representing approximately 15.32% of the issued share capital of the Company, as at the Latest Practicable Date. First King and its associates will abstain from voting in favour of the Rights Issue at the SGM. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders for approving the Rights Issue must be taken by way of poll at the SGM.

LETTER FROM GRAND CATHAY

Dr. Wong Yun Kuen, Mr. Lau Man Tak and Mr. Man Kwok Leung, being all the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the SGM on the ordinary resolution regarding the Rights Issue.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and advise the Independent Shareholders on how to vote in this regard.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion and representations contained or referred to in the Circular and all information, opinion and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information, opinion and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have performed all applicable steps as required under Rule 13.80 of the Listing Rules including the notes thereto. We have relied on such information, opinions and representations but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on or liabilities, of any person resulting from the subscription for, holding of or dealing in the Rights Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Issue and, if any doubt should consult their own professional advisers.

LETTER FROM GRAND CATHAY

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Rights Issue, we have considered the following principal factors and reasons.

1. Background information of the Group

The principal activity of the Group is to design, development, production and marketing of paper products, including photo albums, gift items and stationery.

The table below shows the key financial results of the Group for the preceding two financial years ended 31 March 2008, as extracted from the annual report for the year ended 31 March 2008 (the “2008 Annual Report”).

	For the year ended 31 March	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Turnover	<u>167,321</u>	<u>258,910</u>
Gross profit	<u>14,080</u>	<u>17,997</u>
Net loss attributable to the equity holders of the Company	<u>(43,608)</u>	<u>(59,711)</u>
Loss per share — basic (in Hong Kong cents)	<u>(4.82)</u>	<u>(17.72)</u>

For the year ended 31 March 2008, the Group's turnover was approximately HK\$167 million, decreased by 36% as comparing with approximately HK\$259 million for the year ended 31 March 2007. Notwithstanding the significant decrease in turnover in 2008, the gross profit margin slightly raised to 8% (2007: 7%) with loss attributable to equity holders of the Company reduced to approximately HK\$44 million (2007: loss of approximately HK\$60 million).

According to the 2008 Annual Report, the significant decrease in turnover in 2008 was largely due to the decrease in orders from customers in the United States of America that generally adopted a more cautious approach in placing orders and requested more accommodating pricing for their orders given the uncertainty in consumer sentiment as a result of the sub-prime mortgage tremors. The decrease in orders affected the paper products industry at large, as a result of which competition became more intensified. Simultaneously, the operating environment for the manufacturing business of the Group in the PRC has been increasingly difficult with the further raising in material costs and labour wages, introduction of the new PRC labour law as well as the ongoing appreciation of the Renminbi.

LETTER FROM GRAND CATHAY

We are advised by the Directors that the Group took cautious sales strategy by directing its resources to customers and products with better profit margin and in the meantime took efforts in reducing the Group's fixed costs and manufacturing overhead during 2008. The Group ceased all its manufacturing operations in Shenzhen and handed over the factory premises in June 2007 for the leaseback purpose as announced on 23 August 2006. In the course of cessation of the Shenzhen manufacturing operations, certain materials and equipment were written off, together with other extra costs of the cessation, which negatively affected the Group's results for 2008.

According to the 2008 Annual Report, the Group had the audited net current assets of approximately HK\$52.0 million as at 31 March 2008 (2007: net liabilities of approximately HK\$2.9 million). As at 31 March 2008, the Group had cash and bank balances (including the deposits in other financial institution) of approximately HK\$56.9 million (2007: HK\$17.6 million).

2. Reasons for the Rights Issue and the use of proceeds

As stated in the Letter, the net proceeds of the Rights Issue of not less than HK\$34.4 million will be used for working capital purpose. The Board considers that the Rights Issue will enable the Company to strengthen its capital base and to enhance its financial position for future strategic investments as and when opportunities arise.

On 26 May 2008, the Company announced a share placement of 191,000,000 new Shares and successfully raised HK\$29.0 million for its general working capital. As advised by the Directors, the proceeds from the previous share placement have been fully utilized as at the Latest Practicable Date.

We have obtained the latest management accounts of the Company and note that the cash and bank balances of the Company as at 31 July 2008 was approximately HK\$76.0 million. After considered the sustained losses of the Group over the past two financial years, we concur with the Directors' view that the net proceeds of the Rights Issue will provide the Group with a more solid capital base and stronger financial position and liquidity for future strategic investments as and when opportunities arise.

In view of the unsatisfactory financial performance of the Group in the past two financial years, we have been advised by the Directors that they are proactively identifying suitable investment opportunities so as to broaden the revenue base of the Group but no concrete investment target has been identified yet. However, the Directors consider that the proceeds from the Rights Issue would certainly avail the Company of a high degree of liquidity once such investment opportunities arise.

We have also been advised by the Directors that they have considered debt financing and other means of equity fund raising such as share placement as alternatives to the Rights Issue. Given the existing financial condition of the Group, the Directors believe that taking up borrowings or other bank financing would increase the Group's finance costs, and, in turn, will deteriorate the Group's financial position. Unlike the Rights Issue which provides all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and

at the same time allow them to maintain their proportionate interests in the Company, a share placement, however, would involve an issue of new shares which will result in a dilution of existing Shareholders' interest.

Having considered the previous and existing financial position of the Group and that all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we consider that the Rights Issue is an equitable mean to raise capital for the Group under the existing circumstances.

Given the reasons as stated above, we are of the view and concur with the view of the Directors that conducting the Rights Issue by the Company is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3. Pricing for the Rights Issue

The Revised Subscription Price of HK\$0.08 per Rights Shares represents:

- (i) a discount of approximately 66.67% to the adjusted closing price of HK\$0.24 per Adjusted Share, based on the closing price of HK\$0.024 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 88.83% to the adjusted average closing price of approximately HK\$0.716 per Adjusted Share, based on the average closing price of approximately HK\$0.0716 as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 92.23% to the adjusted average closing price of approximately HK\$1.029 per Adjusted Share, based on the average closing price of approximately HK\$0.1029 as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iv) a discount of approximately 28.57% to the theoretical ex-rights price of approximately HK\$0.112 per Adjusted Share, based on the closing price of HK\$0.024 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (v) a discount of approximately 29.82% to the theoretical ex-rights price of approximately HK\$0.114 per Adjusted Share, based on the closing price of HK\$0.025 per Share as quoted on the Stock Exchange on the last trading day prior to the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and
- (vi) a discount of approximately 92.38% to the audited consolidated net asset value per Adjusted Share as at 31 March 2008 of approximately HK\$1.05 per Adjusted Share and adjusted for the effect of the Capital Reorganisation.

LETTER FROM GRAND CATHAY

According to the Directors, the Revised Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the past performance in the market price of the Shares. The Directors consider that the discount of the Revised Subscription Price to the market price of the Shares would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group.

In order to review the fairness of the Revised Subscription Price, we have reviewed and included below all the companies (the "Comparables") listed on the main board of the Stock Exchange which had announced rights issue of new shares during the last six months preceding the date of the Supplemental Underwriting Agreement (i.e. from 17 March 2008 to 16 September 2008, both dates inclusive, (the "Review Period").

Company name	Stock code	Date of Announcement	Basis of entitlement	Underwriting commission	Discount/ (premium) of the subscription price to the closing price of last trading day prior to the date of announcement	Discount/ (premium) of the subscription price to the theoretical ex-right price of last trading day prior to the date of announcement
Shun Cheong Holdings Limited	650	8-Apr-08	3-for-2	2.00%	64.03%	41.59%
Midas International Holdings Limited	1172	29-Apr-08	1-for-2	2.50%	37.50%	28.57%
Hong Kong Chinese Limited	655	17-May-08	7-for-20	2.50%	32.00%	22.00%
Lippo Limited	226	17-May-08	1-for-4	1.50%	28.00%	21.00%
Wing On Travel (Holdings) Limited	1189	20-May-08	4-for-1	2.50%	71.80%	33.80%
Citic Resources Holdings Limited	1205	30-May-08	3-for-20	Nil	27.77%	25.06%
Sino Katalytics Investment Corporation	2324	3-Jun-08	1-for-2	2.50%	27.54%	20.21%
ITC Properties Group Limited	199	6-Jun-08	3-for-1	2.50%	62.80%	29.60%
Mascotte Holdings Limited	136	13-Jun-08	1-for-2	2.50%	52.38%	42.31%
Green Global Resources Limited	61	17-Jun-08	1-for-1	2.50%	30.30%	18.20%
Willie International Holdings Limited	273	19-Jun-08	5-for-2	2.50%	63.86%	33.63%
UDL Holdings Limited	620	1-Aug-08	1-for-1	2.50%	10.26%	5.41%
Hanny Holdings Limited	275	12-Sept-08	4-for-1	2.50%	85.07%	53.27%
			Max.	2.50%	85.07%	53.27%
			Min.	Nil	10.26%	5.41%
			Mean	2.19%	45.64%	28.82%
The Company	439	18-Sept-08	4-for-1	2.50%	66.67%	28.57%

Source: the website of the Stock Exchange

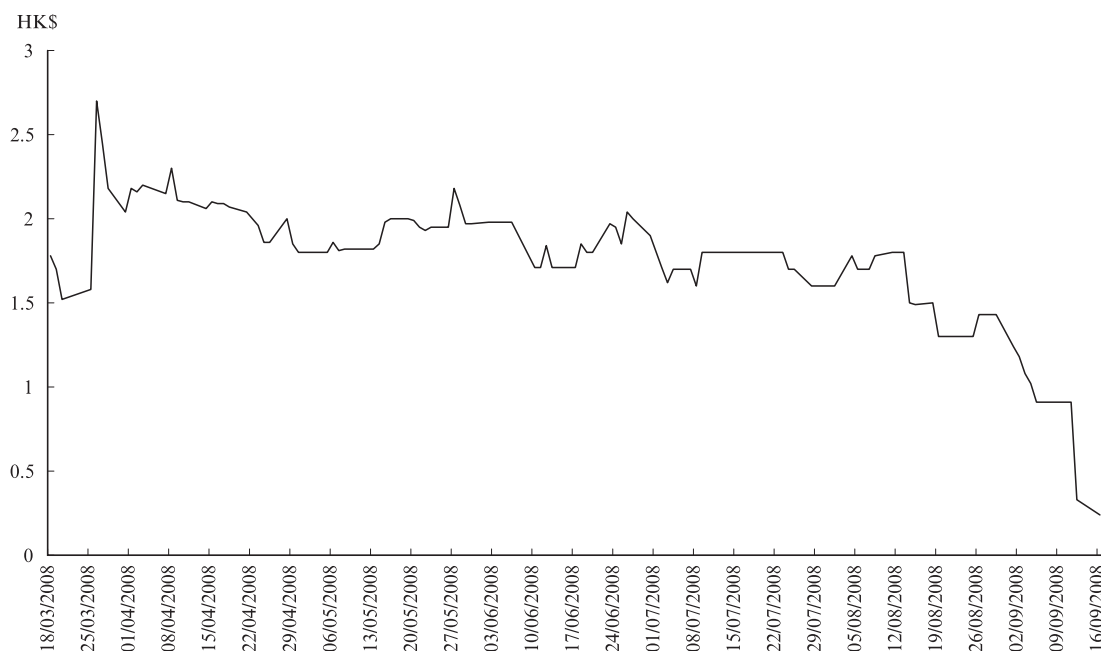
LETTER FROM GRAND CATHAY

As shown in the above table, we note that the subscription prices to the closing price on the respective last trading days of the Comparables ranged from discounts of approximately 10.26% to 85.07% with the mean at discount of approximately 45.64%. The discount of the Revised Subscription Price to the closing price of the Shares on the Last Trading Day is approximately 66.67%, which falls within the range but is apparently deeper than the average of the Comparable.

When reviewed the subscription prices to the theoretical ex-right prices of the respective last trading days of the Comparables, however, we note that the discount of the Revised Subscription Price to the ex-right price of the Last Trading Day is comparable to the mean and falls within the range of those of the Comparables.

Set out below is the graph of daily adjusted closing price of the Adjusted Shares as adjusted for the Capital Reorganisation under the Review Period:

Daily closing price of the Adjusted Shares



Source: the website of the Stock Exchange

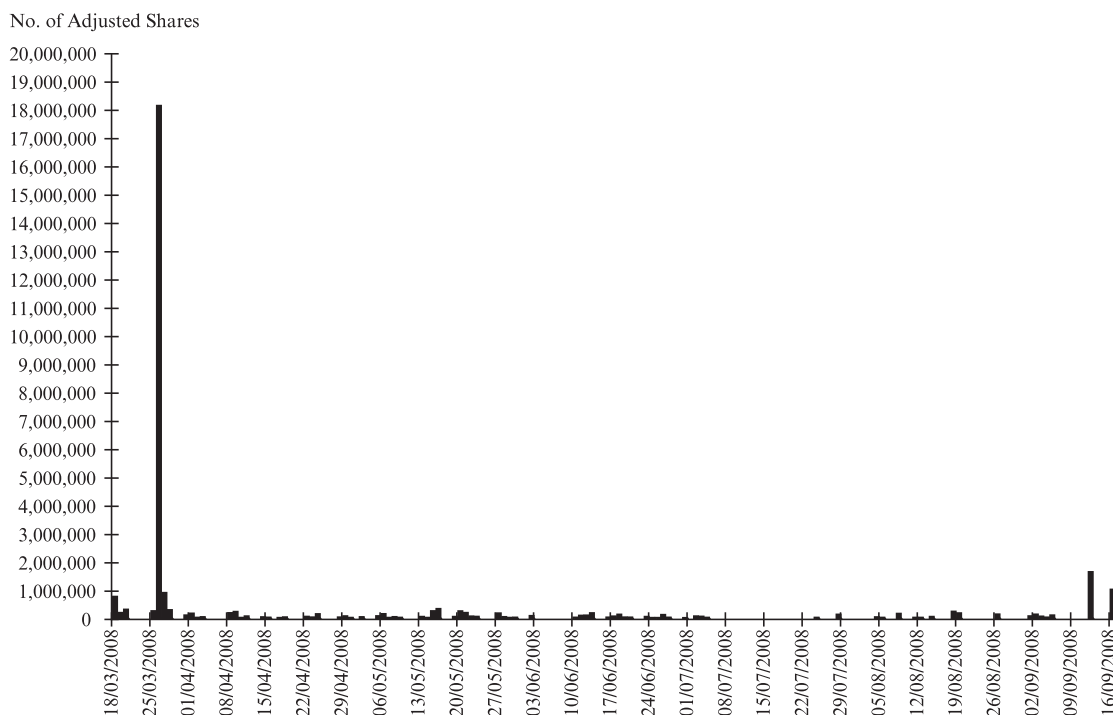
During the Review Period, the highest adjusted closing price and the lowest adjusted closing price of the Adjusted Share was HK\$2.7 on 26 March 2008 and HK\$0.24 on 16 September 2008, being the Last Trading Day. We note the daily adjusted closing price of the Adjusted Share has experienced a gradual downward trend during the Review Period until 12 September 2008, being the date when the Rights Issue at the initial subscription price of HK\$0.12 was announced by the Company. After the announcement of the Rights Issue on 11 September 2008 ("First Announcement"), the adjusted closing price of the Adjusted Share slumped down to HK\$0.33 on 12 September 2008 from HK\$0.91 on 5 September 2008, being the last

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trading day pending for the release of the First Announcement. Nevertheless, it is noted that the Revised Subscription Price is below the closing price of the Adjusted Shares at all times during the Review Period.

The Directors advised that, given the weak performance of the market price of the Shares, the Revised Subscription Price was therefore agreed at a discount so as to induce the Shareholders to participate in the Rights Issue.

Set out below is the graph of trading volume of the Shares as adjusted for the Capital Reorganisation under the Review Period:



Source: the website of the Stock Exchange

The above table shows that the Company recorded an exceptional high trading volume of the Adjusted Shares on 26 March 2008. According to the Company's announcement dated 26 March 2008, the substantial Shareholders disposed an aggregate of 17,277,562 Adjusted Shares to the market on 26 March 2008 ("Share Disposal"). Save for the Share Disposal, we note that the daily trading volume of the Adjusted Shares during the Review Period was significantly low as compared to the Company's Adjusted Shares held by the public Shareholders as at the Latest Practicable Date. Excluding the Share Disposal on 26 March 2008, the highest daily trading volume of the Adjusted Shares only represented approximately 1.7% of the Company's Adjusted Shares held by the public Shareholders as at the Latest Practicable Date.

In view of the extremely low liquidity of the Shares on the Stock Exchange, and based on the fact that the Rights Issue would not dilute the shareholding of the existing Shareholders (assume the Qualifying Shareholders take up all their respective assured allotment of the Rights Shares) (discussion of the potential dilution effect on the shareholding interests of the Rights Issue is set out in the paragraph headed “Potential dilution effect on the shareholding interests of the Independent Shareholders” below), we consider that the Rights Issue is a proper and preferred equity fund raising method as compared to the share placement.

Having considered (i) the discount rate of the Revised Subscription Price to the prevailing market price of the Adjusted Share falls within the market range as compared to those of the Comparables; (ii) the Revised Subscription Price was set at a discount so as to induce the Shareholders to participate in the Rights Issue; and (iii) the Rights Issue is a proper and preferred equity fund raising method as compared to the share placement, we are of the opinion that the Revised Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and concur with the Directors’ view that the Revised Subscription Price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and to participate in the future growth of the Group.

4. Underwriting arrangement

Pursuant to the Underwriting Agreement, the Company needs to pay underwriting commission of 2.5% to the Underwriter. Since the underwriting commission is within the range of those of the Comparables, we consider that it is justifiable.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, it should also be noted that the Rights Issue would not proceed if the Underwriter exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter.

5. Application for excess Rights Shares

As stated in the Letter, Qualifying Shareholders will be entitled to apply for, any unsold Rights Shares provisionally allotted but not accepted by Qualifying Shareholders.

Having reviewed the respective circulars and prospectuses of the Comparables, we consider that the allocation mechanism of the excess Rights Shares by the Company is in line with the market practice and such arrangement is fair and reasonable.

6. Potential dilution effect on the shareholding interests of the Independent Shareholders

Upon completion of the Rights Issue, not less than 459,464,456 Adjusted Shares but not more than 478,406,632 Adjusted Shares will be issued. Qualifying Shareholders who elect to subscribe for in full their assured entitlements under the Rights Issue will retain their current shareholdings in the Company. Qualifying Shareholders who do not elect to subscribe for in full their assured entitlements under the Rights Issue will be diluted after completion of the Rights Issue by a maximum of approximately 67.74% (assuming no exercise of the outstanding Share Options on or before the Record Date) or approximately 68.41% (assuming the exercise of the outstanding Share Options in full on or before the Record Date).

However, it should be noted that such Shareholders will have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares (the “Nil-Paid Rights”) on the market during the dealing of Nil-Paid Rights on the Stock Exchange, subject to the then prevailing market conditions. Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may also acquire, subject to availability, additional Nil-Paid Rights in the market as well as apply for the excess Rights Shares.

Given all the Qualifying Shareholders have an equal opportunity to participate in the Rights Issue, we consider the possible dilution effect is not prejudicial to the Independent Shareholders’ interest to the Company if they choose to subscribe for their full entitlements of the Rights Shares under the Rights Issue.

7. Financial effects of the Rights Issue

(a) Net tangible assets

According to the unaudited pro forma statement of adjusted consolidated net tangible assets as set out in Appendix II to the Circular, the audited consolidated net tangible assets of the Group attributable to equity holders of the Company was approximately HK\$120.1 million as at 31 March 2008 and would increase to not less than HK\$154.5 million after taking into account of the net proceeds from the Rights Issue.

(b) Gearing ratio and liquidity

With the estimated net proceeds of not less than HK\$34.4 million from the Rights Issue, the Group’s gearing and liquidity position will be improved.

Concluding from the above, we note that the Rights Issue will have a positive financial effect on the net tangible assets, leverage position and liquidity of the Group. Hence, we are of the view that the Rights Issue is in the interest of the Company and the Independent Shareholders as a whole.

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RECOMMENDATION

Taking into account the factors and reasons as mentioned above, we consider that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interest of the Company and the Shareholders as a whole. We would like to advise the Independent Shareholders and advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Rights Issue to be proposed at the SGM.

Yours faithfully,

For and on behalf of

Grand Cathay Securities (Hong Kong) Limited

Kim Chan

Director

Kevin Chan

Director

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and balance sheet of the Group for the three years ended 31 March 2008, as extracted from the annual report of the Company.

Consolidated Results

	Year ended 31 March		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>167,321</u>	<u>258,910</u>	<u>267,176</u>
(Loss)/profit before taxation	(41,376)	(59,711)	(23,762)
Taxation	<u>(2,232)</u>	<u>—</u>	<u>—</u>
(Loss)/profit for the year	<u>(43,608)</u>	<u>(59,711)</u>	<u>(23,762)</u>
Attributable to:			
Equity holders of the Company	(43,608)	(59,711)	(23,762)
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/profit for the year attributable to equity holders of the Company	<u>(43,608)</u>	<u>(59,711)</u>	<u>(23,762)</u>

Consolidated Balance Sheet

	As at 31 March		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	32,665	63,852	64,689
Prepayments	24,071	26,311	28,550
Available-for-sale investments	—	3,500	9,500
Financial assets at fair value through profit or loss	12,357	—	—
Net current assets/(liabilities)	<u>51,963</u>	<u>(2,903)</u>	<u>16,038</u>
	<u>121,056</u>	<u>90,760</u>	<u>118,777</u>
Share capital	9,576	6,180	59,310
Reserves	<u>110,528</u>	<u>80,396</u>	<u>51,026</u>
Total equity attributable to equity holders of the company	120,104	86,576	110,336
Minority interests	1	1	1
Obligations under finance leases	951	4,183	8,440
Bank borrowings	<u>—</u>	<u>—</u>	<u>—</u>
	<u>121,056</u>	<u>90,760</u>	<u>118,777</u>

2. AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated financial statements of the Group for the financial years ended 31 March 2007 and 31 March 2008 together with the relevant notes to the accounts, as extracted from the annual report of the Company for the year ended 31 March 2008. The auditor's reports as set out in the annual reports of the Group for the year ended 31 March 2007 and 31 March 2008 were unqualified.

Consolidated Income Statement

For the year ended 31 March 2008

		2008	2007
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	7	167,321	258,910
Cost of sales		<u>(153,241)</u>	<u>(240,913)</u>
Gross profit		14,080	17,997
Other income	8	9,801	10,176
Selling and distribution expenses		(10,720)	(16,127)
Administrative expenses		(47,096)	(59,903)
Impairment loss recognised in respect of available-for-sale investments	17	(3,500)	(6,000)
Impairment loss on property, plant and equipment	15	(446)	—
Decrease in fair value of financial assets at fair value through profit or loss		(643)	—
Finance costs	9	<u>(2,852)</u>	<u>(5,854)</u>
Loss before taxation		(41,376)	(59,711)
Income tax expenses	12	<u>(2,232)</u>	<u>—</u>
Loss for the year attributable to equity holders of the Company	10	<u>(43,608)</u>	<u>(59,711)</u>
Loss per share — basic (in Hong Kong cents)	14	<u>(4.82)</u>	<u>(17.72)</u>

Consolidated Balance Sheet*As at 31 March 2008*

	NOTES	2008 HK\$'000	2007 HK\$'000
Non-current assets			
Property, plant and equipment	15	32,665	63,852
Prepayments	16	24,071	26,311
Available-for-sale investments	17	—	3,500
Financial assets at fair value through profit or loss	18	<u>12,357</u>	<u>—</u>
		<u>69,093</u>	<u>93,663</u>
Current assets			
Inventories	19	15,160	51,087
Trade receivables	20	8,766	39,937
Deposits, prepayments and other receivables	21	24,795	20,975
Amount due from a related company	22	—	—
Deposits in other financial institution	23	53,697	—
Bank balances and cash	23	<u>3,226</u>	<u>17,594</u>
		<u>105,644</u>	<u>129,593</u>
Current liabilities			
Trade and other payables	24	45,596	70,316
Amounts due to directors	25	161	1,130
Tax payables		2,232	—
Obligations under finance leases			
— amount due within one year	26	1,794	9,146
Short-term bank borrowings	27	<u>3,898</u>	<u>51,904</u>
		<u>53,681</u>	<u>132,496</u>
Net current assets/(liabilities)		<u>51,963</u>	<u>(2,903)</u>
Total assets less current liabilities		121,056	90,760
Non-current liability			
Obligations under finance leases			
— amount due after one year	26	<u>951</u>	<u>4,183</u>
		<u>120,105</u>	<u>86,577</u>
Capital and reserves			
Share capital	28	9,576	6,180
Reserves		<u>110,528</u>	<u>80,396</u>
Total equity attributable to equity holders of the Company		120,104	86,576
Minority interests		<u>1</u>	<u>1</u>
		<u>120,105</u>	<u>86,577</u>

Consolidated Statement of Changes in Equity*For the year ended 31 March 2008*

	Attributable to equity holders of the Company									
	Share capital	Share premium	Translation reserve	Share option reserve	Capital reserve	Contributed surplus	Accumulated profits (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note a)	(Note b)				
At 1 April 2006	59,310	(396)	(442)	1,392	17,900	47,297	(14,725)	110,336	1	110,337
Exchange differences on translation of foreign operations recognised directly in equity	—	—	577	—	—	—	—	577	—	577
Loss for the year	—	—	—	—	—	—	(59,711)	(59,711)	—	(59,711)
Total expense recognised for the year	—	—	577	—	—	—	(59,711)	(59,134)	—	(59,134)
Capital reduction	(56,644)	—	—	—	—	56,644	—	—	—	—
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
Transactions costs attributable to issue of new shares upon placing	—	(290)	—	—	—	—	—	(290)	—	(290)
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)
At 31 March 2007 and 1 April 2007	6,180	31,464	135	1,392	17,900	103,941	(74,436)	86,576	1	86,577
Exchange differences on translation of foreign operations recognised directly in equity	—	—	974	—	—	—	—	974	—	974
Loss for the year	—	—	—	—	—	—	(43,608)	(43,608)	—	(43,608)
Total expense recognised for the year	—	—	974	—	—	—	(43,608)	(42,634)	—	(42,634)
Issue of new shares upon placing	3,396	75,219	—	—	—	—	—	78,615	—	78,615
Transactions costs attributable to issue of new shares upon placing	—	(3,128)	—	—	—	—	—	(3,128)	—	(3,128)
Recognition of equity — settled share based payment	—	—	—	675	—	—	—	675	—	675
At 31 March 2008	9,576	103,555	1,109	2,067	17,900	103,941	(118,044)	120,104	1	120,105

Note:

- (a) The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992.
- (b) The balance of contributed surplus arose as a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

Consolidated Cash Flow Statement*For the year ended 31 March 2008*

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before taxation	(41,376)	(59,711)
Adjustments for:		
Release of non-current prepayments	2,240	2,239
Depreciation of property, plant and equipment	9,259	9,692
Impairment loss recognised in respect of available-for-sale investments	3,500	6,000
Decrease in fair value of financial assets at fair value through profit or loss	643	—
Impairment on property, plant and equipment	446	—
Interest income	(1,409)	(97)
Interest expenses	2,852	5,854
Net loss on disposal of property, plant and equipment	3,710	3,485
Gain on disposal of investment held for trading	(60)	—
(Reversal of) allowance for inventories included in cost of sales	(435)	4,131
Share-based payment	675	—
Allowance for bad and doubtful debts	1,383	3,557
Recovery of bad and doubtful debts	—	(1,241)
Operating cash flows before movements in working capital	(18,572)	(26,091)
Decrease in inventories	36,362	19,698
Decrease/(increase) in trade receivables	29,788	(13,295)
Increase/(decrease) in deposits, prepayments and other receivables	(3,820)	643
(Decrease)/increase in trade and other payables	(24,720)	22,221
Decrease in amounts due to directors	(969)	(3,070)
Decrease in bills payable	—	(692)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	18,069	(586)
INVESTING ACTIVITIES		
Interest received	1,409	97
Purchase of property, plant and equipment	(1,575)	(10,308)
Purchase of investment held for trading	(369)	—
Proceeds from disposal of investment held for trading	429	—
Proceeds from disposal of property, plant and equipment	20,008	4,050
Acquisition of financial assets at fair value through profit or loss	(13,000)	—
Repayment from a related company	—	3,360
NET CASH FROM (USED IN) INVESTING ACTIVITIES	6,902	(2,801)

	2008 HK\$'000	2007 HK\$'000
FINANCING ACTIVITIES		
Net cash used in repayment of trust receipt, import loans, export loans and discounted bills	(33,941)	(3,369)
Principal repayment for obligations under finance leases	(10,584)	(10,212)
Interest on bank borrowings	(2,310)	(4,677)
Finance leases charges paid	(542)	(1,177)
New bank loans raised	—	5,000
Repayment of bank loans	(5,000)	(3,328)
Issue of new shares for upon exercise of share options	—	504
Issue of new shares upon placing	78,615	8,190
Issue of new shares upon open offer	—	28,093
Transaction costs attributable to issue of new shares	<u>(3,128)</u>	<u>(1,413)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>23,110</u>	<u>17,611</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	48,081	14,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,606	(8,097)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>313</u>	<u>479</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by	<u>55,000</u>	<u>6,606</u>
Bank balances and cash	3,226	17,594
Deposits in other financial institution	53,697	—
Bank overdrafts	<u>(1,923)</u>	<u>(10,988)</u>
	<u>55,000</u>	<u>6,606</u>

Notes to the Consolidated Financial Statements*For the year ended 31 March 2008***1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

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

The consolidated financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 April 2007.

Hong Kong Accounting Standard (“HKAS”) 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation (“Int”) 7	Applying the Restatement Approach under HKAS 29
	Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions

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

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

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

² Effective for annual periods beginning on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and/or title has been passed with reference to the sales contract/shipping terms.

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

Rentals in respect of properties under operating leases, where substantially all the risks and rewards of ownership of assets have not been transferred to the lessee, are recognised over the lease term of the respective tenancy on a straight-line basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

Financial instruments

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

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments including those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Loans and receivables

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Available-for-sale investments

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Other Financial Liabilities

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

Equity instruments

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

Financial guarantee contracts

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

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at higher of: (i) the amount determined in accordance with HKAS 37 “Provision, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

Derecognition

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

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

Share based payments transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is expensed on a straight-line over the vesting period, taking into account the probability that the option will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to capital reserve. On vesting date, the amount recognised as an expenses is adjusted to reflect actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that related to market price of the Company’s shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Borrowing costs

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

Inventories

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

Impairment losses

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

Retirement benefits costs

Payments to the state-managed retirement benefit schemes in the People's Republic of China (the "PRC") and the Mandatory Provident Fund Scheme in Hong Kong are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Allowances for bad and doubtful debts

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

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

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The estimation of useful lives affects the level of annual depreciation expense recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

Estimated impairment on available-for-sale investments

Management reviews the recoverability of the Group's available-for-sale investments with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceed their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the present value of future cash flow expected to receive. Impairment is recognised based on the higher of estimated future cash flow and estimated market value. An impairment loss of HK\$3,500,000 was recognised accordingly for the year ended 31 March 2008.

Allowance for inventories

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

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The directors of the Company consider the Group's capital to comprise equity, which includes share capital and reserves, borrowings and bank balances and cash and will conduct review to balance its overall capital structure periodically.

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

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

6. FINANCIAL INSTRUMENTS**a. Categories of financial instruments**

	2008 HK\$'000	2007 HK\$'000
Financial assets		
Designated at fair value through profit or loss	12,357	—
Loan and receivables (including cash and cash equivalents)	83,082	71,371
Available-for-sale investments	—	3,500
Financial liabilities		
Amortised cost	38,384	110,252

b. Financial risk management objectives and policies

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group is exposed to concentration risk as a significant portion of its business are derived from its largest customers. As at 31 March 2008, trade receivables of HK\$4,114,000 (2007: HK\$16,935,000) were contributed by the top five customers of the Group. The Group limits its exposure to credit risk by prudently selecting customers. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions and collateral in the form of cash deposits or letter of credit, which are usually required from new customers. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Currency risk

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

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

	2008			2007		
	Financial assets	Financial liabilities	Net exposure	Financial assets	Financial liabilities	Net exposure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	6,690	97	6,593	29,115	1,775	27,340
RMB	984	11,902	(10,918)	4,700	4,156	544
EUR	—	52	(52)	—	52	(52)
AUD	—	185	(185)	—	154	(154)
CAD	—	7	(7)	—	7	(7)

The Group is mainly exposed to USD, RMB, EUR, AUD and CAD. The following table details the Group's sensitivity analysis. The analysis assumes a 5 % increase and decrease in USD, RMB, EUR, AUD and CAD against the HK\$, with all other variables held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates until the next balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loans is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit after taxation and accumulated profits where HK\$ strengthens 5% against the above currency. For a 5% weakening of HK\$ against the above currency, there would be an equal and opposite impact on the profit after taxation and accumulated profits, and the balances below would be negative.

	USD Impact		RMB Impact		EUR Impact		AUD Impact		CAD Impact		Total Impact	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after taxation	(330)	(1,367)	546	(27)	3	3	9	8	—	—	228	(1,383)

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans (see note 27 for details of these borrowings), variable-rate deposits in other financial institution and variable rate obligation and finance lease (see note 26 for details of the finance lease).

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

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

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

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year and the assumed change in interest rate exists throughout the year. A 100 basis point increase or decrease in market rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 March 2007.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit after taxation for the year ended 31st March 2008 and accumulated profits as at 31st March 2008 would increase or decrease by approximately HK\$243,000 (2007: increase or decrease by approximately HK\$275,000).

Liquidity risk

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

As at 31 March 2008, the Group's financial liabilities have contractual maturities which are summarised below:

31 March 2008

	Within 1 year HK\$'000	More than 1 year HK\$'000	After two but within five years HK\$'000	Total Undiscounted cash flows HK\$'000	Carrying amount at 31/3/2008 HK\$'000
Trade and other payables	31,580	—	—	31,580	31,580
Amounts due to directors	161	—	—	161	161
Obligations under finance leases	1,920	934	67	2,921	2,745
Bank borrowings	<u>3,933</u>	<u>—</u>	<u>—</u>	<u>3,933</u>	<u>3,898</u>
	<u>37,594</u>	<u>934</u>	<u>67</u>	<u>38,595</u>	<u>38,384</u>

This compares to the maturity of the Group's financial liabilities in the previous reporting year as follows:

31 March 2007

	Within 1 year HK\$'000	More than 1 year HK\$'000	After two but within five years HK\$'000	Total Undiscounted cash flows HK\$'000	Carrying amount at 31/3/2008 HK\$'000
Trade and other payables	43,889	—	—	43,889	43,889
Amount due to directors	1,130	—	—	1,130	1,130
Obligations under finance leases	9,680	3,002	1,417	14,099	13,329
Bank borrowings	<u>52,564</u>	<u>—</u>	<u>—</u>	<u>52,564</u>	<u>51,904</u>
	<u>107,263</u>	<u>3,002</u>	<u>1,417</u>	<u>111,682</u>	<u>110,252</u>

The above contractual maturities reflect the undiscounted cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using the relevant prevailing market rates.

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

7. TURNOVER AND SEGMENT INFORMATION

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

Business segments

The Group's operation is regarded as a single business segment, being manufacturing and trading of OEM paper products.

Geographical segments

The Group's operations are located in Mainland China and Hong Kong. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market	
	Year ended 31 March	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
United States of America	78,890	152,292
Europe	51,398	61,029
Asia-Pacific (excluding Hong Kong)	25,136	33,382
Hong Kong	1,157	3,322
Others	10,740	8,885
	<u>167,321</u>	<u>258,910</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	As at 31 March		Year ended 31 March	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	92,068	162,030	1,218	13,810
Hong Kong	75,978	36,864	357	2,482
Others	<u>6,691</u>	<u>24,362</u>	<u>—</u>	<u>—</u>
	<u>174,737</u>	<u>223,256</u>	<u>1,575</u>	<u>16,292</u>

8. OTHER INCOME

	2008	2007
	HK\$'000	HK\$'000
Other income consisted of:		
Claims received	—	120
Recovery of bad and doubtful debt	—	1,241
Gain on disposal of property, plant and equipment	—	828
Interest income	1,409	97
Rental income, gross	3,551	1,166
Scrap sales	3,729	6,461
Gain on disposal of investment held for trading	60	—
Others	<u>1,052</u>	<u>263</u>
	<u>9,801</u>	<u>10,176</u>

9. FINANCE COSTS

	2008	2007
	HK\$'000	HK\$'000
Interest on:		
— bank borrowings wholly repayable within five years	2,310	4,677
— obligations under finance leases	<u>542</u>	<u>1,177</u>
Total finance costs	<u>2,852</u>	<u>5,854</u>

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

	2008 HK\$'000	2007 HK\$'000
Loss for the year attributable to equity holders of the Company has been arrived at after charging/(crediting):		
Directors' emoluments (<i>note 11</i>)	5,249	3,741
Other staff costs	32,064	46,117
Share-based payment	675	—
Retirement benefit scheme contributions for staff	1,151	4,457
Severance payments to workers	603	331
Forfeited contributions utilised to offset employers' contributions	(441)	(34)
Total staff costs	39,301	54,612
Allowance for bad and doubtful debts	1,383	3,557
(Reversal of) allowance for inventories	(435)	4,131
Auditors' remuneration	861	2,490
Release of non-current prepayments	2,240	2,239
Cost of inventories recognised as expenses	153,241	240,913
Depreciation on:		
— own assets	6,187	6,079
— assets held under finance leases	3,072	3,613
Net loss on disposal of property, plant and equipment	3,710	3,485
Minimum lease payment in respect of		
— rented premises	9,764	8,076
— hire of equipment	130	130
Net exchange loss	2,075	1,732
and after crediting:		
Rental income, net of outgoings of HK\$2,240,000 (2007: HK\$1,103,000)	1,311	63

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the 15 (2007: 7) directors were as follows:

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

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefit scheme contributions	Share- based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 March 2007						
Executive directors:						
Kan Shiu Cheong, Frederick	—	600	150	6	—	756
Chan Hoi Lam	—	800	150	6	—	956
Yau Kang Nam	—	960	—	3	—	963
Jiang Hai Qing	—	696	58	12	—	766
	—	3,056	358	27	—	3,441
Independent non-executive directors:						
Ng Sui Keung	100	—	—	—	—	100
Lai Kin Keung	100	—	—	—	—	100
Yueh Yung Hsin	100	—	—	—	—	100
	300	—	—	—	—	300
	300	3,056	358	27	—	3,741

During the year ended 31 March 2008, one (2007: two) director waived emoluments of HK\$462,000 (2007: HK\$1,200,000).

Notes:

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

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included three (2007: three) executive directors, details of whose emoluments are set out in (i) above. The emolument of the remaining two (2007: two) highest paid employees, not being directors of the Company, are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries and other benefits	2,004	1,918
Discretionary bonuses	30	273
Retirement benefit scheme contributions	<u>24</u>	<u>24</u>
	<u><u>2,058</u></u>	<u><u>2,215</u></u>

Emoluments of these employees were within the following band:

	Number of employee(s) 2008	2007
HK\$1,000,001 to HK\$1,500,000	<u><u>2</u></u>	<u><u>2</u></u>

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2008 and 2007.

12. INCOME TAX EXPENSES

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	443	—
PRC Enterprise Income Tax	<u>1,789</u>	<u>—</u>
	<u><u>2,232</u></u>	<u><u>—</u></u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

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

The applicable income tax rate for subsidiaries operating in the PRC is 33% (25% effective from 1 January 2008) (2007: 33%).

No provision for both Hong Kong Profits Tax and PRC Income Tax has been provided for the year ended 31 March 2007 as the Group did not have any assessable profits for both jurisdictions in that year.

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss before taxation	<u>(41,376)</u>	<u>(59,711)</u>
Tax at Hong Kong Profits Tax rate at 17.5% (2007: 17.5%)	(7,241)	(10,449)
Tax effect of expenses not deductible for tax purpose	8,134	3,441
Tax effect of income not taxable for tax purpose	(611)	(876)
Tax effect of tax losses not recognised	1,475	7,731
Tax effect of utilisation tax loss not previously recognised	(275)	—
Effect of different tax rates of subsidiaries operating in the PRC	<u>750</u>	<u>153</u>
	<u>2,232</u>	<u>—</u>

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 has been effective from 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 new EIT law introduced a wide range of changes which include, but are not limited to the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 March 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

14. LOSS PER SHARE — BASIC

The calculation of the basic loss per share is computed based on the following data:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss:		
Loss for the year attributable to equity holders of the Company		
for the purposes of basic loss per share	<u>(43,608)</u>	<u>(59,711)</u>
	2008	2007
Number of shares:		
Weighted average number of shares for the purpose of		
basic loss per share	<u>905,231,626</u>	<u>336,912,036</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 shares for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST							
At 1 April 2006	7,596	7,603	183,769	3,560	1,208	8,645	212,381
Currency realignment	—	22	349	37	—	21	429
Additions	—	5,214	10,479	—	—	599	16,292
Disposals	(7,596)	(2,730)	(22,827)	—	—	(1,743)	(34,896)
At 31 March 2007 and 1 April 2007	—	10,109	171,770	3,597	1,208	7,522	194,206
Currency realignment	—	566	1,011	107	—	68	1,752
Additions	—	598	613	337	—	27	1,575
Disposals	—	—	(73,458)	(1,870)	(1,208)	(43)	(76,579)
At 31 March 2008	—	11,273	99,936	2,171	—	7,574	120,954
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 April 2006	2,974	4,040	129,547	2,424	1,208	7,499	147,692
Currency realignment	—	12	297	11	—	11	331
Provided for the year	309	797	7,846	319	—	421	9,692
Eliminated on disposals	(3,283)	(2,715)	(19,621)	—	—	(1,742)	(27,361)
At 31 March 2007 and 1 April 2007	—	2,134	118,069	2,754	1,208	6,189	130,354
Currency realignment	—	97	894	52	—	48	1,091
Provided for the year	—	1,665	6,767	282	—	545	9,259
Impairment loss recognised during the year	—	—	446	—	—	—	446
Eliminated on disposals	—	—	(49,879)	(1,731)	(1,208)	(43)	(52,861)
At 31 March 2008	—	3,896	76,297	1,357	—	6,739	88,289
CARRYING VALUES							
At 31 March 2008	—	7,377	23,639	814	—	835	32,665
At 31 March 2007	—	7,975	53,701	843	—	1,333	63,852

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

Leasehold improvements	4%–5%
Furniture and fixtures	8%–33%
Machinery and equipment	8%–14%
Motor vehicles	20%
Moulds	20%
Office equipment	10%–20%

The carrying amount of machinery and equipment includes an amount of approximately HK\$4,392,000 (2007: HK\$35,828,000) in respect of assets held under finance leases.

During the year, the directors conducted a review of the Group's property, plant and equipment and determined that a number of those assets were impaired, due to physical damage. Accordingly, impairment losses of approximately HK\$446,000 have been recognised in respect of machinery and equipment.

16. PREPAYMENTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Amount to be utilised within one year	2,240	2,239
Amount to be utilised after one year	<u>24,071</u>	<u>26,311</u>
	26,311	28,550
Less: Amount to be utilised within one year included in deposits, prepayments and other receivables	<u>(2,240)</u>	<u>(2,239)</u>
	<u><u>24,071</u></u>	<u><u>26,311</u></u>

Prepayments represent the amounts advanced by the Group to a third party (the “Landlord”) for the construction of production and related facilities (the “Baoan Factory”) in Baoan, the PRC. Pursuant to the original and supplementary agreements signed between a subsidiary of the Company and the Landlord, the Group is entitled to use the production and related facilities for a term of 30 years up to 31 December 2019 free of charge as consideration for the settlement of the advances. The amount charged to the income statement as consideration for the settlement for the year was approximately HK\$2,240,000 (2007: HK\$2,239,000).

The Group relocated its production lines from the Baoan Factory to Dongguan, the PRC and in August 2006, the Group entered into an agreement with the Landlord to lease back the Baoan Factory to the Landlord in two phases for terms commencing on 1 September 2006 and 1 June 2007 respectively until 31 December 2019. For the year ended 31 March 2008, the Group recorded a gross rental income of HK\$3,551,000 (2007: HK\$1,166,000).

17. AVAILABLE-FOR-SALE INVESTMENTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Unlisted equity securities, at cost	9,500	9,500
Less: Impairment loss recognised	<u>(9,500)</u>	<u>(6,000)</u>
	<u><u>—</u></u>	<u><u>3,500</u></u>

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

During the year ended 31 March 2007, an impairment loss of HK\$6,000,000 was recognised by reference to the estimated recoverable amount of the investments. Valuation has been conducted by RHL Appraisal Limited, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amounts. Such valuation has been carried out using cash flow projections based on financial budgets approved by management and applying the discounted cash flow technique.

The directors reviewed the estimated recoverable amount of the investment at 31 March 2008. In view of the continuing operating losses of considerable amount according to the latest management account of Vevion, the director resolved to make a further impairment of HK\$3,500,000. Such impairment loss has been charged to the consolidated income statement for the year ended 31 March 2008.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The details of the convertible notes outstanding as at 31 March 2008 are set out below:

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

As at 31 March 2008, the CN was valued at HK\$12,357,000, which is determined by reference to the valuation report issued by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group.

A decrease in fair value of HK\$643,000 is recognised in the consolidated income statement.

The fair value of the CN at the balance sheet date was calculated using the market value basis. The inputs into the models were as follows:

	2008
Stock price	HK\$0.207
Exercise price	HK\$0.58
Volatilities	82.70%
Dividend yield	0%
Risk free Rate	Hong Kong Exchange Fund Bills & Notes as at 31 March 2008
Credit Spread (1.333 years)	485b.p.

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

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

19. INVENTORIES

	2008 HK\$'000	2007 HK\$'000
Raw materials	9,135	33,576
Work in progress	4,925	11,323
Finished goods	<u>1,100</u>	<u>6,188</u>
	<u>15,160</u>	<u>51,087</u>

20. TRADE RECEIVABLES

Trade receivables consisted of:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade receivables	13,500	44,795
Less: Allowance for bad and doubtful debts	<u>(4,734)</u>	<u>(4,858)</u>
	<u><u>8,766</u></u>	<u><u>39,937</u></u>

The Group's trade receivables comprise:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade receivables from outsider	8,766	37,969
Related companies (<i>Note</i>)	<u>—</u>	<u>1,968</u>
	<u><u>8,766</u></u>	<u><u>39,937</u></u>

Note: The amounts represent trade receivables from Easyfil (Hong Kong) Limited ("Easyfil") and Vevion, companies in which Mr. Chan Hoi Lam, a director of the Company's subsidiary, has a controlling interest. The balances were unsecured, interest free and repayable on demand.

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0–30 days	4,249	28,034
31–60 days	1,694	1,188
61–90 days	897	1,188
91–120 days	447	826
Over 120 days	<u>1,479</u>	<u>8,701</u>
	<u><u>8,766</u></u>	<u><u>39,937</u></u>

The Group allows a credit period of 30–120 days (2007: 30–120 days) to its customers.

Included in the Group's trade receivables balance are receivables with aggregate carrying amount of approximately HK\$4,178,000 (2007: HK\$18,757,000) which are past due but not impaired at the reporting date for which the Group has not provided for impairment loss.

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	1,565	6,854
31–60 days	636	1,188
61–90 days	151	1,188
91–120 days	347	826
Over 120 days	<u>1,479</u>	<u>8,701</u>
	<u><u>4,178</u></u>	<u><u>18,757</u></u>

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

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

Movement in the allowance for bad and doubtful debts:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	4,858	2,542
Impairment loss recognised on receivables	1,383	3,557
Bad debts written off	(1,507)	—
Impairment loss reversed	<u>—</u>	<u>(1,241)</u>
Balance at end of the year	<u><u>4,734</u></u>	<u><u>4,858</u></u>

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits and other receivables	21,574	18,015
Prepayments	<u>3,221</u>	<u>2,960</u>
	<u><u>24,795</u></u>	<u><u>20,975</u></u>

22. AMOUNT DUE FROM A RELATED COMPANY

Name of related party	Relationship	2008 HK\$'000	2007 HK\$'000
Vevion	Controlled by a director of the Company resigned on 26 March 2008	—	—
Maximum amount outstanding during the year		160	3,757

The above balance was unsecured, interest free and repayable on demand.

23. CASH AND CASH EQUIVALENTS**Bank balances and cash**

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

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

Deposits in other financial institution

The amount is unsecured and carries interest at prevailing market rates.

24. TRADE AND OTHER PAYABLES

	2008 HK\$'000	2007 HK\$'000
Trade payables	30,233	43,889
Other payables	1,347	—
Accruals	14,016	26,427
	45,596	70,316

Aging analysis of trade payables is as follows:

	2008 HK\$'000	2007 HK\$'000
0–30 days	4,854	18,407
31–60 days	2,909	4,599
61–90 days	2,753	4,283
91–120 days	2,745	5,060
Over 120 days	16,972	11,540
	30,233	43,889

25. AMOUNTS DUE TO DIRECTORS

	2008 HK\$'000	2007 HK\$'000
Directors:		
Mr. Chan Hoi Lam	—	270
Mr. Yau Kang Nam	—	560
Independent non-executive directors:		
Mr. Chan Hoi Ling	46	—
Mr. Wong Yun Kuen	46	—
Mr. Lau Man Tak	1	—
Mr. Ng Sui Keung	—	100
Prof. Lai Kin Keung	—	100
Mr. Yueh Yung Hsin	—	100
Non-executive directors:		
Mr. Tse On Po	34	—
Mr. Tse On Kin	34	—
	<u>161</u>	<u>1,130</u>

The amounts are unsecured, non-interest bearing and repayable on demand.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum leases payments	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
The obligations under finance leases are repayable within the periods as follows:				
Within one year	1,920	9,680	1,794	9,146
In more than one year but not more than two years	934	3,002	885	2,813
In more than two years but less than three years	67	1,350	66	1,304
In more than three years but less than four years	—	67	—	66
	<u>2,921</u>	<u>14,099</u>	<u>2,745</u>	<u>13,329</u>
Less: Future finance charges	<u>(176)</u>	<u>(770)</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligations	<u>2,745</u>	<u>13,329</u>	2,745	13,329
Less: Amount due within one year shown under current liabilities			<u>(1,794)</u>	<u>(9,146)</u>
Amount due after one year			<u>951</u>	<u>4,183</u>

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 3 to 4 years. Interest rates are either fixed at the contract date or variable with reference to the prevailing market rates. For the year ended 31 March 2008, the average effective borrowing rate (which was also equal to contracted interest rates) ranged from 6.63% to 10.5% (2007: 6.6% to 7.1%). 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.

27. SHORT-TERM BANK BORROWINGS

	2008 HK\$'000	2007 HK\$'000
Export loans (<i>note a</i>)	1,470	18,108
Discounted bills	—	4,135
Trust receipts and import loans (<i>note a</i>)	505	13,673
Short-term bank loans (<i>note b</i>)	—	5,000
Bank overdrafts (<i>note c</i>)	<u>1,923</u>	<u>10,988</u>
	<u>3,898</u>	<u>51,904</u>

Notes:

- Export loans, trust receipts and import loans carry a variable interest rate ranging from 4.28% to 5.19% (2007: 6.4% to 7.4%) per annum.
- Short-term bank loans carry a variable interest rate ranging from 7.25% to 9% (2007: 5% to 6%) per annum.
- Bank overdrafts carry a variable interest rate ranging from 7.25% to 9% (2007: 5% to 6%) per annum.

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

28. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Par value per ordinary share <i>HK\$</i>	Share capital <i>HK\$'000</i>
Authorised:				
At 1 April 2006, 31 March 2007 and 31 March 2008		<u>10,000,000,000</u>	0.01	<u>100,000</u>
Issued and fully paid:				
At 1 April 2006		5,930,985,107		59,310
Issue of new shares upon exercise of share options	(a)	31,500,000	0.01	315
Capital reduction	(b)	(5,664,360,852)	0.01	(56,644)
Issue of new shares upon placing	(c)	39,000,000	0.01	390
Issue of new shares upon open offer	(d)	<u>280,936,879</u>	0.01	<u>2,809</u>
At 31 March 2007		618,061,134		6,180
Issue of new shares upon placing	(e)	<u>339,600,000</u>	0.01	<u>3,396</u>
At 31 March 2008		<u>957,661,134</u>		<u>9,576</u>

Notes:

- (a) On 7 April 2006, the Company issued 31,500,000 shares at exercise price of HK\$0.016 each upon exercise of share options.
- (b) On 11 April 2006, the Company undertook the following capital reorganisation:
- (i) every twenty shares of par value of HK\$0.01 each in the issued ordinary share capital of the Company had been consolidated into one consolidation share (the “Consolidation Share”) of par value of HK\$0.20;
 - (ii) the paid up capital of each Consolidation Share in issue cancelled to the extent of HK\$0.19 on the nominal value of HK\$0.20 of each Consolidation Share so as to form one reorganised share of par value of HK\$0.01 each; and
 - (iii) the credit arising from the capital reorganisation was transferred to the contributed surplus account of the Company.
- (c) On 26 July 2006, the Company allotted 39,000,000 new shares to Mr. Chan Hoi Lam (Mr. Chan), an existing substantial shareholder and director of the Company who resigned on 26 March 2008, at a price of HK\$0.21 per share pursuant to a subscription agreement upon a successful placing by Mr. Chan of the same number of existing shares of the Company held by Mr. Chan with an underwritten arrangement.
- (d) On 15 March 2007, the Company issued 280,936,879 new shares as a result of an open offer (the “Open Offer Shares”) with underwriting arrangement on the basis of five Open Offer Shares for every six existing shares at HK\$0.10 per Open Offer Share.

- (e) (i) On 26 April 2007, 33,000,000 ordinary shares of HK\$0.01 each at price of HK\$0.171 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.
- (ii) On 8 May 2007, 33,000,000 ordinary shares of HK\$0.01 each at price of HK\$0.180 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.
- (iii) On 5 July 2007, 136,800,000 ordinary shares of HK\$0.01 each at price of HK\$0.26 each in the capital of the Company were issued pursuant to a placing and subscription agreements in relation to the placing of existing shares and subscription for new shares of the Company.
- (iv) As the Company announced on 6 June 2007, 24 August 2007 and 26 November 2007, the Company conditionally agreed to place, through Kingston Securities Limited (the “Placing Agent”) on a best effort basis, a maximum of 273,600,000 ordinary shares of HK\$0.01 each in the capital of the Company by two equal tranches. Completion of the tranche 1 placing took place on 26 July 2007 that the Placing Agent has fully placed a total of 136,800,000 tranche 1 placing shares at HK\$0.23 per placing share. Up to 24 November 2007, none of the tranche II placing shares have been placed and the tranche II placing agreement has expired and ceased thereafter.

29. MAJOR NON-CASH TRANSACTION

For the year ended 31 March 2007, certain subsidiaries of the Group entered into finance lease arrangements of HK\$5,984,000 in respect of property, plant and equipment with capital value at the inception of the lease of HK\$9,264,000.

30. SHARE OPTIONS

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

During the year ended 31 March 2008, 6,180,000 (2007: Nil) options were granted under the Scheme to employees of the Group.

The fair value of the share options granted during the year at date of grant is HK\$0.109293 each.

The fair values of the share options granted during the year were calculated using the Black-Scholes pricing model. The inputs into model were as follows:

Weighted average share price	HK\$0.2084
Weighted average exercise price	HK\$0.2084
Expected volatility	66.17%
Expected life	3
Risk free rate	3.994%
Expected dividend yield	N/A

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

The Group recognised the total expenses of approximately HK\$675,000 for the year ended 31 March 2008 (2007: HK\$Nil) in relation to share options granted by the Company.

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

Year ended 31 March 2008

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

Note: (a) Resigned on 26 March 2008.

Year ended 31 March 2007

			Number of share options									Weighted average closing price (Note 3) HK\$
Category or name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Previous	Adjusted	Adjusted	Outstanding at 1.4.2007	Exercised during the year	Lapsed during the year	Adjusted during the year (Note 4)	Adjusted during the year (Note 5)	Outstanding at 31.3.2007	
			exercise price per share	exercise price per share	exercise price per share							
			HK\$	HK\$	HK\$							
Directors												
Kan Shiu Cheong, Frederick (Note 1)	20.9.2005	20.9.2005 to 19.9.2008	0.0244	0.4880	0.4190	44,437,500	—	—	(42,215,625)	365,851	2,587,726	—
Chan Hoi Lam (Note 1)	3.4.2003	3.4.2003 to 2.4.2006	0.0160	—	—	31,500,000	(31,500,000)	—	—	—	—	0.0140
	20.9.2005	20.9.2005 to 19.9.2008	0.0244	0.4880	0.4190	44,437,500	—	—	(42,215,625)	365,851	2,587,726	—
Jiang Hai Qing	3.4.2003	3.4.2003 to 2.4.2006	0.0160	—	—	11,250,000	—	(11,250,000)	—	—	—	—
						131,625,000	(31,500,000)	(11,250,000)	(84,431,250)	731,702	5,175,452	
Employees												
In aggregate	3.4.2003	3.4.2003 to 2.4.2006	0.0160	—	—	23,062,500	—	(23,062,500)	—	—	—	—
	26.4.2005	26.4.2005 to 25.4.2008	0.0322	0.6440	0.5330	43,875,000	—	—	(41,681,250)	361,220	2,554,970	—
						66,937,500	—	(23,062,500)	(41,681,250)	361,220	2,554,970	
Total						198,562,500	(31,500,000)	(34,312,500)	(126,112,500)	1,092,922	7,730,422	

Notes:

- (1) All dates are shown day/month/year.
- (2) The vesting period of the options is from the date of grant until the commencement of the exercise period.
- (3) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.
- (4) The reorganisation of share capital of the Company was approved by shareholders on 10 April 2006 and became effective on 11 April 2006. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for under the Scheme are required to be adjusted upon the capital reorganisation becoming effective.
- (5) An Open Offer was completed on 15 March 2007. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for under the Scheme are required to be adjusted upon the completion of the Open Offer.

During the year ended 31 March 2007, the closing prices of the Company's shares upon the dates of exercise of options under the Scheme ranged from HK\$0.110 to HK\$0.305.

31. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 April 2006	(1,364)	1,364	—
(Charge) credit to consolidated income statement for the year	<u>(645)</u>	<u>645</u>	<u>—</u>
At 31 March 2007	(2,009)	2,009	—
(Charge) credit to consolidated income statement for the year	<u>1,968</u>	<u>(1,968)</u>	<u>—</u>
At 31 March 2008	<u>(41)</u>	<u>41</u>	<u>—</u>

At 31 March 2008, the Group has unused tax losses of approximately HK\$183,607,000 (2007: HK\$176,748,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$234,000 (2007: HK\$11,480,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$183,373,000 (2007: HK\$165,268,000) due to the unpredictability of future profit streams. The recognised tax losses may be carried forward indefinitely.

32. CAPITAL COMMITMENTS

	2008 HK\$'000	2007 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	13,695	4,882
Capital expenditure in respect of construction contracts contracted for but not provided in the consolidated financial statements	<u>902</u>	<u>848</u>
	<u>14,597</u>	<u>5,730</u>

33. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and hire of equipment which fall due as follows:

	Rented premises		Hire of equipment	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	11,071	11,861	130	130
In the second to fifth year inclusive	41,472	47,554	194	324
Over five years	<u>12,148</u>	<u>20,157</u>	<u>—</u>	<u>—</u>
	<u>64,691</u>	<u>79,572</u>	<u>324</u>	<u>454</u>

Operating lease payments for rented premises represent rentals payable by the Group for its office premises and factories. Leases for rented premises and hire of equipment are negotiated for an average term from one to ten years. The lease payments are fixed and no arrangements have been entered into for contingent rental.

The Group as lessor

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

	Rented premises	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	5,052	2,854
In the second to fifth year inclusive	20,208	15,446
Over five years	<u>26,671</u>	<u>29,616</u>
	<u>51,931</u>	<u>47,916</u>

34. RETIREMENT BENEFIT SCHEME**Hong Kong**

A retirement plan has been established for all eligible employees of the Group in Hong Kong starting from 1 January 1996. Eligible employees enjoy a defined contribution scheme to which the employees and the Group contribute 5% and 5-10% of monthly salary respectively. Employees under the defined contribution scheme are entitled to 100% of the employers' contribution and the accrued interest upon retirement or leaving the Group after completing ten years of service counting from the date of joining the Group, or at a reduced scale of between 30% and 90% after completing three to nine years of service counting from the date of joining the Group. From 1 December 2000 onwards, staff in Hong Kong are required to join the new Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance.

The aggregate employers' contributions, net of forfeited contributions, amounted to:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Employers' contributions under defined contribution schemes	397	2,226
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	<u>(441)</u>	<u>(34)</u>
	<u><u>(44)</u></u>	<u><u>2,192</u></u>

At 31 March 2008 and 2007, forfeited contributions arising from employees leaving the scheme before becoming fully vested and which are available to reduce the contributions payable by the Group in the future is Nil.

Mainland China

The Group also participates in a defined contribution retirement scheme organised by the government in Mainland China. All employees of the Group in Mainland China are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement scheme. The total contribution incurred in connection with the scheme for the year ended 31 March 2008 was approximately HK\$754,000 (2007: HK\$1,987,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

35. RELATED PARTY TRANSACTIONS

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

- i) the Group sold goods, amounting approximately HK\$21,000 and HK\$75,200 (2007: HK\$876,000 and HK\$26,000), to Easyfil and Vevion respectively, in which Mr. Chan Hoi Lam, the director of the Company's subsidiary, has a beneficial interest.
- ii) the Group paid rent and building management fee, amounting approximately HK\$468,000 and HK\$121,000 (2007: HK\$267,000 and HK\$ Nil), to Vevion, in which Mr. Chan Hoi Lam, the director of the Company's subsidiary, has a controlling interest.
- iii) the Group paid compensation for breach of contract in respect of disposal of a branch office in Beijing of HK\$419,000, to Vevion, in which Mr. Chan Hoi Lam, the director of the Company's subsidiary, has a controlling interest.

The remuneration of key management of the Group are set out in note 11.

36. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share/ registered capital	Percentage of nominal value of issued share/ registered capital held indirectly by the Company %	Principal activities
Climax Management Company Limited	Hong Kong	HK\$2	100	Provision of management services
Climax Paper Converters, Limited	Hong Kong	Ordinary HK\$100,000 Deferred (<i>Note</i>) HK\$20,000,000	100	Manufacture and distribution of paper products
英發紙品製造(東莞)有限公司* Climax Paper Products Manufacturing (Dongguan) Co., Ltd.	PRC	HK\$47,630,000**/ HK\$68,000,000	100	Manufacture and distribution of paper products
Shiu's Investments Limited	British Virgin Islands/PRC	US\$1	100	Manufacture and distribution of paper products
New Able Investments Limited	British Virgin Islands	US\$1	100	Investment holding
Climax Marketing Company Limited	Hong Kong	HK\$2	100	Provision of marketing services for the Group/Outsourcing manufacturing and sales of goods.

Note: These deferred shares practically carry no right to dividends or to receive notice or to attend or vote at any general meeting of this subsidiary or to participate in any distribution on winding up.

* *wholly foreign-owned enterprise*

** *The subsidiary was increased its registered capital from HK\$37,000,000 to HK\$68,000,000 during the year.*

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at 31 March 2008 or at any time during the year.

37. BALANCE SHEET INFORMATION OF THE COMPANY

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	1,481	1,757
Investments in subsidiaries	<u>75,988</u>	<u>119,441</u>
	<u>77,469</u>	<u>121,198</u>
Current assets		
Amounts due from subsidiaries	146,779	65,472
Deposits, prepayments and other receivables	2,565	2,687
Bank balances	<u>5</u>	<u>4,798</u>
	<u>149,349</u>	<u>72,957</u>
Current liabilities		
Trade and other payables	2,482	1,531
Amount due to a director	161	860
Amounts due to subsidiaries	98,308	98,309
Financial guarantee liabilities	<u>5,762</u>	<u>6,878</u>
	<u>106,713</u>	<u>107,578</u>
Net current assets/(liabilities)	<u>42,636</u>	<u>(34,621)</u>
Net assets	<u><u>120,105</u></u>	<u><u>86,577</u></u>
Capital and reserves		
Share capital	9,577	6,180
Reserves	<u>110,528</u>	<u>80,397</u>
Total equity attributable to equity holders of the Company	<u><u>120,105</u></u>	<u><u>86,577</u></u>

At 31 March 2008, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK\$103,941,000 (2007: HK\$103,941,000) and accumulated losses of HK\$99,034,000 (2007: accumulated losses of HK\$56,399,000).

38. POST BALANCE SHEET EVENTS

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. The net proceeds of approximately HK\$29 million from the placing is intended to be mainly used for general working capital of the Group.

3. INDEBTEDNESS

As at the close of business on 31 July 2008, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had aggregate banking facilities of approximately HK\$29,894,000, comprising bank overdrafts, bank loans, trust receipt loans, import and export trade loans and finance leases, among which HK\$5,003,000 had been utilised by the Group at that date.

As at the close of business on 31 July 2008, the Group had outstanding bank borrowings of approximately HK\$3,081,000 and finance lease liabilities of approximately HK\$1,922,000. All of the utilised bank borrowings of the Group are secured and all of the finance leases of the Group are secured by machinery and equipment of net carrying value of approximately HK\$1,799,000.

As at the close of business on 31 July 2008, the Group had amounts due to directors of approximately HK\$704,000, which are unsecured, non-interest bearing and repayable on demand.

Commitments and contingent liabilities

As at 31 July 2008, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises amounting to approximately HK\$61,307,000.

As at 31 July 2008, the Group had aggregate capital commitments contracted for but not provided in the consolidated financial statements of approximately HK\$14,597,000, comprising capital expenditure in respect of acquisition of property, plant and equipment of approximately HK\$13,695,000 and a construction contract of approximately HK\$902,000.

The Group has no material contingent liability as at 31 July 2008.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptable credits, hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 July 2008.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after taking into account the cash flows generated from the operating activities, the financial resources available to the Group including internally generated funds, the available credit facilities and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, in the absence of any unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2008, being the date to which the latest published audited consolidated financial statements of the Company were made up.

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Capital Reorganisation and the Rights Issue on the audited consolidated net tangible assets of the Group as if they had been undertaken and completed on 31 March 2008. This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group on the completion of the Capital Reorganisation and the Rights Issue or any future date.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2008 (Note iii) HK\$'000	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share as at 31 March 2008 (Note iv) HK\$	Estimated net proceeds from the Rights Issue (Note v) HK\$'000	Unaudited pro forma consolidated net tangible assets of the Group attributable to the equity holders of the Company after the Rights Issue HK\$'000	Unaudited pro forma consolidated net tangible assets of the Group attributable to the equity holders of the Company per Adjusted Share after the Capital Reorganisation and the Rights Issue (Note vi) HK\$
Rights Issue of 459,464,456 Rights Shares (Note i)	120,104	0.13	34,417	154,521	0.28
Rights Issue of 478,406,632 Rights Shares (Note ii)	120,104	0.13	35,903	156,007	0.27

Notes:

- (i) The Rights Issue of 459,464,456 Rights Shares is based on 114,866,114 Adjusted Shares in issue upon the Capital Reorganisation becoming effective assuming no exercise of the options granted pursuant to the Share Option Scheme on or before the Record Date.
- (ii) The Rights Issue of 478,406,632 Rights Shares is based on 119,601,658 Adjusted Shares, representing the total of 114,866,114 Adjusted Shares in issue upon the Capital Reorganisation becoming effective and 4,735,544 Adjusted Shares which may be issued and allotted to the holder of options granted pursuant to the Share Option Scheme on or before the Record Date.

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

- (iii) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2008 is extracted from the published annual report of the Company for the year ended 31 March 2008.
- (iv) The calculation of the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share is based on 957,661,134 Shares in issue as at 31 March 2008.
- (v) The estimated net proceeds from the Rights Issue is based on 459,464,456 or 478,406,632 Rights Shares to be issued at the Revised Subscription Price of HK\$0.08 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,340,000 and HK\$2,370,000 respectively.
- (vi) The calculation of the unaudited pro forma consolidated net tangible assets per Adjusted Share after the Capital Reorganisation and the Rights Issue is based on (a) 555,230,569 shares which represent the 95,766,113 Adjusted Shares in issue upon the Capital Reorganisation becoming effective and 459,464,456 Rights Shares expected to be issued on the completion of the Capital Reorganisation and the Rights Issue, or (b) 574,172,745 shares which represent 95,766,113 Adjusted Shares and 478,406,632 Rights Shares expected to be issued on the completion of the Capital Reorganisation and the Rights Issue.
- (vii) On 23 May 2008, a placing agreement was entered into among the Company and a placing agent (“Placing Agent”) under which the Company has appointed the Placing Agent to place 191,000,000 ordinary shares of HK\$0.01 each (“Placing Shares”) in the Company at a price of HK\$0.159 per Placing Share (the “Placement”). The net proceeds of approximately HK\$29,000,000 shall be used for general working capital. The Placement had been completed on 23 June 2008.
 - (a) Had the Placement been taken into account in the calculation of unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company and assuming no exercise of the options granted pursuant to the Share Option Scheme on or before the Record Date, the unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company per Share is HK\$0.32. It is calculated based on the unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company of HK\$183,521,000 (calculated as audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2008 of approximately HK\$120,104,000 plus the net proceeds of approximately HK\$29,000,000 from the Placement and the net proceeds of approximately HK\$34,417,000 from the Rights Issue) and the number of shares in issue of 574,330,570 upon completion of the Placement, Capital Reorganisation and Rights Issue, represents 1,148,661,140 shares (calculated as 957,661,140 Shares in issue as at 31 March 2008 plus the issue of the 191,000,000 Placing Shares) consolidated on the basis of every ten shares into one Adjusted Share, plus the issue of the 459,464,456 Rights Shares.

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

- (b) Had the Placement been taken into account in the calculation of unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company and assuming the options granted pursuant to the Share Option Scheme have been exercised on or before the Record Date, the unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company per Share is HK\$0.31. It is calculated based on the unaudited pro forma consolidated net tangible assets attributable to the equity holders of the Company of HK\$185,007,000 (calculated as audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2008 of approximately HK\$120,104,000 plus the net proceeds of approximately HK\$29,000,000 from the Placement and the net proceeds of approximately HK\$35,903,000 from the Rights Issue) and the number of shares in issue of 598,008,290 upon completion of the Placement, Capital Reorganisation and Rights Issue, represents 1,148,661,140 shares (calculated as 957,661,140 Shares in issue as at 31 March 2008 plus the issue of the 191,000,000 Placing Shares) consolidated on the basis of every ten shares into one Adjusted Share, plus the issue of the 478,406,632 Rights Shares and 4,735,544 shares issued and allotted to the holder of options granted pursuant to the Share Option Scheme on or before the Record Date.
- (viii) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2008.

**2. LETTER ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED
CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**



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

8 October 2008

The Directors
Climax International Company Limited
Suite 303, Festival Walk Tower
80 Tat Chee Avenue
Kowloon Tong
HONG KONG

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Climax International Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 89 to 91 under the heading of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group in Appendix II of the Company’s circular dated 8 October 2008 (the “Circular”) in connection with the proposed capital reorganisation (the “Capital Reorganisation”) and the proposed rights issue (the “Rights Issue”) of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared by the directors of the Company (the “Directors”) for illustrative purposes only to provide information about how the Capital Reorganisation and the Rights Issue might have affected the financial information of the Group as at 31 March 2008. The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out on pages 89 to 91 to the Circular.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2008 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the Directors on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Rights Issue (assuming no Share Options are exercised on or before the Record Date) were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares of HK\$0.01 each	<u>100,000,000.00</u>
<i>Issued and to be issued:</i>		
<u>1,148,661,140</u>	Shares in issue as the Latest Practicable Date	<u>11,486,611.40</u>
114,866,114	Adjusted Shares in issue immediately after the Capital Reorganisation becoming effective	1,148,661.14
<u>459,464,456</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>4,594,644.56</u>
<u>574,330,570</u>	Adjusted Shares in issue immediately after completion of the Rights Issue	<u>5,743,305.70</u>

All of the Rights Shares to be issued will rank pari passu in all respect with each other, including, in particular, as to dividends, voting rights and capital, and with all the Adjusted Shares in issue as at the date of allotment and issue of the Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were outstanding Share Options granted under the Share Option Scheme which entitle the holders thereof to subscribe for 47,355,446 Shares.

Save for the outstanding Share Options, the Company had no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the following person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “Model Code”), to be notified to the Company and the Stock Exchange:

Name of director	Nature of interest	Number of shares/underlying shares held			Aggregate percentage of the issued share capital
		Beneficial interest in shares	Beneficial interest in underlying shares (Note)	Total interests	

Wong Hin Shek	Personal	—	9,000,000	9,000,000	0.78%
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Note: It represents the interests of Director in the underlying shares of the Company in respect of the share options granted pursuant to the share option scheme adopted by the Company on 29 August 2002.

Save as disclosed above, as at the Latest Practicable Date, 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 pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO:

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

Note: On 8 September 2008 and 17 September 2008, First King has irrevocably undertaken to the Company that it will not dispose of the 176,000,000 Shares beneficially owned by it as at the date of the Announcement from 8 September 2008 to the Record Date (both days inclusive) and that it will accept and subscribe in full for all the Rights Shares in which it is entitled under the Rights Issue or the provisional allotment of Rights Shares to it in respect of the Adjusted Shares held by it as at the close of business on the Record Date and subject to the terms and conditions of the Rights Issue, representing 70,400,000 Rights Shares.

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of member of the Group	Name of shareholder	Approximate percentage of issued share capital held
Fonmax Transportation Company Limited	Cheung Kwan Hung	20%
	Cheung Kwan Fai	20%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (i) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group since 31 March 2008, the date to which the latest published audited financial statements of the Group were made up.
- (ii) There was no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

6. EXPERTS

The following are the qualifications of the experts who have given opinions or advice, which are contained in this circular:

Name	Qualification
SHINEWING (HK) CPA Limited	Certified Public Accountants
Grand Cathay	Licensed corporation to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, none of the above experts had direct or indirect shareholdings in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group since 31 March 2008, the date to which the latest published audited financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports and references to its name in the form and context in which they appear.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

8. LITIGATION

- (i) On 6 May 2008, Fook Woo Assorted Paper Co. Ltd. (the “Fook Woo”) initiated legal proceedings at the High Court of Hong Kong against Climax Paper Converters, Limited (the “CPCL”), a subsidiary of the Company, for the recovery of payment for goods sold and delivered by Fook Woo of HK\$1,200,988.40 (the “Principal”), overdue interest of 2% per month and legal cost. On 11 August 2008, Fook Woo obtained a default judgment against CPCL.

CPCL has negotiated and agreed with Fook Woo that CPCL shall pay the Principal, interest and legal cost in total sum of HK\$1,300,000.00 to Fook Woo.

- (ii) On 27 August 2008, Golddoor Company Limited (the “Golddoor”) initiated legal proceedings at the High Court of Hong Kong against CPCL for breach of contract and requested CPCL to return balance of deposit in total amount of RMB1,434,593.00 (equivalent to approximately HK\$1,629,697.07) together with interest incurred at the rate of 2% per month and legal cost. The litigation is now in progress.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims of material importance and there was no litigation on claim of material importance which was known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the two underwriting agreements, both dated 18 December 2006, entered into between the Company and each of VC Brokerage Limited and Hani Securities (H.K.) Limited respectively in relation to an open offer, details of which have already been disclosed in the announcement of the Company dated 9 January 2007;
- (b) the subscription agreement dated 16 April 2007 entered into between the Company and Mr. Chan Hoi Lam (“Mr. Chan”) in relation to the subscription of 33,000,000 new shares of the Company at a subscription price of HK\$0.171 each, details of which have already been disclosed in the announcement of the Company dated 17 April 2007;
- (c) the subscription agreement dated 27 April 2007 entered into between the Company and Mr. Chan in relation to the subscription of 33,000,000 new shares of the Company at a subscription price of HK\$0.180 each, details of which have already been disclosed in the announcement of the Company dated 30 April 2007;

- (d) the two conditional placing agreements, both dated 1 June 2007, entered into between the Company and Kingston Securities Limited in relation to placing of a maximum of 136,800,000 new shares of the Company, details of which have already been disclosed in the announcement of the Company dated 6 June 2007;
- (e) the placing and subscription agreement dated 21 June 2007 entered into between the Company, Mr. Chan and Kingston Securities Limited in relation to a top-up placement of 136,800,000 shares of the Company at a price of HK\$0.26 per placing share, details of which have already been disclosed in the announcement of the Company dated 21 June 2007;
- (f) the placing agreement dated 23 May 2008 entered into between the Company and Kingston Securities Limited in relation to placing of in aggregate of 191,000,000 placing shares at a price of HK\$0.159 each, details of which have already been disclosed in the announcement of the Company dated 26 May 2008;
- (g) the Underwriting Agreement; and
- (h) the Supplemental Underwriting Agreement.

10. CORPORATION INFORMATION

Registered Office of the Company	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal place of business of the Company in Hong Kong	Suite 303 Festival Walk Tower 80 Tat Chee Avenue Kowloon Tong Hong Kong
Authorized representatives	Wong Hin Shek Chan Hoi Ling
Company secretary and qualified accountant	Chan Hoi Ling
The Hong Kong branch registrar and transfer office of the Company	Tricor Secretaries Limited 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

Legal advisers to the Company	<i>(As to Hong Kong Law)</i> K&L Gates 35/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
	<i>(As to Bermuda Law)</i> Appleby 8th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
Auditors	SHINEWING (HK) CPA Limited 16/F, United Centre, 95 Queensway, Hong Kong
Principal bankers	Standard Chartered Bank (Hong Kong) Limited Standard Chartered Tower 388 Kwun Tong Road, Kwun Tong, Hong Kong
	DBS Bank (Hong Kong) Limited G/F, The Center, 99 Queen's Road Central, Central, Hong Kong

Directors*Particulars of Directors***Name****Address***Executive Directors*

CHAN Hoi Ling

Suite 303
Festival Walk Tower
80 Tat Chee Avenue
Kowloon Tong
Hong Kong

WONG Hin Shek

Suite 303
Festival Walk Tower
80 Tat Chee Avenue
Kowloon Tong
Hong Kong*Independent non-executive Directors*

WONG Yun Kuen

Suite 303
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LAU Man Tak

Suite 303
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80 Tat Chee Avenue
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Hong Kong

MAN Kwok Leung

Suite 303
Festival Walk Tower
80 Tat Chee Avenue
Kowloon Tong
Hong Kong

Qualifications of the Directors and Senior Management of the Company***Executive Directors***

Ms. CHAN Hoi Ling, aged 34, joined the Group in June 2007 as an independent non-executive Director of the Company and was re-designated as an executive Director of the Company in May 2008. Ms. Chan was appointed as the chairman of the Company in June 2008. She graduated from the University of South Australia with a Bachelor Degree in Accountancy. She has extensive experiences in auditing and financial management. Ms. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Chan is currently an independent non-executive director of ProSticks International Holdings Limited.

Mr. WONG Hin Shek, aged 38, joined the Group in June 2007 as an executive Director of the Company and was appointed as the chief executive officer of the Company in June 2008. He has over 14 years of experience in corporate finance, including mergers and acquisitions, initial public offerings and equity syndication. He is a responsible officer under the Securities and Futures Ordinance for type 6 regulated activity (advising on corporate finance). Mr. Wong holds a Master of Science (Financial Management) Degree from University of London in the United Kingdom and a Bachelor of Commerce Degree from University of Toronto in Canada. Mr. Wong is currently an executive director of Golden Resorts Group Limited and Sunny Global Holdings Limited. He was an executive director of Hong Kong Health Check and Laboratory Holdings Company Limited from March 2005 to March 2006.

Independent Non-executive Directors

Dr. WONG Yun Kuen, aged 50, joined the Group in June 2007. He received his Ph.D. Degree from Harvard University, and was a “Distinguished Visiting Scholar” in finance at the Wharton School of the University of Pennsylvania. He has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in Corporate Finance, Investment and Derivative Products. He is a member of Hong Kong Securities Institute. Dr. Wong is also an executive director of UBA Investments Limited, and an independent non-executive director of Grand Field Group Holdings Limited, Harmony Asset Limited, Bauhaus International (Holdings) Limited, Challenger Group Holdings Limited, China Yunnan Tin Minerals Group Company Limited, Superb Summit International Timber Company Limited, Kong Sun Holdings Limited, ProSticks International Holdings Limited and Golden Resorts Group Limited. Dr. Wong was also an independent non-executive director of Apex Capital Limited, formerly named Haywood Investment Limited.

Mr. LAU Man Tak, aged 38, joined the Group in March 2008. He graduated from Hong Kong Polytechnic University with a Bachelor Degree in Accountancy. Mr. Lau has more than 15 years of finance, accounting and auditing experiences. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute. Mr. Lau is

currently an executive director of Warderly International Holdings Limited and an independent non-executive director of Golden Resorts Group Limited. Mr. Lau was also a former executive director of Solartech International Holdings Limited from 2002 to 2007, Hua Yi Copper Holdings Limited from 2004 to 2007 and Premium Land Limited from 2001 to 2005 and an independent non-executive director of Hong Kong Health Check and Laboratory Holdings Company Limited from 2003 to 2006.

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

Senior Management

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

Mr. Kan, aged 60, was appointed as an executive Director of the Company from January 2001 to March 2008 and commenced his current appointment in April 2008. Mr. Kan is a merchant with over 30 years of experience particularly in the area of manufacturing of electrical appliances.

Mr. CHAN Hoi Lam — Chief Executive Officer of Climax Marketing Company Limited

Mr. Chan, aged 45, was appointed as an executive Director of the Company from January 2001 to March 2008 and commenced his current appointment in April 2008. He holds a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong and also a Master's Degree in Business Administration from the City University of Hong Kong. He has over 10 years of experience in the commercial and investment banking field and has been actively involved in the corporate finance and debt restructuring of a number of listed companies. He is the younger brother of Mr. Chan Yim.

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

Mr. Wong, aged 40, is responsible for the sales and marketing of the Group's OEM products. He joined the Group in March 1992 and has 15 years of experience in sales and marketing management. He graduated from the Hong Kong Polytechnic University and holds a Master of Science Degree in Manufacturing Systems Engineering from the University of Warwick, UK.

Mr. CHAN Yim — Chief Operation Officer

Mr. Chan, aged 53, is responsible for the production planning and plant operation of the Group. He joined the Group in July 2004 and has over 30 years of experience in manufacturing industry. He is the elder brother of Mr. Chan Hoi Lam.

Mr. CHIU Wai Chung — Head of Human Resources

Mr. Chiu, aged 35, is responsible for the human resources, training and development of the Group. He joined the Group in September 2006 and has over 10 years of experience in human resources and training management. He holds a Master Degree in Human Resources and Training Management from the University of Leicester in UK, a Postgraduate Diploma in Accounting from the Monash University in Australia and a Bachelor Degree in Chemistry. He is also a member of the Hong Kong Institute of Human Resource Management and the committee member of China Interest Group for the Hong Kong Institute of Human Resource Management.

Ms. HUNG Siu Fung, Amy — Head of Administration

Ms. Hung, aged 45, joined the Group in September 1992. She is responsible for the administration of the Group in both Hong Kong and mainland China.

11. EXPENSES

The expenses in connection with the Rights Issue, including financial and legal advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK\$2.34 million of the minimum number of Right Shares subscribed and approximately HK\$2.37 million of the maximum number of Right Shares subscribed and will be payable by the Company.

12. MISCELLANEOUS

- (i) The English text of this circular shall prevail over the Chinese text in case of inconsistencies.
- (ii) The company secretary and the qualified accountant of the Company is Ms. Chan Hoi Ling who graduated from the University of South Australia with a Bachelor Degree in Accountancy and has extensive experiences in auditing and financial management. She is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suite 303, Festival Walk Tower, 80 Tat Chee Avenue, Kowloon Tong, Hong Kong from the date of this circular up to and including 22 October 2008:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the published annual reports of the Company for each of the two financial years ended 31 March, 2007 and 2008;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;

- (d) the letter of advice from Grand Cathay, the text of which is set out on pages 31 to 41 of this circular;
- (e) the letter on the unaudited pro forma financial information of the Group issued by SHINEWING (HK) CPA Limited, the text of which is set out in appendix II to this circular;
- (f) the material contracts disclosed in the paragraph under the heading “Material Contracts” in this Appendix;
- (g) the written consents referred to in the paragraph under the heading “Experts” in this Appendix; and
- (h) this circular.



CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Climax International Company Limited (the “Company”) will be held at Suite 303, Festival Walk Tower, 80 Tat Chee Avenue, Kowloon Tong, Hong Kong on Friday, 31 October 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifying the following resolutions:

SPECIAL RESOLUTION

1. **“THAT** with effect from 4:30 p.m. on Friday, 31 October 2008 (Hong Kong time) (the “**Effective Date**”):
 - (a) every ten (10) issued and unissued shares of HK\$0.01 each in the share capital of the Company be consolidated into one (1) share of HK\$0.10 each (the “**Consolidated Share**”) in the share capital of the Company (the “**Share Consolidation**”), and any fractional entitlements be aggregated to the then issued Consolidated Shares resulting from the Share Consolidation and the sale in the form of Consolidated Shares for the benefit of the Company in such manner and on such terms as the directors of the Company (the “**Directors**”) may think fit be and are hereby approved;
 - (b) subject to and forthwith upon the Share Consolidation taking effect, (i) the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK\$0.09 on each issued Consolidated Share in the share capital of the Company on the Effective Date such that the nominal value of all the issued Consolidated Shares will be reduced from HK\$0.10 to HK\$0.01 each (the “**Issued Capital Reduction**”) and (ii) the nominal value of all Consolidated Shares in the authorised share capital of the Company be reduced from HK\$0.10 each to HK\$0.01 each, resulting in the reduction of the authorised share capital of the Company from HK\$100,000,000 divided into 1,000,000,000 Consolidated Shares of HK\$0.10 each to HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each (the “**New Share**”) (the “**Authorised Capital Reduction**”) (the Authorised Capital Reduction and the Issued Capital Reduction collectively, the “**Capital Reduction**”);
 - (c) the credit amount arising from the Issued Capital Reduction be transferred to the contributed surplus account of the Company, and the Directors be authorised to utilise any credit balance in the contributed surplus account in

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accordance with the Bye-laws of the Company and all applicable laws (including the application of such credit balance to set off against accumulated losses of the Company); and

- (d) the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable, or expedient in connection with the implementation of the Share Consolidation and the Capital Reduction (collectively, the “**Capital Reorganisation**”).

ORDINARY RESOLUTION

- 2. “**THAT** subject to the passing of the Special Resolution numbered 1 above and subject to and conditional upon the obligations of Kingston Securities Limited (the “**Underwriter**”) under the underwriting agreement dated 8 September 2008 (the “**Underwriting Agreement**”) as amended and supplemented by the supplemental agreement dated 17 September 2008 (the “**Supplemental Underwriting Agreement**”) between the Company and the Underwriter (a copy of the Underwriting Agreement and the Supplemental Underwriting Agreement have been tabled at the meeting and marked “A” and “B” respectively and initialed by the chairman of the meeting for the purpose of identification) becoming unconditional:
 - (a) the terms of the Underwriting Agreement and the Supplemental Underwriting Agreement and the transactions contemplated thereunder be and are hereby confirmed, approved and/or ratified;
 - (b) the issue by way of rights of not less than 459,464,456 and not more than 478,406,632 New Shares (the “**Right Shares**”) of HK\$0.01 each in the share capital of the Company pursuant to an offer by way of rights to holders of Shares in the Company (the “**Shareholders**”) at the subscription price of HK\$0.08 per Rights Share (the “**Right Issue**”) in the proportion of four (4) Right Shares for every one (1) New Shares held by the Shareholders whose names appear on the register of members of the Company on 31 October 2008 (the “**Record Date**”) other than those Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong on the Record Date and whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, on and subject to the terms and conditions set out in the circular to the Shareholders dated 8 October 2008 (the “**Circular**”) and on such other terms and conditions as may be determined by the Directors be and is hereby approved; and
 - (c) the Directors be and are hereby authorized to issue and allot the Rights Shares on terms as set out in the Circular and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate,

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desirable or expedient to give effect to or in connection with the Rights Issue, the Underwriting Agreement, the Supplemental Underwriting Agreement or any of the transactions contemplated thereunder.”

By Order of the Board
Climax International Company Limited
Chan Hoi Ling
Chairman

Hong Kong, 8 October 2008

Notes:

1. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend in his/her stead.
2. The proxy form and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of authority shall be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Delivery of any instrument of proxy shall not preclude a member from attending and voting in person at the SGM and in such event, the instrument of proxy shall be deemed to be revoked.
3. Where there are joint holders of any share, any one of such holders may vote at the SGM, either in person or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one of such joint holders is present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the name stands first on the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
4. The proxy form must be signed by the appointer or by his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other persons authorised to sign the same.