英發

CLIMAX INTERNATIONAL CO. LTD.

Incorporated in Bermuda with limited liability

2005-06

Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

KAN Shiu Cheong, Frederick *(Chairman)*
CHAN Hoi Lam
YAU Kang Nam
JIANG Hai Qing

Independent Non-executive Directors

NG Sui Keung
LAI Kin Keung
YUEH Yung Hsin

COMPANY SECRETARY

TONG Man Ching, Cherry

AUDIT COMMITTEE

NG Sui Keung
LAI Kin Keung
YUEH Yung Hsin

REMUNERATION COMMITTEE

KAN Shiu Cheong, Frederick
CHAN Hoi Lam
NG Sui Keung
LAI Kin Keung
YUEH Yung Hsin

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

26/F., Metropole Square
2 On Yiu Street
Siu Lek Yuen, Shatin
New Territories
Hong Kong

Tel: (852) 2210 0100
Fax: (852) 2664 3057
E-mail: info@climax-intl.com
Website: www.climax-intl.com

REGISTRARS

Hong Kong

Secretaries Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SOLICITORS

Richards Butler
Anthony Chiang & Partners

PRINCIPAL BANKERS

Standard Chartered Bank
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited

The board of directors (the "Directors") of Climax International Company Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th September,	
	NOTES	**2005** **HK$'000** **(Unaudited)**	2004 HK$'000 (Unaudited)
Turnover	*3*	**166,782**	195,374
Cost of sales		**(140,623)**	(160,367)
Gross profit		**26,159**	35,007
Other operating income		**2,036**	2,045
Distribution costs		**(8,176)**	(7,394)
Administrative expenses		**(20,775)**	(20,100)
(Loss) profit from operations	*4*	**(756)**	9,558
Finance costs		**(2,412)**	(1,465)
(Loss) profit for the period attributable to shareholders of the Company		**(3,168)**	8,093
(Loss) earnings per share	*6*		
– Basic		**(HK0.08 cent)**	HK0.21 cent
– Diluted		**N/A**	HK0.20 cent
Interim dividend	*7*	**–**	–

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	At 30th September, 2005 HK$'000 (Unaudited)	At 31st March, 2005 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**67,972**	69,477
Prepaid rentals		**29,669**	30,789
		97,641	100,266
Current assets			
Inventories		**75,278**	61,267
Debtors, deposits and prepayments	9	**47,633**	52,380
Amount due from a related company		**5,760**	9,200
Bank balances and cash		**6,654**	5,573
		135,325	128,420
Current liabilities			
Creditors and accrued charges	10	**47,700**	44,346
Bills payable		**2,808**	2,582
Obligations under finance leases			
– amount due within one year	11	**10,893**	11,480
Bank borrowings – amount due within one year	12	**46,018**	36,930
		107,419	95,338
Net current assets		**27,906**	33,082
Total assets less current liabilities		**125,547**	133,348
Non-current liabilities			
Obligations under finance leases			
– amount due after one year	11	**12,604**	16,349
Bank borrowings – amount due after one year	12	**826**	3,328
		13,430	19,677
Net assets		**112,117**	113,671
CAPITAL AND RESERVES			
Share capital	13	**39,540**	39,416
Reserves		**72,576**	74,254
Equity attributable to shareholders of the Company		**112,116**	113,670
Minority interests		**1**	1
Total equity		**112,117**	113,671

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Capital surplus HK$'000	Contributed reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interest HK$'000	Total HK$'000
At 1st April, 2004	39,015	569	–	(819)	17,900	47,297	5,487	109,449	1	109,450
Issue of new shares upon exercise of share options	327	211	–	–	–	–	–	538	–	538
Profit for the period	–	–	–	–	–	–	8,093	8,093	–	8,093
At 30th September, 2004	39,342	780	–	(819)	17,900	47,297	13,580	118,080	1	118,081
Issue of new shares upon exercise of share options	74	59	–	–	–	–	–	133	–	133
Loss for the period	–	–	–	–	–	–	(4,543)	(4,543)	–	(4,543)
At 31st March, 2005	39,416	839	–	(819)	17,900	47,297	9,037	113,670	1	113,671
Issue of new shares upon exercise of share options	124	99	–	–	–	–	–	223	–	223
Recognition of equity-settled share based payments	–	–	1,391	–	–	–	–	1,391	–	1,391
Loss for the period	–	–	–	–	–	–	(3,168)	(3,168)	–	(3,168)
At 30th September, 2005	39,540	938	1,391	(819)	17,900	47,297	5,869	112,116	1	112,117

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th September, 2005 HK$'000 (Unaudited)	2004 HK$'000 (Audited)
Net cash generated from operating activities	**952**	18,030
Net cash generated from (used in) investing activities	**1,612**	(6,495)
Net cash used in financing activities		
Net cash inflow from trust receipt, import loans and export loans	**5,715**	4,951
Principal repayment for obligations under finance leases	**(5,880)**	(5,094)
Interest on bank borrowings paid	**(1,667)**	(805)
Finance leases charges paid	**(745)**	(545)
Issue of shares for cash upon exercise of share options	**223**	538
Repayments of bank loans	**(2,502)**	(21,308)
	(4,856)	(22,263)
Net decrease in cash and cash equivalents	**(2,292)**	(10,728)
Cash and cash equivalents at beginning of the period	**(3,032)**	10,469
Cash and cash equivalents at end of the period	**(5,324)**	(259)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**6,654**	7,351
Bank overdrafts	**(11,978)**	(7,610)
	(5,324)	(259)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2005 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions.

The adoption of HKFRS 2 has an impact on the results of the Group for accounting periods beginning on 1st April, 2005. An adjustment of HK$1,391,000 (nil for the six months ended 30th September, 2004) representing the estimated fair value of share options granted during the six months ended 30th September, 2005 was charged to loss for the period (increase in administrative expenses), with a corresponding credit to the share option reserve.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit and loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets that the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group's bill receivables with full recourse which were derecognised prior to 1st April, 2005 have not been restated. The Group has no bill receivables with full recourse as at 30th September, 2005. This change has had no material effect on the results for the current period.

Potential impact arising on the new accounting standards not yet effective

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

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments – Disclosures
HK (IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK (IFRIC) – Int 5	Rights to interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. TURNOVER AND SEGMENT INFORMATION

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods manufactured or service rendered:

	Turnover		Segment results	
	Six months ended 30th September,			
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
United States of America	**96,079**	110,180	**1,115**	7,123
Europe	**41,889**	51,923	**486**	3,357
Asia-Pacific (excluding Hong Kong)	**21,464**	24,092	**249**	1,558
Hong Kong	**2,951**	2,336	**34**	151
Others	**4,399**	6,843	**51**	442
	166,782	195,374	**1,935**	12,631
Unallocated corporate expenses			**(2,709)**	(3,080)
Interest income			**18**	7
(Loss) profit from operations			**(756)**	9,558
Finance costs			**(2,412)**	(1,465)
(Loss) profit for the period			**(3,168)**	8,093

As more than 90% of the Group's turnover and segment results are attributable to the OEM paper products manufacturing, the business segment information is not presented.

The Group was organised into the OEM paper products manufacturing and house brand and agency products in the prior period. As the house brand and agency products no longer falls within the definition of a reportable segment and the directors of the Company consider that the house brand and agency products segment is continuously scaling down, accordingly, no comparative segment information is presented.

4. (LOSS) PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
(Loss) profit from operations has been arrived at after charging:		
Amortisation of prepaid rentals	**1,120**	1,120
Depreciation and amortisation of property, plant and equipment	**4,923**	5,708
Loss on disposal of property, plant and equipment	**3**	–
and after crediting:		
Interest income	**18**	7
Gain on disposal of property, plant and equipment	**–**	50

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group incurred tax losses in the current period.

No provision for Hong Kong Profits Tax has been made in the condensed financial statements in prior period as the estimated assessable profit of the Group was wholly absorbed by tax losses brought forward from previous years.

No deferred tax asset has been recognised relating to tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30th September, 2005 and 2004 is computed based on the following data:

	Six months ended 30th September,	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
(Loss) earnings:		
(Loss) profit for the period attributable to shareholders of the Company and (loss) earnings for the purposes of basic and diluted earnings per share	**(3,168)**	8,093
	'000	'000
Number of shares:		
Weighted average number of shares for the purpose of basic (loss) earnings per share	**3,950,658**	3,918,903
Effect of dilutive potential shares: Share options	**N/A**	32,537
Weighted average number of shares for the purpose of diluted (loss) earnings per share		3,951,440

No diluted loss per share has been presented for the six months ended 30th September, 2005 as the exercise of the Company's outstanding share options would reduce the loss per share for the period.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2005 (Nil for the six months ended 30th September, 2004).

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30th September, 2005, the Group spent approximately HK$3,422,000 (HK$18,587,000 for the six months ended 30th September, 2004) for the acquisition of property, plant and equipment to expand its operations.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30th September, 2005, the balance of debtors, deposits and prepayments included trade debtors of HK$28,432,000 (HK$32,902,000 at 31st March, 2005). The aged analysis of trade debtors at the reporting date is as follows:

	30th September, 2005 HK$'000 (Unaudited)	31st March, 2005 HK$'000 (Audited)
0 – 30 days	**21,543**	30,642
31 – 60 days	**3,945**	694
61 – 90 days	**1,858**	597
91 – 120 days	**270**	435
Over 120 days	**816**	534
	28,432	32,902

The Group allows an average credit period of 35 days (35 days for the year ended 31st March, 2005) to its trade customers.

10. CREDITORS AND ACCRUED CHARGES

At 30th September, 2005, the balance of creditors and accrued charges included trade creditors of HK$30,448,000 (HK$29,627,000 at 31st March, 2005). The aged analysis of trade creditors at the reporting date is as follows:

	30th September, 2005 HK$'000 (Unaudited)	31st March, 2005 HK$'000 (Audited)
0 – 30 days	**19,341**	20,896
31 – 60 days	**4,599**	2,354
61 – 90 days	**3,377**	1,853
91 – 120 days	**1,963**	1,666
Over 120 days	**1,168**	2,858
	30,448	29,627

11. OBLIGATIONS UNDER FINANCE LEASES

For the six months ended 30th September, 2005, the Group entered into finance lease arrangements in respect of property, plant and equipment amounting to approximately HK$1,548,000 (HK$11,920,000 for the six months ended 30th September, 2004).

12. BANK BORROWINGS

	THE GROUP	
	30th September, 2005 HK$'000 (Unaudited)	31st March, 2005 HK$'000 (Audited)
Export loans	**6,190**	6,468
Trust receipts and import loans	**22,846**	16,853
Short term bank loans	**5,004**	5,004
Long term bank loans	**826**	3,328
Bank overdrafts	**11,978**	8,605
	46,844	40,258
Less: Amount due within one year shown under current liabilities	**(46,018)**	(36,930)
Amount due after one year	**826**	3,328

The bank borrowings are unsecured.

13. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1st April, 2005	3,941,590,071	39,416
Issue of new shares upon exercise of share options	12,400,000	124
At 30th September, 2005	3,953,990,971	39,540

14. CAPITAL COMMITMENTS

	30th September, 2005 HK$'000 (Unaudited)	31st March, 2005 HK$'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**6,703**	1,088

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

The Group experienced a difficult moment during the past months. Procurement pattern has changed, albeit gradual improvement in US economy stimulated by local stock and property market. Customers were reluctant to bear the risk of inventory storage. Instead of following well-developed practice of advance confirmation of bulk orders long before peak season, customers tended to defer sales decision and placed tiny orders with extremely short even unreasonable delivery lead time. The situation was worsened by increasing sensitivity to price and complication in product design. The latter had caused the Group to put extra efforts and resources in searching for suitable materials at a higher cost. European market was not an exception. Sluggish economy reduced customers' intention on expenditure.

Although the macro environment was full of thistles and thorns, the Group tried its best effort to find ways of reducing the impact. The Group followed its predetermined strategy of concentration on high-margin orders. It had intentionally dropped from portfolio customers with low-margin orders and unsatisfactory payment record. Sales force had put much effort to explore profitable market and customer. Turnover was therefore reduced by 15% to HK$166.8 million for the period. Despite upsurge in raw material prices albeit moderate over the past few months, the Group had reduced the impact by sourcing materials smartly in terms of cost control while keeping quality the same. Even though Mainland China minimum wage increased by over 20% during the period, the Group's labour costs was reduced by 5% instead after the streamline measure came into effect. Gross margin was thus reduced by 2% only. The Group minimized the loss to HK$3.2 million for the period (2004: net profit of HK$8.1 million).

FINANCIAL AND CAPITAL RESOURCES

The Group shareholders' equity was approximately HK$112.1 million, representing a level comparable with past fiscal year end. The continual rise in raw material prices over the period increased trade finance debt level. Working capital was reduced to approximately HK$27.9 million. Moreover, Hong Kong prime rate had risen by 1.75% over the past six months and HIBOR showed an overall rising trend also. The Group's debt-to-equity ratio was inevitably affected. Gearing ratio which was arrived by dividing the Group's total interest bearing debt over its net asset value increased to 63% as at the balance sheet date. Interest cost increased by 65% to HK$2.4 million.

The Group's banking facilities are all dominated in Hong Kong dollars with interest charged at certain percentage over the HIBOR or Hong Kong prime rate. The Group pledges no assets to banks for the facilities, except for certain machinery financed by medium term finance leases. The Group is always cautious in negotiation and inception of new facilities at the best interest of shareholders.

As all borrowings are in Hong Kong dollars and the Group's businesses are carried out mainly in Hong Kong dollars and US dollars, foreign exchange risk is relatively low under the currency peg of Hong Kong dollar with US dollar.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

Reinforcement of workforce slimming came into effect in this interim period. The Group employed around 2,100 employees as at the balance sheet date, representing a 14% reduction. Hong Kong office employed 68 staff while our mainland factories employed about 2,000 workers and staff. Being a responsible management, certain directors had waived monthly payroll starting from July 2005 and pledged their remuneration with the performance of the Group as company in distress made sorrows less. The two measurements resulted in a remarkable reduction in staff costs by 8% despite increase in Mainland China minimum wage.

The Group always follows a quality approach in recruitment, believing quality employees can enhance staff proficiency. The Group provides competitive remuneration packages to employees with attractive discretionary bonus payable to those with outstanding performance and contribution.

CONTINGENT LIABILITIES

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

OUTLOOK

The industry is experiencing the most difficult moment. Market is full of uncertainties. Room for pricing negotiation diminishes. This inevitably affects the performance of the Group. Beside the United States and Europe, the Group is going to explore opportunities in developing markets having the characteristics of high margin. To avoid cut throat competition, the Group will also focus on niche market. The Group will search for synergistic expansion which can bring along additional profit stream in the long run. Despite potential inflation in Renminbi and inflation in Hong Kong aggravate the burden, the Group has reviewed its costing structure and is going to formulate measures to minimize production and administration costs. With the forth factory comes into full operation shortly, the Group is able to benefit from its nearby location with the existing factories and reduce operating costs significantly. Management believes the Group will bottom out in next financial year.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30th September, 2005, the Directors had the following interests in the shares and underlying shares of the Company, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"):

		Number of shares/underlying shares held			
Name of Director	Nature of Interest	Beneficial interest in shares	Beneficial interest in underlying shares *(Note)*	Total interests	Aggregate percentage of the issued share capital
Kan Shiu Cheong, Frederick	Personal	180,774,321	39,500,000	220,274,321	5.57%
Chan Hoi Lam	Personal	85,888,321	67,500,000	153,388,321	3.88%
Yau Kang Nam	Personal	34,000,000	–	34,000,000	0.86%
Jiang Hai Qing	Personal	–	10,000,000	10,000,000	0.25%

Note : These represent the options granted pursuant to the share option scheme adopted by the Company on 29th August, 2002. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

Save as disclosed above, as at 30th September, 2005, 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 for Securities Transactions by Directors of Listed Companies (the "Model Code") or which are required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30th September, 2005, the following person (other than Directors) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity	Direct interest in shares held	Percentage of the issued share capital
First Century Holdings Limited	Beneficial Owner	2,058,869,889	52.07%

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

Save as disclosed above, as at 30th September, 2005, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

On 29th 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 1st September, 2001. During the period, no options granted under the Scheme were cancelled or lapsed.

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

Name or category of participant	Date of grant (Notes 1 & 2)	Exercise period (Note 1)	Exercise price per share HK$	Number of options: Outstanding at 1.4.2005	Granted during the period	Exercised during the period	Outstanding at 30.9.2005	Weighted average closing price (Note 3) HK$
Directors								
Kan Shiu Cheong, Frederick	20.9.2005	20.9.2005-19.9.2008	0.0274	–	39,500,000	–	39,500,000	–
Chan Hoi Lam	3.4.2003	3.4.2003-2.4.2006	0.0180	28,000,000	–	–	28,000,000	–
	20.9.2005	20.9.2005-19.9.2008	0.0274	–	39,500,000	–	39,500,000	–
Yau Kang Nam	3.4.2003	3.4.2003-2.4.2006	0.0180	6,000,000	–	(6,000,000)	–	0.044
Jiang Hai Qing	3.4.2003	3.4.2003-2.4.2006	0.0180	10,000,000	–	–	10,000,000	–
				44,000,000	79,000,000	(6,000,000)	117,000,000	
Employees								
In aggregate	3.4.2003	3.4.2003-2.4.2006	0.0180	26,900,000	–	(6,400,000)	20,500,000	0.033
	26.4.2005	26.4.2005-25.4.2008	0.0362	–	39,000,000	–	39,000,000	–
				26,900,000	39,000,000	(6,400,000)	59,500,000	
Total				70,900,000	118,000,000	(12,400,000)	176,500,000	

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.

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

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30th September, 2005, except for the following deviations:

Code Provision A.1.7

This code provision stipulates that there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the issuer's expense.

To comply with this code provision, the Board has established in December 2005 a procedure to enable its Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Code Provision A.2.1

This code provision stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Chairman of the Company is Mr. Kan Shiu Cheong, Frederick and the CEO of the Company is Mr. Chan Hoi Lam, who is also an Executive Director of the Company. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board in December 2005.

Code Provision A.4.1 and A.4.2

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company had no fixed term of office prior to September 2005, but are subject to retirement by rotation pursuant to the Bye-laws of the Company. To fully comply with the code provision A.4.1, the term of office of all the Non-Executive Directors of the Company was fixed in September 2005, but subject to the relevant provisions of the Bye-laws of the Company or other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders of the Company at its annual general meeting held on 29th July, 2005.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices *(Continued)*

Code Provision A.5.4

This code provision stipulates that, inter alia, the Board should establish written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules for relevant employees in respect of their dealings in the securities of the issuer.

To comply with this code provision, the Company has established in December 2005 written guidelines for relevant employees in respect of their dealings in the securities of the Company.

Code Provision B.1.4

This code provision stipulates that the remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.

To comply with this code provision, the terms of reference of the remuneration committee have been placed on the Company's website in December 2005.

Code Provision C.3.3 and C.3.4

Code provision C.3.3 stipulates that the terms of reference of the audit committee should include at least the duties set out therein, and code provision C.3.4 stipulates that the audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.

To comply with these code provisions, the terms of reference of the audit committee have been revised and placed on the Company's website in December 2005.

Code Provision D.1.2

This code provision stipulates that an issuer should formalise the functions reserved to the board and those delegated to management and should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.

The respective functions of the Board and management of the Company have been formalised and set out in writing, which were approved by the Board in December 2005. The Board will review the same once a year.

Code of Conduct regarding Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the period under review.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30th September, 2005 has been reviewed by the Audit Committee of the Company and the auditors, Deloitte Touche Tohmatsu.

By Order of the Board
Kan Shiu Cheong, Frederick
Chairman

Hong Kong, 9th December, 2005