ANNUAL REPORT 2007

2007

CLIMAX INTERNATIONAL COMPANY LIMITED

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

KAN Shiu Cheong, Frederick *(Chairman)*
CHAN Hoi Lam *(Chief Executive Officer)*
YAU Kang Nam
JIANG Hai Qing
WONG Hin Shek
CHAN Siu Mun
LO Miu Sheung, Betty

Non-executive Directors

TSE On Po, Vincent
TSE On Kin

Independent Non-executive Directors

NG Sui Keung
LAI Kin Keung
YUEH Yung Hsin
WONG Yun Kuen
CHAN Hoi Ling

COMPANY SECRETARY

CHU Kiu Fat

AUDIT COMMITTEE

YUEH Yung Hsin *(Chairman)*
NG Sui Keung
LAI Kin Keung

REMUNERATION COMMITTEE

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

AUDITORS

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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REGISTRARS

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Tricor Secretaries Limited
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28 Queen's Road East
Hong Kong

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SOLICITORS

Hastings & Co.
Anthony Chiang & Partners

PRINCIPAL BANKERS

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

STOCK CODE

439

REVIEW

The Group continued to encounter fierce market competition during the year under review. With the rising production costs, profit margin of the Group was further tapered.

Facing the stringent conditions, the Group has formulated a number of measures to strengthen profitability and also our ability to create value for our shareholders. In order to improve overall efficiency of the Group's production facilities and to reduce production overhead costs, the Group decided to cease all manufacturing operations in its Shenzhen factory in the third quarter of the financial year with all production lines relocated to the Group's two nearby factories in Changan, Dongguan. Although the decision has resulted in additional one-off costs including the write-off of materials and equipment, redundancy of labors and relocation of facilities, we consider the move beneficial to the future prospect of the Group as a whole.

In addition to streamlining operating procedures, the Group will strive to further enhance value-added activities, redesign products and develop new product lines so as to minimize production and administration costs.

Furthermore, with an ultimate goal to strengthen the Group's financial position, we target to further enhance our capital base, diversify investment on projects with high profit making potential, sustain our growth momentum and also broaden revenue stream of the Group.

ACKNOWLEDGEMENTS

I would like to take this opportunity to deliver my most sincere gratitude to the board of directors, the management team and all staff, for their devoted commitments in fostering the Group into one of the leading market players.

On behalf of the Group, I would also like to dedicate my special thanks to our shareholders, bankers, investors, vendors and customers for their enduring trusts and supports. We will focus on creating greater values for our customers with the provision of high quality products and services while also target at creating values for our shareholders through taking proactive business initiatives.

Kan Shiu Cheong, Frederick
Chairman

Hong Kong, 19 December 2007

CEO Statement

The financial year under review has been a tough year for the Group. A number of unfavorable factors emerging from the macro-economic environment and the highly competitive market affected the Group's overall performance, especially in the second half of the year.

SALES PERFORMANCE

During the year, the Group has successfully diversified its customer base to include a wider spectrum of customers. This strategically planned move has helped minimize seasonal impact and thus sustain sales turnover and growth.

Besides broadening customer base, the Group has also recently diversified to include book printing business utilizing its printing facilities. This new business successfully mitigates the impact of peak and off-peak seasonality as the Group can now utilize existing production facilities for book printing at low seasons.

With an ultimate goal to further enhance sales performance, the Group targets at introducing more value-added activities, investing more resources on research and redesign of existing products and also developing new product lines in the near future.

PRODUCTION

In order to maximize efficiency of the Group's production facilities while minimizing production costs, all production lines at the Shenzhen factory has been relocated and reinstated to other existing factories in Dongguan. This adjustment allows the Group to enjoy benefits from the economies of scale although additional one-off costs were incurred from such relocation.

With an aim to ensure efficiency and safety standard of the Group's factories, factory audits are performed periodically. With the relocation of production lines and also improvements at various aspects within the existing factory facilities, factory audits of the year under review has obtained satisfactory results.

During the year, additional start-up costs were incurred for the Group's diversification into book printing business. The Group is in the opinion that such costs will be drastically reduced upon stabilization of this new operation.

The Group will continue to concentrate on reviewing and reinforcing its material and production control policies so as to minimize production yield losses and inventory levels.

RESOURCES EXPLORATIONS

The Group sees great potential from the global sourcing trend, which is getting more and more popular recently. With opportunities lying ahead, the Group will continue to actively seek for new business partners worldwide. While taking the Group to an international level, we will also focus on redesign of existing products so as to improve overall cost structure. The Group will also target at continual research and development of new product lines to fit the ever-changing market demands.

The Group will strive to enhance profit making capability with the paper products business by out-sourcing less value-added activities to third parties.

FUTURE PROSPECTS

The Group's manufacturing operation in the PRC has been facing challenges from keen market competition, unfavorable economic environment and also government policies. We expect such influences to prevail in the upcoming year. In view of the challenges, the Group will devote much effort in reducing overall production costs and developing new product lines so as to maintain and enhance its market position. The Group is currently actively developing new products with environmental-friendly paper, which will help improve profit margin in the long run. We are also exploring new business opportunities locally and globally to sustain growth of the Group as a whole.

With strong sentiment towards the Hong Kong stock market after the balance sheet date, several equity raising exercises were conducted, which have substantially strengthened the Group's capital base and financial position.

Chan Hoi Lam
Chief Executive Officer

Hong Kong, 19 December 2007

Management Discussion and Analysis

Performance Review

For the year ended 31 March 2007 ("2007"), the Group's turnover was HK$259 million, decreased by 3% as comparing with HK$267 million for the year ended 31 March 2006 ("2006"). Gross profit margin reduced to 7% (2006: 12%) with loss attributable to equity holders of the Company increased to HK$60 million (2006: HK$24 million loss).

With keen competition in the industry, 2007 was a challenging year to the Group, the bargaining power of customers was increasing by demanding for lower prices with more value-added services from the Group. On the contrary, the rise in raw material costs, the increase in minimum wages rate in the mainland China and the gradual appreciation of Renminbi put extra burden on material costs and manufacturing expenses of the Group.

Although the Group has diversified its customer base in book printing business to minimize the seasonal impact on the Group, additional start-up costs were incurred for the diversification. As the Company announced on 23 August 2006, the Group entered into an agreement to leaseback its factory premises in Shenzhen and accordingly ceased the Group's Shenzhen manufacturing operations. The production lines in Shenzhen have been relocated to the Group's factories in Dongguan since October 2006. In the course of the relocations, certain production operations were interrupted with extra one-off costs were incurred for factory premises refurbishment, labour redundancy, materials and equipment written off, sub-contracting and production lines relocation. All these extra costs negatively affected the Group's profit margin in 2007.

Outlook

The relocation of production lines were completed in July 2007. The management expected that production efficiency will be improved and fixed manufacturing costs will be reduced after the streamlining of operating procedures and the consolidation of production lines to the Group's two nearby factories in Dongguan. In addition to the savings in occupancy costs, the leaseback of Shenzhen factory will also bring extra stable rental income stream to the Group in the coming years.

It is foreseeable that the keen competition in the industry, the unfavourable economic environment and government policies for the Group's manufacturing operations in the mainland China will continue. The Group will take continuous efforts to enhance its value-added activities, redesign its existing products and develop new product lines in order to improve the Group's profitability. With strong sentiment of the Hong Kong stock market after the balance sheet date, the Company conducted several equity raising exercises, which have substantially strengthened the Group's capital base and financial position. The Group will continue to explore more new business opportunities to sustain its growth momentum and broaden its revenue stream.

Share Capital

During 2007, the share capital of the Company had the following changes:

On 7 April 2006, 31,500,000 ordinary shares of HK$0.01 each in the capital of the Company were issued for the exercises of share option by a director of the Company.

On 11 April 2006, the Company undertook a capital reorganization of consolidating every twenty shares of par value of HK$0.01 each in the issued ordinary share capital of the Company into one consolidation share (the "Consolidated Share") of par value of HK$0.20; and cancelling the paid up capital of each Consolidating Share in issue to the extent of HK$0.19 on the nominal value of HK$0.20 of each Consolidated Share so as to form one reorganized share of par value of HK$0.01 each.

On 26 July 2006, 39,000,000 ordinary shares of HK$0.01 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to placing of existing shares and subscription for new shares of the Company.

On 15 March 2007, 280,936,879 ordinary shares of HK$0.01 each in the capital of the Company were issued by way of an open offer on the basis of five open offer shares for every six existing shares held by the qualifying shareholders on the record date.

After the balance sheet date, the following equity raising exercises had been conducted:

On 26 April 2007, 33,000,000 ordinary shares of HK$0.01 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to placing of existing shares and subscription for new shares of the Company.

On 8 May 2007, 33,000,000 ordinary shares of HK$0.01 each in the capital of the Company were issued pursuant to placing and subscription agreements in relation to placing of existing shares and subscription for new shares of the Company.

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

Management Discussion and Analysis

As the Company announced on 6 June 2007, 24 August 2007 and 26 November 2007, the Company conditionally agreed to place, through Kingston Securities Limited (the "Placing Agent") on a best effort basis, a maximum of 273,600,000 ordinary shares of HK$0.01 each in the capital of the Company by two equal tranches. Completion of the tranche I placing took placed on 26 July 2007 that the Placing Agent has fully placed a total of 136,800,000 tranche I placing shares. Up to 24 November 2007, being the latest completion date of the tranche II placing, none of the tranche II placing shares have been placed by the Placing Agent, accordingly, the tranche II placing has expired and ceased after 24 November 2007.

Liquidity and Financial Resources

As at 31 March 2007, the Group shareholders' equity was HK$87 million (2006: HK$110 million), the current assets and current liabilities of the Group amounted to HK$130 million (2006: HK$133 million) and HK$132 million (2006: HK$117 million) respectively. The Group's working capital turned to HK$3 million net current liabilities (2006: HK$16 million net current assets).

During 2007, the Group recorded cash generated from operations of HK$2 million (2006: HK$17 million cash outflow) and the gearing ratio as of 31 March 2007, defined as the percentage of total interest bearing debt to net asset value, was 75% (2006: 66%).

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

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

Investment Position and Planning

During 2007, the Group spent approximately HK$16 million (2006: HK$5 million) for the acquisition of property, plant and equipment to diversify the Group's operations.

In August 2006, the Group entered into an agreement to leaseback its factory premises in Shenzhen to the lessor of the factory premises. The leaseback will accordingly generate a stable stream of cash inflow for the Group.

In 2006, the Group acquired 19% of the issued share capital of Vevion Hong Kong Limited ("Vevion") at a consideration of HK$9.5 million, a company engaged in the photo-finishing business, trading and sales of photographical and audio-visual products. During 2007, Vevion had issued further share capital while the Group had not subscribed for any new share capital in Vevion, accordingly, the Group's interest in Vevion was diluted to 8.26%. According to a valuation performed by a professional valuer, the fair value of the Group's interest in Vevion at the balance sheet date was reduced to HK$3.5 million.

The Group did not have any significant investment position in stocks, bonds and any other financial derivatives, and there are no acquisition or disposal of subsidiaries and associated company during 2007.

Charges on the Group's Assets and Contingent Liabilities

As at 31 March 2007, approximately 56% (2006: 56%) of the Group's property, plant and equipment were pledged to financial institutions to secure the Group's obligation under finance leases.

As at 31 March 2007, the Group had no significant contingent liabilities (31 March 2006: Nil).

Employees

As at 31 March 2007, the Group had 1,451 employees, with 49 staff in Hong Kong and 1,402 staff and workers in the Group's factories in mainland China. The Group provides competitive remuneration packages to employees with attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. KAN Shiu Cheong, Frederick, aged 59, joined the Group in January 2001. He is the Chairman of the Group and is responsible for the overall strategic planning of the Group. Mr. Kan is a merchant with over 30 years of experience particularly in the area of manufacturing of electrical appliances.

Mr. CHAN Hoi Lam, aged 44, joined the Group in January 2001. He is the Chief Executive Officer of the Group and is responsible for the Group's overall operation and to execute the strategies formulated by the Board. 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. YAU Kang Nam, aged 44, joined the Group in June 2001. He is responsible for the Group's manufacturing and plant operations. He holds a Bachelor of Science Degree in Industrial Engineering from the University of Hong Kong and also a Master of Science Degree in Engineering Management from the City University of Hong Kong. He has over 20 years of experience in manufacturing and plant operations.

Mr. JIANG Hai Qing, aged 52, joined the Group in September 2004. He is responsible for the strategic planning of the Group. He holds a Bachelor's Degree in Mechanical Engineering from the Shanghai No. 2 Polytechnic University and has over 10 years of experience in sales and marketing.

Mr. WONG Hin Shek, aged 37, joined the Group in June 2007. He has over 13 years of experience in corporate finance, including mergers and acquisitions, initial public offerings and equity syndication. Before joining the Company, he worked in a number of reputable investment banks. Mr. Wong holds 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 Starbow Holdings Limited (currently known as Hong Kong Health Check and Laboratory Holdings Company Limited) from March 2005 to March 2006.

Ms. CHAN Siu Mun, aged 33, joined the Group in June 2007. She has 10 years of experience in auditing, accounting and financial management. Before joining the Company, she worked in an international professional audit firm and a number of listed companies. Ms. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants. Ms. Chan holds a Bachelor of Business Administration (Accounting and Finance) degree from the University of Hong Kong.

Ms. LO Miu Sheung, Betty, aged 45, joined the Group in June 2007. She graduated from the University of Hong Kong with a Bachelor degree in Laws (LL.B). Ms. Lo is a qualified solicitor in Hong Kong and has over 18 years of experience in general legal practice. Ms. Lo is currently an independent non-executive director of Golden Resorts Group Limited and Kong Sun Holdings Limited. Ms. Lo was an independent non-executive director of Hua Yi Copper Holdings Limited but resigned on 30 November 2005.

NON-EXECUTIVE DIRECTORS

Mr. TSE On Po, Vincent, aged 52, joined the Group in September 2007. He has over 30 years in commercial insurance field and over 7 years in management of private equity funds and was an independent non-executive director of New Times Group Holdings Limited from December 2005 to October 2006. Mr. Tse is a member of "The Hong Kong Federation of Insurers" 香港保險業聯會會員. He is the elder brother of Mr. Tse On Kin.

Mr. TSE On Kin, aged 45, joined the Group in September 2007. He has over 19 years of experience in corporate planning, operation, human resources and new markets development. Mr. Tse has a Bachelor Degree in Public Policy and Administration from York University in Canada. Mr. Tse is currently the chairman of New Times Group Holdings Limited, the chairman of Kong Sun Holdings limited and a non-executive director of China Sciences Conservational Power Limited. Mr. Tse was also the former chairman of China Sciences Conservational Power Limited from March 2006 to March 2007, an executive director of Mexan Limited from March 2005 to July 2007, an executive director of China National Resources Development Holdings Limited from April 2004 to August 2005 and the vice-chairman and chief executive officer of Great Wall Cybertech Limited from August 2001 to September 2006. He is the younger brother of Mr. Tse On Po, Vincent.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Sui Keung, aged 52, joined the Group in April 2001. He holds a Bachelor of Science Degree in Civil Engineering from the University of Calgary, Canada. He is also the Chairman of Judea Construction Co. Ltd. ("JCCL") and Sui Chong Construction & Engineering Co., Ltd. ("SCCL"). JCCL and SCCL were established in 1987 and 1999 respectively, both companies have been actively participated in various government and private building construction works. Mr. Ng is also a president of Chung Shak-Hei (Cheung Chau) Home For The Aged, Ltd and 深圳南山區政協委員.

Professor LAI Kin Keung, aged 56, joined the Group in September 2004. He received his PhD at Michigan State University, USA. He is currently the Chair Professor of Management Science, the Associate Dean and the undergraduate program director of the Faculty of Business, at the City University of Hong Kong. Professor Lai is a member of the Institute of Directors in Hong Kong. He is the Founding Chairman and currently the General Secretary of the Operational Research Society of Hong Kong and the President of the Asia Pacific Industrial Engineering and Management Association.

Board of Directors and Senior Management

Mr. YUEH Yung Hsin, aged 36, joined the Group in September 2005. He is a practising Certified Public Accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is currently the sole proprietor of Y.H. Yueh & Co. Prior to that he was the Internal Audit Manager of Vtech Holdings Limited.

Dr. WONG Yun Kuen, aged 49, 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 and a consultant at AIG Financial Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong was a consultant to a supercomputer firm on application software, and has participated in the development of e-commerce software and platforms. He is a member of Hong Kong Securities Institute. Dr. Wong is also an executive director of UBA Investments Limited, and independent non-executive director of Harmony Asset Limited, Grand Field Group Holdings Limited, Ultra Group Holdings Limited, Poly Investments Holdings Limited, Bauhaus International (Holdings) Limited, Golden Resorts Group Limited, Tak Shun Technology Group Limited and Kong Sun Holdings Limited. Dr. Wong was also a former independent non-executive director of Haywood Investment Limited from 8 June 1998 to 7 July 2005.

Ms. CHAN Hoi Ling, aged 33, joined the Group in June 2007. She graduated from the University of South Australia with a Bachelor degree in Accountancy. Ms. Chan 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.

SENIOR MANAGEMENT

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

Mr. Wong, aged 39, 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 52, 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.

Board of Directors and Senior Management

Mr. FENG Jian Nian – Plant Director and General Manager (Climax Paper Products Manufacturing (Dongguan) Co. Ltd.)

Mr. Feng, aged 54, is responsible for the manufacturing and plant operations of Climax Paper Products Manufacturing (Dongguan) Co. Ltd., the Group's wholly foreign-owned enterprise in Changan, Dongguan. He joined the Group in 1986 and has over 20 years of experience in paper products manufacturing industry.

Mr. CHU Kiu Fat – Financial Controller and Company Secretary

Mr. Chu, aged 40, joined the Group in September 2006 and has over 10 years of experience in financial management and corporate secretarial practice. He holds a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Mr. CHIU Wai Chung – Head of Human Resources

Mr. Chiu, aged 34, 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 and a Bachelor Degree in Chemistry. He is also a member of the Hong Kong Institute of Human Resource Management.

Ms. HUNG Siu Fung, Amy – Head of Administration

Ms. Hung, aged 44, joined the Group in September 1992. She is responsible for the administration of the Group in both Hong Kong and mainland China.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board of directors of the Company (the "Board") believes that effective corporate governance practices are essential to enhancing shareholders' value and safeguarding shareholders' interests.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "CG Code") during the year ended 31 March 2007, otherwise considered reasons are given below:

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Board has delegated the day-to-day responsibility to the management under the instruction/supervision of the Chief Executive Officer and various Board committees.

The composition of the Board during the year and up to the date of this report is set out as follows:

Executive Directors:	Mr. Kan Shiu Cheong, Frederick *(Chairman)*
	Mr. Chan Hoi Lam *(Chief Executive Officer)*
	Mr. Yau Kang Nam
	Mr. Jiang Hai Qing
	Mr. Wong Hin Shek (appointed on 18 June 2007)
	Ms. Chan Siu Mun (appointed on 18 June 2007)
	Ms. Lo Miu Sheung, Betty (appointed on 26 June 2007)
Non-executive Directors ("NEDs"):	Mr. Tse On Po, Vincent (appointed on 6 September 2007)
	Mr. Tse On Kin (appointed on 6 September 2007)
Independent Non-executive Directors ("INEDs"):	Mr. Ng Sui Keung
	Professor Lai Kin Keung
	Mr. Yueh Yung Hsin
	Dr. Wong Yun Kuen (appointed on 26 June 2007)
	Ms. Chan Hoi Ling (appointed on 26 June 2007)

Biographical details of the Directors are set out in the "Board of Directors and Senior Management" section on pages 10 to 13.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. During the year, seven Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors	
Mr. Kan Shiu Cheong, Frederick *(Chairman)*	7/7
Mr. Chan Hoi Lam *(Chief Executive Officer)*	7/7
Mr. Yau Kang Nam	7/7
Mr. Jiang Hai Qing	7/7
INEDs	
Mr. Ng Sui Keung	6/7
Professor Lai Kin Keung	7/7
Mr. Yueh Yung Hsin	7/7

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has specified the term of appointment for INEDs. None of the INEDs has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. Moreover, they are also subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company.

NOMINATION OF DIRECTORS

The Board has established and adopted a written nomination procedure (the “Nomination Procedure”) specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The executive Directors shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills, time commitment, etc), identify and recommend proposed candidate(s) to the Board for approval of an appointment.

The Board has not considered the appointment of any new members to the Board during the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer of the Company are separate to reinforce their respective independence and accountability. The Chairman of the Company is Mr. Kan Shiu Cheong, Frederick who is primarily responsible for the leadership of the Board, while the Chief Executive Officer of the Company is Mr. Chan Hoi Lam, who is responsible for the Group's overall operation and to execute the strategies formulated by the Board. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board.

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and Audit Committee. Each of which has its specific written terms of reference which are available on the Company's website.

Remuneration Committee

The Remuneration Committee was established in May 2002 and currently comprises five members. The Committee is chaired by the Chairman Mr. Kan Shiu Cheong, Frederick with an executive Director Mr. Chan Hoi Lam, and three INEDs, Mr. Ng Sui Keung, Professor Lai Kin Keung and Mr. Yueh Yung Hsin as members.

The major roles and functions of the Remuneration Committee are to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of the executive Directors and senior management.

During the year, the Remuneration Committee passed four written resolutions (which were signed by all members of the Committee) in considering and approving payment of discretionary bonuses to executive Directors and senior management and the remuneration package of the new members of senior management. No individual Director is involved in deciding his own remuneration.

The remuneration of Directors and senior management is determined with reference to the performance and profitability of the Group as well as the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

Audit Committee

The Audit Committee was established in July 1999 and currently comprises three INEDs. During the year, the Committee was chaired by Mr. Ng Sui Keung with Professor Lai Kin Keung and Mr. Yueh Yung Hsin as members.

The major roles and functions of the Audit Committee are to oversee the relationship with the external auditors, review the Group's interim and annual financial statements, monitor the Group's financial reporting practices and internal control systems.

During the year, two committee meetings were held and the attendance of each member is set out as follows:

	Number of Committee meetings attended/eligible to attend
Committee members	
Mr. Ng Sui Keung *(Chairman)*	2/2
Professor Lai Kin Keung	2/2
Mr. Yueh Yung Hsin	2/2

During the year, the Audit Committee discussed and reviewed the financial reporting matters including the interim and annual financial statements before submission to the Board, reviewed the findings and management letter points from the external auditors in relation to the interim review and final audit of the Group and discussed the non-audit services provided by the external auditors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the year.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibly to prepare, with the support from Accounting Department, the financial statements for each financial year which give a true and fair view. The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, makes judgments and estimates that are prudent, fair and reasonable and that all applicable accounting standards are followed. The Directors are also responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and takes reasonable steps for the prevention and detection of fraud and other irregularities.

EXTERNAL AUDITORS' REMUNERATION AND REPORTING RESPONSIBILITIES

For the year, the remuneration paid/payable to the Company's external auditors, Messrs. Deloitte Touche Tohmatsu (resigned on 20 August 2007) and SHINEWING (HK) CPA Limited (appointed on 22 November 2007), is set out as follows:

Services rendered for the Group	**Fee paid/payable**
	HK$'000
Audit services	2,490
Non-audit services (including taxation services, agreed upon procedure for preliminary announcement and connected transaction, profession services rendered in relation to open offer and review of interim results)	536
Total:	3,026

The statement of the Company's external auditors regarding their reporting responsibilities is set out in the Independent Auditors' Report on pages 29 to 30.

COMPLIANCE WITH THE CG CODE

The Company has fully complied with the applicable code provisions of the CG Code during the year with deviation from the second part of the Code provision E.1.2 of the CG Code.

Under the code provision E.1.2 of the CG Code, the chairman of the Board, should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. Mr. Kan Shiu Cheong, Frederick, the Chairman of the Board is the Chairman of the Remuneration Committee, has attended and arranged for the Chairman and other members of the Audit Committee, to attend the annual general meeting of the Company held on 29 August 2007 but they were unable to attend due to other business engagements.

INTERNAL CONTROLS

The Board is committed to implementing a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets.

During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

The Audit Committee has also engaged an independent consultant (the "Independent Consultant") to investigate a query raised by the former auditors of the Company with the Audit Committee as stated in the announcement of the Company in respect of the change of auditors dated 27 August 2007 and to review the cash payment procedures, purchase and expense cycle as well as treasury payment cycle of the Group.

In the reports to the Audit Committee, the Independent Consultant recommended that:

1. no payments are approved or made without appropriate supporting documentation;

2. cash payments made by the Group are kept to a minimum and only made upon receipt of appropriate supporting documentation;

3. improved or heightened approval processes be implemented for each cash payment;

4. details of cash payments by the Group be provided to the Audit Committee on a regular basis;

5. all purchase orders be subject to trilateral review and approval before being processed;

6. payments only be made after review by the assistant financial controller or assistant accounting manager;

7. payments not be processed before the dual approval by the department head and a director of the Company; and

8. the appointment of an internal auditor to monitor the internal controls of the Group on a regular basis.

The Board is implementing certain of the above recommendation to ensure a sound and effective internal control system is in place.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the Company's website.

Shareholders are encouraged to attend all general meetings of the Company, such as the annual general meeting for which at least 21 days' notice is given and at which the Chairman and Directors are available to answer questions on the Group's business.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any suggestions and recommendations from our shareholders are also welcome and will take into account in the ongoing enhancement of our transparency.

On behalf of the Board

Kan Shiu Cheong, Frederick
Chairman

Hong Kong, 19 December 2007

The directors of the Company (the "Directors") present their annual report and the audited financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 40% of the Group's total purchases. The largest supplier accounted for 11% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 50% of the Group's total sales. The largest customer accounted for 22% of the Group's total sales.

None of the Directors, their associates or any shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's issued share capital, has a beneficial interest in any of the Group's five largest suppliers or customers.

RESULTS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 31 and the accompanying notes to the consolidated financial statements.

FINANCIAL SUMMARY

A financial summary of the Group is set out on pages 73 to 74.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors during the year and up to the date of this report were:

Executive Directors:

KAN Shiu Cheong, Frederick, *Chairman*	
CHAN Hoi Lam, *Chief Executive Officer*	
YAU Kang Nam	
JIANG Hai Qing	
WONG Hin Shek	(appointed on 18 June 2007)
CHAN Siu Mun	(appointed on 18 June 2007)
LO Miu Sheung, Betty	(appointed on 26 June 2007)

Non-executive Directors:

TSE On Po, Vincent	(appointed on 6 September 2007)
TSE On Kin	(appointed on 6 September 2007)

Independent Non-executive Directors:

NG Sui Keung	
LAI Kin Keung	
YUEH Yung Hsin	
WONG Yun Kuen	(appointed on 26 June 2007)
CHAN Hoi Ling	(appointed on 26 June 2007)

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considers that all of the independent non-executive Directors are independent.

In accordance with Bye-law 86(2) of the Company, Messrs. Wong Hin Shek, Wong Yun Kuen, Tse On Po, Vincent, Tse On Kin and Madams Chan Siu Mun, Lo Miu Sheung, Betty, Chan Hoi Ling will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Ms. Lo Miu Sheung, Betty has informed the Company that she will retire at the forthcoming annual general meeting and does not offer herself re-election.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Ng Sui Keung will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. Messrs. Yau Kang Nam and Jiang Hai Qing have informed the Company that they will retire at the forthcoming annual general meeting and do not offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, 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 directors	**Nature of interest**	**Beneficial interest in shares** (Note 1)	**Beneficial interest in underlying shares** (Notes 1 & 2)	**Total interests**	**Aggregate percentage of the issued share capital**
Kan Shiu Cheong, Frederick	Personal	18,832,135	2,587,726	21,419,861	3.47%
Chan Hoi Lam	Personal	228,927,711	2,587,726	231,515,437	37.46%
Yau Kang Nam	Personal	2,622,710	–	2,622,710	0.42%

Notes:

1. The interests stated above represent long positions.

2. These include the interests of Directors in the underlying shares of the Company in respect of the share options granted to them pursuant to the share option scheme adopted by the Company on 29 August 2002. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

Save as disclosed above, as at 31 March 2007, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, the following persons (other than the Directors) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Direct interest in shares held	Percentage of the issued share capital
First Century Holdings Limited	Beneficial owner	102,943,494	16.66%
Ian Duncan Boyce	Beneficial owner	36,300,000	5.87%

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

Save as disclosed above, as at 31 March 2007, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme") which complies with the new requirements of Chapter 17 of the Listing Rules effective on 1 September 2001. During the year ended 31 March 2007, 34,312,500 options granted under the Scheme were lapsed.

Details of the movements in the options under the Scheme during the year were as follows:

						Number of share options						
Category or name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Previous exercise price per share HK$	Adjusted exercise price per share (Note 4) HK$	Adjusted exercise price per share (Note 5) HK$	Outstanding at 1.4.2006	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	Weighted average closing price (Note 3) HK$
Directors												
Kan Shiu Cheong, Frederick	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	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	0.5530	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.

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 year.

CONTINUING CONNECTED TRANSACTION

Pursuant to the supply agreement (the "Supply Agreement") dated 30 May 2006 entered into between Climax Paper Converters, Limited ("Climax Paper"), a wholly-owned subsidiary of the Company, as the seller with Easyfil (Hong Kong) Company Limited ("Easyfil HK") as the buyer relating to the ongoing supply and sales of notebooks, photo albums, gift items and other stationery to Easyfil HK, a wholly-owned subsidiary of Fullman Corporation Limited which in turn is wholly-owned by Mr. Chan Hoi Lam, the controlling shareholder and a director of the Company.

The term of the Supply Agreement is two years commencing on 1 April 2005 until 31 March 2007, subject to earlier express rights of termination. For the year ended 31 March 2007, Climax Paper received an aggregate consideration of approximately HK$876,000 which constitutes a continuing connected transaction but is exempted from the reporting, announcement and independent shareholders' approval in accordance with the Listing Rules. (De-minmis exemption from disclosure).

On 31 March 2007, Climax Paper entered into a supplemental agreement with Easyfil HK, pursuant to which the term of the Supply Agreement is extended to 31 March 2010.

As it is expected that the aggregate consideration for the paper products supplied to Easyfil HK, on an annual basis, is less than HK$1,000,000 and each of the relevant percentage ratios under the Listing Rules is less than 2.5%. Accordingly, the supply of paper products to Easyfil HK represents a continuing connected transaction but is exempted from the reporting, announcement and independent shareholders' approval under the Listing Rules.

On 27 April 2006, the Company entered into a rental agreement with Vevion Hong Kong Limited ("Vevion"), a related company of which Mr. Chan Hoi Lam has a controlling interest, for renting the office premises from Vevion for a term of seventy-two months commencing on 1 July 2006. During the year, the Company paid rent of approximately HK$267,000 to Vevion.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

CORPORATE GOVERNANCE

Principal corporate governance practice as adopted by the Company are set out in the Corporate Governance Report on pages 14 to 20.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 37 to the consolidated financial statements.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Company for past years, resigned, Messrs. SHINEWING (HK) CPA Limited were appointed to fill the casual vacancy.

The consolidated financial statements for the year have been audited by Messrs. SHINEWING (HK) CPA Limited, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

A resolution will be submitted to the annual general meeting to re-appoint Messrs, SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board

Kan Shiu Cheong, Frederick
Chairman

Hong Kong
19 December 2007

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF CLIMAX INTERNATIONAL COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Climax International Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 13 to 72, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidation financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidation financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity' s preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 March 2007 and of its loss and cash flows of the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practicing Certificate Number: P04798

Hong Kong
19 December 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**258,910**	267,176
Cost of sales		**(240,913)**	(234,313)
Gross profit		**17,997**	32,863
Other income	8	**10,176**	4,043
Distribution costs		**(16,127)**	(13,728)
Administrative expenses		**(59,903)**	(42,058)
Impairment loss recognised in respect of available-for-sale investments	17	**(6,000)**	–
Finance costs	9	**(5,854)**	(4,882)
Loss before taxation		**(59,711)**	(23,762)
Income tax expenses	12	**–**	–
Loss for the year attributable to equity holders of the Company	10	**(59,711)**	(23,762)
Loss per share – basic	14	**(HK17.72 cents)**	(HK$1.21)

Consolidated Balance Sheet

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**63,852**	64,689
Prepayment	16	**26,311**	28,550
Available-for-sale investments	17	**3,500**	9,500
		93,663	102,739
Current assets			
Inventories	18	**51,087**	74,916
Debtors, deposits and prepayments	19	**60,912**	50,576
Amount due from a related company	20	**–**	3,360
Bank balances and cash	21	**17,594**	4,541
		129,593	133,393
Current liabilities			
Creditors and accrued charges	22	**70,316**	48,095
Bills payable	23	**–**	692
Amounts due to directors	24	**1,130**	4,200
Obligations under finance leases – amount due within one year	25	**9,146**	9,117
Short-term bank borrowings	26	**51,904**	55,251
		132,496	117,355
Net current (liabilities) assets		**(2,903)**	16,038
Total assets less current liabilities		**90,760**	118,777
Non-current liability			
Obligations under finance leases – amount due after one year	25	**4,183**	8,440
		86,577	110,337
Capital and reserves			
Share capital	27	**6,180**	59,310
Reserves		**80,396**	51,026
Total equity attributable to equity holders of the Company		**86,576**	110,336
Minority interests		**1**	1
		86,577	110,337

The consolidated financial statements on pages 31 to 72 were approved and authorised for issue by the Board of Directors on 19 December 2007 and are signed on its behalf by:

Kan Shiu Cheong, Frederick	**Chan Hoi Lam**
DIRECTOR	*DIRECTOR*

Consolidated Statement Of Changes In Equity

For the year ended 31 March 2007

	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*
At 1 April 2005	39,416	839	(819)	-	17,900	47,297	9,037	113,670	1	113,671
Exchange differences on translation of foreign operations recognised directly in equity	-	-	377	-	-	-	-	377	-	377
Loss for the year	-	-	-	-	-	-	(23,762)	(23,762)	-	(23,762)
Total recognised expense for the year	-	-	377	-	-	-	(23,762)	(23,385)	-	(23,385)
Recognition of equity-settled share based payments	-	-	-	1,392	-	-	-	1,392	-	1,392
Issue of new shares upon exercise of share options	124	99	-	-	-	-	-	223	-	223
Rights issue of shares	19,770	-	-	-	-	-	-	19,770	-	19,770
Transaction costs attributable to issue of new shares	-	(1,334)	-	-	-	-	-	(1,334)	-	(1,334)
At 31 March 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 recognised expense 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
Transaction 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	6,180	31,464	135	1,392	17,900	103,941	(74,436)	86,576	1	86,577

The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992.

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 2007

	2007	2006
	HK$'000	*HK$'000*
Operating activities		
Loss for the year attributable to		
equity holders of the Company	**(59,711)**	(23,762)
Adjustments for:		
Release of non-current prepayment	**2,239**	2,239
Depreciation of property, plant and equipment	**9,692**	9,740
Impairment loss recognised in respect of		
available-for-sale investments	**6,000**	–
Interest income	**(97)**	(26)
Interest expenses	**5,854**	4,882
Net loss on disposal of property,		
plant and equipment	**3,485**	54
Allowance for inventories included in cost of sales	**4,131**	510
Share-based payment expense	**–**	1,392
Allowance for bad and doubtful debts	**3,557**	2,544
Recovery of bad and doubtful debts	**(1,241)**	–
Operating cash flow before		
movements in working capital	**(26,091)**	(2,427)
Decrease (increase) in inventories	**19,698**	(14,159)
Increase in debtors, deposits and prepayments	**(12,652)**	(2,063)
Increase in creditors and accrued charges	**22,221**	3,605
Decrease in bills payable	**(692)**	(1,890)
Cash generated from (used in) operations	**2,484**	(16,934)
Investing activities		
Interest received	**97**	26
Purchase of property, plant and equipment	**(10,308)**	(3,567)
Proceeds from disposal of property, plant and equipment	**4,050**	1,476
Acquisition of available-for-sale investments	**–**	(9,500)
Repayment from a related company	**3,360**	2,000
Proceeds from disposal of a subsidiary	**–**	3,840
Net cash used in investing activities	**(2,801)**	(5,725)

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007	2006
	HK$'000	*HK$'000*
Financing activities		
Net cash (outflow) inflow to trust receipt, import loans, export loans and discounted bills	**(3,369)**	15,964
Principal repayment for obligations under finance leases	**(10,212)**	(11,820)
Interest on bank borrowings paid	**(4,677)**	(3,302)
Finance leases charges paid	**(1,177)**	(1,436)
New bank loans raised	**5,000**	–
Repayment of bank loans	**(3,328)**	(5,004)
Issue of new shares for upon exercise of share options	**504**	223
Issue of new shares upon placing	**8,190**	–
Issue of new shares upon open offer	**28,093**	–
Transaction costs attributable to issue of new shares	**(1,413)**	(1,334)
(Repayment to) advances from directors	**(3,070)**	4,200
(Decrease) increase in bank overdrafts	**(1,650)**	4,033
Issue of shares for cash upon exercise of rights issue	**–**	19,770
Net cash from financing activities	**12,891**	21,294
Net increase (decrease) in cash and cash equivalents	**12,574**	(1,365)
Cash and cash equivalents at beginning of the year	**4,541**	5,573
Effect of foreign exchange rate changes	**479**	333
Cash and cash equivalents at end of the year, representing bank balances and cash	**17,594**	4,541

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENT

The consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of approximately HK$2,903,000 at 31 March 2007 as the Company has undergone several share placing arrangements subsequent to the balance sheet date, as set out in note 37, and consequently raised additional funds of approximately HK$76,643,000 in aggregate for financing the working capital of the Group. With such additional funds raised and the cash flow generated from the normal course of business of the Group, the directors are of the opinion that the Group will be able to meet its financial liabilities as they fall due for the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 April 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 23 (Revised)	Borrowing costs [2]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) – Interpretation ("INT") 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions [6]
HK(IFRIC) – INT 12	Service concession arrangements [7]
HK(IFRIC) – INT 13	Customer Loyalty Programmes [8]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [7]

[1] Effective for annual periods beginning on or after 1 January 2007.

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

[3] Effective for annual periods beginning on or after 1 May 2006.

[4] Effective for annual periods beginning on or after 1 June 2006.

[5] Effective for annual periods beginning on or after 1 November 2006.

[6] Effective for annual periods beginning on or after 1 March 2007.

[7] Effective for annual periods beginning on or after 1 January 2008.

[8] Effective for annual periods beginning on or after 1 July 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with 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). 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are 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 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 assets 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 loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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, and available-for-sale financial assets. 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.

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 debtors, deposits and prepayments, amount due from a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets 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 financial assets 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. Any impairment loss on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse is profit or loss in subsequent periods.

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. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

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 financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities, including creditors and accrued charges, bills payable and amounts due to directors, bank borrowings and obligations under finance leases are initially measured at fair value, net of transaction costs.

Other financial liabilities 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 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".

Share-based payments

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share based payments *(Continued)*

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).

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In process of applying the Group's accounting policies, which are described in note 3 above, management had made the following estimate that have significant effect on the amounts recognised in the consolidated financial statements.

Provision for trade debtors

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 debtors. 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 debtors 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 accumulated depreciation and amortisation and identified 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 exceeds 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$6,000,000 was recognized accordingly for the year ended 31 March 2007.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, deposits and prepayments, amount due from a related company bank balances and cash, creditors and accrued charges, bills payable, 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 2007 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 2007, trade debtors of HK$16,935,000 (2006: HK$12,760,000) 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.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Currency risk

Certain trade debtors and borrowings of the Group are denominated in foreign currencies. 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.

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans and variable rate obligation and finance lease.

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

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

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 fixed 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.

The directors have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK$2,903,000 at 31 March 2007. In order to minimize the liquidity risk, the directors have undergone several share placing arrangements subsequent to the balance sheet date and raised funds of approximately HK$76,643,000 in aggregate to finance the working capital of the Group.

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 returns and allowances.

Business segments

The Group's operation is regarded as a single business segment, being engaged in 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	
	2007	2006
	HK$'000	*HK$'000*
United States of America	**152,292**	139,110
Europe	**61,029**	74,489
Asia-Pacific (excluding Hong Kong)	**33,382**	39,376
Hong Kong	**3,322**	4,847
Others	**8,885**	9,354
	258,910	267,176

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

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 As at 31 March		Additions to property, plant and equipment Year ended 31 March	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**162,030**	185,282	**13,810**	4,847
Hong Kong	**36,864**	41,186	**2,482**	268
Others	**24,362**	9,664	**–**	–
	223,256	236,132	**16,292**	5,115

8. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Other income consisted of:		
Claims received	**120**	490
Recovery of bad debt	**1,241**	–
Gain on disposal of property, plant and equipment	**828**	–
Interest income	**97**	26
Rental income, gross	**1,166**	60
Scrap sales	**6,461**	2,861
Subcontracting income	**–**	35
Others	**263**	571
	10,176	4,043

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
– bank borrowings wholly repayable within five years	**4,677**	3,446
– obligations under finance leases	**1,177**	1,436
Total finance costs	**5,854**	4,882

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

	2007	2006
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company has been arrived at after charging:		
Directors' emoluments (note 11)	**3,741**	3,949
Other staff costs	**46,117**	54,355
Share-based payment expense	**–**	546
Retirement benefit scheme contributions for other staff	**4,457**	2,556
Severance payments to workers	**331**	–
Forfeited contributions utilised to offset employers' contributions	**(34)**	(718)
Total staff costs	**54,612**	60,688
Allowance for bad and doubtful debts	**3,557**	2,544
Allowance for inventories	**4,131**	510
Auditors' remuneration	**2,490**	1,020
Release of prepayment	**2,239**	2,239
Cost of inventories recognised as expenses	**240,913**	233,803
Depreciation on:		
– own assets	**6,079**	5,946
– assets held under finance leases	**3,613**	3,794
Net loss on disposal of property, plant and equipment	**3,485**	54
Minimum lease payment in respect of		
– rented premises	**8,076**	10,591
– hire of equipment	**130**	251
Net exchange loss	**1,732**	478
and after crediting:		
Rental income, net of outgoings of HK$1,103,000 (2006: nil)	**63**	–

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the 7 (2006: 8) directors were as follows:

	Fee	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
Year ended 31 March 2006						
Executive directors:						
Kan Shiu Cheong, Frederick	–	450	165	5	423	1,043
Chan Hoi Lam	–	300	110	5	423	838
Yau Kang Nam	–	960	80	12	–	1,052
Jiang Hai Qing	–	696	58	12	–	766
	–	2,406	413	34	846	3,699
Independent non-executive directors:						
Liu Ngai Wing (retired on 29 July 2005)	–	–	–	–	–	–
Ng Sui Keung	100	–	–	–	–	100
Lai Kin Keung	100	–	–	–	–	100
Yueh Yung Hsin (appointed on 30 September 2005)	50	–	–	–	–	50
	250	–	–	–	–	250
	250	2,406	413	34	846	3,949

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(i) Directors' emoluments *(Continued)*

During the year ended 31 March 2007, two (2006: two) directors waived emoluments of HK$600,000 each, totally HK$1,200,000 (2006: HK$2,250,000).

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included three (2006: two) executive directors, details of whose emoluments are set out in (i) above. The emolument of the remaining two (2006: three) highest paid employees, not being directors of the Company, are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	**1,918**	2,454
Discretionary bonuses	**273**	263
Retirement benefit scheme contributions	**24**	36
	2,215	2,753

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2007	2006
Nil - HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	1
	2	3

12. INCOME TAX EXPENSES

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

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

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

	2007	2006
	HK$'000	*HK$'000*
Loss before taxation	**(59,711)**	(23,762)
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**(10,449)**	(4,158)
Tax effect of expenses not deductible for tax purpose	**3,441**	2,850
Tax effect of income not taxable for tax purpose	**(876)**	(28)
Tax effect of tax losses not recognised	**7,731**	796
Utilisation of tax losses previously not recognised	**–**	(246)
Effect of different tax rates of subsidiaries operating in the PRC	**153**	786
	–	–

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

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 March 2007, nor has any dividend been proposed since the balance sheet date (2006: NIL).

14. LOSS PER SHARE – BASIC

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

	2007	2006
	HK$'000	*HK$'000*
Loss:		
Loss for the year attributable to equity holders of the Company for the purposes of basic loss per share	**(59,711)**	(23,762)

	2007	2006
Number of shares:		
Weighted average number of shares for the purpose of basic loss per share	**336,912,036**	19,602,663

No diluted earning per share have been presented because the exercise price of the Company's options was higher than the average market price of shares for both years.

The weighted average number of ordinary shares for the year ended 31 March 2006 for the purpose of basic and diluted earnings per share has been adjusted for the share consolidation which took effect on 11 April 2006. The details of the share consolidation are set out in note 27 to the financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Moulds	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 April 2005	7,596	7,167	180,944	3,578	1,208	8,334	208,827
Currency realignment	–	6	161	17	–	10	194
Additions	–	443	3,793	315	–	564	5,115
Disposals	–	(13)	(1,129)	(350)	–	(263)	(1,755)
At 31 March 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	**–**	**10,109**	**171,770**	**3,597**	**1,208**	**7,522**	**194,206**

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Moulds	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION							
At 1 April 2005	2,666	3,565	122,244	2,438	1,207	7,230	139,350
Currency realignment	–	6	135	4	–	5	150
Provided for the year	308	481	8,163	332	1	455	9,740
Eliminated on disposals	–	(12)	(995)	(350)	–	(191)	(1,548)
At 31 March 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	**–**	**2,134**	**118,069**	**2,754**	**1,208**	**6,189**	**130,354**
CARRYING AMOUNTS							
At 31 March 2007	**–**	**7,975**	**53,701**	**843**	**–**	**1,333**	**63,852**
At 31 March 2006	4,622	3,563	54,222	1,136	–	1,146	64,689

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$35,828,000 (2006: HK$36,464,000) in respect of assets held under finance leases.

16. PREPAYMENT

	2007 *HK$'000*	2006 *HK$'000*
Amount to be utilised within one year	**2,239**	2,239
Amount to be utilised after one year	**26,311**	28,550
	28,550	30,789
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	**(2,239)**	(2,239)
	26,311	28,550

Prepayment represents 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$2,239,000 (2006: HK$2,239,000). The advances are unsecured and interest free.

During the year, the Group relocated its production lines from the Baoan Factory to Dongguan, the PRC. 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 2007, the Group recorded a gross rental income of HK$1,166,000.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2007 *HK$'000*	2006 *HK$'000*
Unlisted equity securities, at cost	**9,500**	9,500
Less: Impairment loss recognised	**(6,000)**	–
	3,500	9,500

17. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

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% (2006: 19%) 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 then 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 recoverable amount of the available-for-sales 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.

18. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	**33,576**	44,370
Work in progress	**11,323**	19,814
Finished goods	**6,188**	10,732
	51,087	74,916

19. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31 March 2007, the balance of debtors, deposits and prepayments included trade debtors of approximately HK$39,937,000 (2006: HK$28,958,000).

The Group's trade debtors comprise:

	2007	2006
	HK$'000	*HK$'000*
Trade debtors from outsider	**37,969**	26,897
Related companies (note)	**1,968**	2,061
	39,937	28,958

Note: Amounts represent trade receivables from Easyfil (Hong Kong) Limited ("Easyfil") and Vevion, companies in which Mr. Chan Hoi Lam, a director of the Company, has a controlling interest.

The aged analysis of trade debtors at the balance sheet date is as follow:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**28,034**	21,040
31 – 60 days	**1,188**	2,536
61 – 90 days	**1,188**	254
91 – 120 days	**826**	922
Over 120 days	**8,701**	4,206
	39,937	28,958

The Group allows a credit period of 30 – 120 days (2006: 30 – 120 days) to its trade debtors.

20. AMOUNT DUE FROM A RELATED COMPANY

Name of related party	Relationship	2007 HK$'000	2006 HK$'000
Vevion	Controlled by a director of the Company	–	3,360
Maximum amount outstanding during the year		3,757	11,340

The above balance were unsecured, interest free and repayable on demand

21. BANK BALANCES AND CASH

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

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

22. CREDITORS AND ACCRUED CHARGES

At 31 March 2007, the balance of creditors and accrued charges included trade creditors of approximately HK$43,889,000 (2006: HK$27,065,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	18,407	17,036
31 – 60 days	4,599	1,125
61 – 90 days	4,283	2,077
91 – 120 days	5,060	1,524
Over 120 days	11,540	5,303
	43,889	27,065

23. BILLS PAYABLE

At 31 March 2006, bills payable carried interest at prevailing market rates and aged within 30 days.

24. AMOUNTS DUE TO DIRECTORS

Amounts represent advances from Mr. Chan Hoi Lam and Mr. Yau Kang Nam, both are directors of the Company, amounted to HK$270,000 and HK$560,000 respectively, and represent the directors' fee to Mr. Ng Sui Keung, Prof. Lai Kin Keung and Mr. Yueh Yung Hsin, the independent non-executive directors of the Company, amounted to HK$100,000 each.

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

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum leases payments	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The obligations under finance leases are repayable within the periods as follows:				
Within one year	**9,680**	9,714	**9,146**	9,117
In more than one year but not more than two years	**3,002**	7,673	**2,813**	7,447
In more than two years but less than three years	**1,350**	1,011	**1,304**	993
In more than three years but less than four years	**67**	–	**66**	–
	14,099	18,398	**13,329**	17,557
Less: Future finance charges	**(770)**	(841)	**N/A**	N/A
Present value of lease obligations	**13,329**	17,557	**13,329**	17,557
Less: Amount due within one year shown under current liabilities			**(9,146)**	(9,117)
Amount due after one year			**4,183**	8,440

25. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

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 2007, the average effective borrowing rate (which was also equal to contracted interest rates) ranged from 6.6% to 7.1% (2006: 4.5% to 7.3%). 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.

26. SHORT-TERM BANK BORROWINGS

	2007	2006
	HK$'000	*HK$'000*
Export loans (note a)	**18,108**	13,368
Discounted bills	**4,135**	4,423
Trust receipts and import loans (note a)	**13,673**	21,494
Short-term bank loans (note b)	**5,000**	3,328
Bank overdrafts (note c)	**10,988**	12,638
	51,904	55,251

Notes:

a. Export loans, trust receipts and import loans carry a variable interest rate ranging from 6.4% to 7.4% (2006: 4.5% to 9.3%) per annum.

b. Short-term bank loans carry a variable interest rate ranging from 5% to 6% (2006: 4.8% to 7.0%) per annum.

c. Bank overdrafts carry a variable interest rate ranging from 5% to 6% (2006: 5.5% to 9.3%) per annum.

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

27. SHARE CAPITAL

	Notes	Number of shares	Par value per ordinary share *HK$*	Share capital *HK$'000*
Authorised:				
At 1 April 2005, 31 March 2006 and 31 March 2007		10,000,000,000	0.01	100,000
Issued and fully paid:				
At 1 April 2005		3,941,590,071	0.01	39,416
Issue of new shares upon exercise of share options	(a)	12,400,000	0.01	124
Rights issue of shares	(b)	1,976,995,036	0.01	19,770
At 31 March 2006		5,930,985,107		59,310
Issue of new shares upon exercise of share options	(c)	31,500,000	0.01	315
Capital reduction	(d)	(5,664,360,852)	0.01	(56,644)
Issue of new shares upon placing	(e)	39,000,000	0.01	390
Issue of new shares upon open offer	(f)	280,936,879	0.01	2,809
At 31 March 2007		618,061,134		6,180

Notes:

(a) During the year ended 31 March 2006, the Company issued 12,400,000 new shares upon exercising of share options, comprising exercise of 6,000,000 and 6,400,000 share options by directors and employees, respectively, at exercise price of HK$0.018 each, totaling HK$223,200. 12,400,000 new shares at HK$0.01 par value of HK$124,000 was credited to the share capital with the rest of the amount of HK$99,000 being credited to the share premium account.

(b) Rights issue of 1,976,995,036 new ordinary shares of HK$0.01 each in the capital of the Company (the "Rights Shares") at a price of HK$0.01 per Rights Share on the basis of one Rights Share for every two ordinary shares of HK$0.01 each in the capital of the Company to shareholders of the Company.

(c) On 7 April 2006, the Company issued 31,500,000 shares at exercise price of HK$0.016 each upon exercise of share options.

27. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(d) 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.

(e) 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, 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.

(f) 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.

28. 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, no options were granted under the Scheme.

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

						Number of share options						
Category name of participant	Date of grant (Notes 1&2)	Exercise period (Note 1)	Previous exercise price per share *HK$*	Adjusted exercise price per share (Note 4) *HK$*	Adjusted exercise price per share (Note 5) *HK$*	Outstanding at 1.4.2006	Exercised during the year	Lapsed during the year	adjusted during the year (Note 4)	adjusted during the year (Note 5)	Outstanding at 31.3.2007	Weighted average closing price (Note 3) *HK$*
Directors												
Kan Shiu Cheong, Frederick	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	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	0.5530	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	

28. SHARE OPTIONS *(Continued)*

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.

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 (2006: from HK$0.029 to HK$0.043).

29. MAJOR NON-CASH TRANSACTION

During the year, certain subsidiaries of the Group entered into finance lease arrangements of HK$5,984,000 (2006: HK$1,548,000) in respect of property, plant and equipment with capital value at the inception of the lease of HK$9,264,000 (2006: HK$1,720,000).

30. 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	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	(2,265)	2,265	–
Credit (charge) to consolidated income statement for the year	901	(901)	–
At 31 March 2006	(1,364)	1,364	–
(Charge) credit to consolidated income statement for the year	(645)	645	–
At 31 March 2007	(2,009)	2,009	–

At 31 March 2007, the Group has unused tax losses of approximately HK$178,902,000 (2006: HK$131,037,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$11,480,000 (2006: HK$7,790,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$167,422,000 (2006: HK$123,247,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

31. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**4,882**	7,764
Capital expenditure in respect of construction contracts contracted for but not provided in the consolidated financial statements	**848**	–
	5,730	7,764

32. 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	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**11,861**	9,594	**130**	130
In the second to fifth year inclusive	**47,554**	41,141	**324**	454
Over five years	**20,157**	30,024	**–**	–
	79,572	80,759	**454**	584

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 upto 31 December 2019, back to the Landloard. 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	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,854**	–
In the second to fifth year inclusive	**15,446**	–
Over five years	**29,616**	–
	47,916	–

33. 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:

	2007 ***HK$'000***	2006 *HK$'000*
Employers' contributions under defined contribution schemes	**2,226**	644
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	**(34)**	(718)
	2,192	(74)

At 31 March 2007 and 31 March 2006, 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 2007 was approximately HK$1,987,000 (2006: HK$1,946,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

34. 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$876,000 and HK$26,000 (2006: HK$2,133,000 and NIL), to Easyfil and Vevion respectively, in which Mr. Chan Hoi Lam, the director of the Company, has a beneficial interest.

ii) the Group paid rent, amounting approximately HK$267,000 (2006: Nil), to Vevion, in which Mr. Chan Hoi Lam, the director of the Company, has a controlling interest.

The remuneration of key management of the Group are set out in note 10.

35. 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 (note) 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$47,330,000**/ 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

35. PRINCIPAL SUBSIDIARIES *(Continued)*

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 is reducing its registered capital from HK$68,000,000 to HK$47,630,000 after the year ended 31 March 2007.

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 2007 or at any time during the year.

36. BALANCE SHEET INFORMATION OF THE COMPANY

	2007	2006
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**1,757**	–
Interests in subsidiaries	**119,441**	180,202
	121,198	180,202
Current assets		
Amounts due from subsidiaries	**65,472**	39,287
Prepayments	**2,687**	267
Bank balances	**4,798**	7
	72,957	39,561
Current liabilities		
Creditors and accrued charges	**1,531**	1,191
Amount due to a director	**860**	–
Amounts due to subsidiaries	**98,309**	98,309
Financial guarantee liabilities	**6,878**	548
	107,578	100,048

36. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

	2007	2006
	HK$'000	*HK$'000*
Net current liabilities	**(34,621)**	(59,939)
Net assets	**86,577**	119,715
Capital and reserves		
Share capital	**6,180**	59,310
Reserves	**80,397**	60,405
Total equity attributable to equity holders of the Company	**86,577**	119,715

During the current year, the Company has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Company. The adoption of these HKFRSs has resulted in changes in the Company's accounting policies on financial guarantee contracts.

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Company's revenue recognition policies and the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provision Contingent Liabilities and Contingent Assets" ("HKAS 37").

This new accounting policy has resulted in an increase in the Company's interests in subsidiaries of HK$6,878,000 and HK$548,000 and an increase in the Company's financial guarantee liabilities of HK$6,878,000 and HK$548,000 as at 31 March 2007 and 31 March 2006, respectively.

The financial guarantee contract was eliminated on consolidation.

Under the Company Act 1981 of Bermuda, contributed surplus account of a company is also available for distribution in addition to accumulated profits. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 March 2007, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK$103,941,000 (2006: HK$47,297,000) and accumulated loss of HK$23,544,000 (2006: accumulated profit HK$12,111,000).

37. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant post balance sheet events took place:

On each of 26 April 2007 and 8 May 2007, the Company allotted 33,000,000 new shares to Mr. Chan Hoi Lam (Mr. Chan), an existing substantial shareholder and director of the Company, at a price of HK$0.171 and HK$0.180 per share respectively pursuant to subscription agreements upon successful placing by Mr. Chan of the same number of existing shares of the Company held by Mr. Chan with an underwritten arrangement. The net proceeds from the subscription of approximately HK$5,423,000 and HK$5,620,000 respectively are used by the Group for general capital purposes.

On 1 June 2007, the Company has conditionally agreed to place under Tranche I Placing on a maximum of 136,800,000 Placing Shares to independent investors at a price of HK$0.23 per Placing Share and under Tranche II Placing on a maximum of 136,800,000 Placing Shares to independent investors at a price of HK$0.23 per Placing Share within one calendar month after completion of the Tranche I Placing. The net proceeds from Tranche I Placing are approximately HK$31,000,000. Up to 24 November 2007, none of the Tranche II Placing Shares have been placed. Tranche II Placing Agreement has expired and cased thereafter.

On 21 June 2007, Mr. Chan Hoi Lam agreed to place an aggregate of 136,800,000 existing shares to not fewer than six placees who and whose ultimate beneficial owners are to be third parties independent of and not connected persons of the Company and its connected persons at a price of HK$0.26 Placing Share. The gross proceeds from the Top-Up Subscription are approximately HK$35,600,000. The net proceeds of approximately HK$34,600,000 from the Top-Up Subscription are intended to be used for the general working capital.

CONSOLIDATED RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**258,910**	267,176	311,341	382,470	370,576
(LOSS) PROFIT BEFORE TAXATION	**(59,711)**	(23,762)	3,550	3,714	1,773
TAXATION	**–**	–	–	–	–
(LOSS) PROFIT FOR THE YEAR	**(59,711)**	(23,762)	3,550	3,714	1,773
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**(59,711)**	(23,762)	3,550	3,714	1,773
MINORITY INTERESTS	**–**	–	–	–	–
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(59,711)**	(23,762)	3,550	3,714	1,773

Financial Summary

For the year ended 31 March 2007

CONSOLIDATED BALANCE SHEET

	At 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PROPERTY, PLANT AND EQUIPMENT	**63,852**	64,689	69,477	65,562	44,088
PREPAYMENT	**26,311**	28,550	30,789	33,028	35,267
AVAILABLE-FOR-SALE INVESTMENTS	**3,500**	9,500	–	–	–
NET CURRENT ASSETS	**(2,903)**	16,038	33,082	28,512	29,502
	90,760	118,777	133,348	127,102	108,857
SHARE CAPITAL	**6,180**	59,310	39,416	39,015	38,450
RESERVES	**80,396**	51,026	74,254	70,434	66,327
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**86,576**	110,336	113,670	109,449	104,777
MINORITY INTERESTS	**1**	1	1	1	1
OBLIGATIONS UNDER FINANCE LEASES	**4,183**	8,440	16,349	17,652	4,079
BANK BORROWINGS	**–**	–	3,328	–	–
	90,760	118,777	133,348	127,102	108,857