1. CORPORATE INFORMATION

Magician Industries (Holdings) Limited ("the Company") is incorporated in Bermuda as an exempted company and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2005. Major effects on the changes in accounting policies are summarised below:

HKAS 17 Leases

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses. Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings should be separated into leasehold land and buildings. The Group's leasehold land should be classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and should be reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on a straight-line basis over the lease term.

However, since the fair value of the leasehold land cannot be measured separately from the fair value of buildings situated thereon at the inception of the lease and no similar land and buildings are sold or leased separately so that reference to the leasehold land portion can be made, the lease payments cannot be allocated reliably between the land and buildings elements. As such, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The adoption of HKAS 17 has no material impact on the Group's financial statements for the current or prior accounting years.

HKAS 24 Related party disclosures

HKAS 24 has affected the identification of related parties and the level of related-party disclosures. Details of the new definition of related parties are set out in note 4 to the financial statements. The adoption of HKAS 24 has no material impact on the Group's financial statements for the current and prior accounting years.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new or revised accounting standards and interpretations that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no material impact on the results of the Group.

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts

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

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 Provisions, contingent liabilities and contingent assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Group's financial statements.

3. BASIS OF PREPARATION

(a) Adoption of the going concern basis

The financial statements have been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon the continued availability of adequate finance in view of the excess of current liabilities over current assets.

In preparing the financial statements for the year ended 31 March 2006, the directors adopted a going concern basis for the following reasons:

(i) The Group has adopted measures to improve its liquidity, including obtaining continuing support from its creditors, banks and shareholders. Although certain creditors have taken legal actions to recover overdue balances totalling approximately HK$51,541,000, and other creditors have also applied to the court in the PRC to freeze certain plant and machinery and bank balances of the Group's PRC subsidiary, management has taken an active role to discuss with each creditor for a mutually acceptable repayment schedule. The amounts of claims, overdue interest and related legal costs have already been provided in the accounts. As of the date of these financial statements, the Group had repaid outstanding amount of approximately HK$41,939,000 and accordingly the court foreclosure orders on the Group's assets are expected to be released in the near future.

(ii) Included in the short-term bank borrowings are secured bank loans of HK$65,000,000 which were due for settlement in June 2006. Subsequent to the balance sheet date, the Group is in the process of negotiation with the bank to extend the loan facilities.

3. BASIS OF PREPARATION (CONTINUED)

(a) Adoption of the going concern basis (continued)

(iii) Included in the long-term bank borrowings are bank loans repayable by instalments. Out of the instalment repayment of HK$7,300,000, which was due in March 2006, HK$1,880,000 was settled subsequent to the balance sheet date. Management is in the process of negotiation with the bank for an extension of the repayment schedule for the overdue and remaining balances.

(iv) The Group failed to repay the outstanding finance leases principal plus interest expense of approximately HK$4,164,000 during the year ended 31 March 2006. Subsequent to the balance sheet date, the Group has agreed with the lessor to reschedule the repayment terms and the last instalment will be repaid in December 2009 instead of in January 2007, the original due date for repayment.

(v) Subsequent to the balance sheet date, the Group has entered into loan agreements with a substantial shareholder for short-term loans of HK$20,000,000. The loans bear interest at HIBOR plus 3% per annum and are unsecured. HK$15,000,000 has been drawn as of date of these financial statements.

(vi) Subsequent to the balance sheet date, the Group has entered into sales and purchase agreements with third parties for the disposal of all of the leasehold land and buildings located in Hong Kong for an aggregate consideration of HK$12,688,000.

(vii) The Group will seek for additional and sufficient funding to meet its due liabilities and on-going working capital requirement.

(viii) In order to improve the cash flows of the Group, management will adopt measures to step up the effort in debts collection from the domestic sales customers, such as appointing external professional parties for collection. Besides, excessive inventories will be sold at discounted prices and idle assets will be disposed of. Management will also negotiate with the suppliers for extension of credit period. On the other hand, credit periods granted to customers will be reviewed in order to determine if any of them are needed to be tightened up.

(ix) Management will focus on higher-margin and creditworthy customers so as to boost up the sales volume.

(x) Measures in cost-cutting and strengthening of internal controls especially in the procurement and production cycles will be implemented.

(b) Books and records of domestic sales division in the People's Republic of China

The financial statements have been prepared based on the books and records maintained by the Company and its domestic sales division in the PRC. However, due to the significant staff and management turnover during the year, certain underlying books and records of the domestic sales division were either not properly updated or could not be located. As a result, the following amounts included in the financial statements of the Group and all other disclosures may not be satisfactorily substantiated or otherwise supported.

3. BASIS OF PREPARATION (CONTINUED)

(b) Books and records of domestic sales division in the People's Republic of China (continued)

	HK$'000
Included in consolidated income statement	
– Turnover	3,944
– Cost of sales	(1,877)
– Other revenue	53
– Selling and distribution expenses	(3,788)
– Administrative and other operating expenses	(11,964)
– Impairment loss on property, plant and equipment	(8,018)
– Write back of provision for inventory obsolescence	4,304
– Write back of provision for bad and doubtful debts	1,566
	(15,780)
Included in consolidated balance sheet	
– Property, plant and equipment	936
– Inventories	4,864
– Cash and bank balances	1,006
– Prepayment, deposits and other receivables	255
– Other payables and accruals	(7,407)
	(346)

4. PRINCIPAL ACCOUNTING POLICIES

Subjected to the matter mentioned in note 3(b) above, the consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the 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 Companies Ordinance.

Measurement basis

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties which were measured at fair value as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair value at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

All inter-company transactions and balances within the Group are eliminated on consolidation.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the year in which they are incurred.

Construction-in-progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and available for use.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment (other than construction-in-progress) over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	2% or the terms of the leases, if shorter
Leasehold improvements	14.3% – 20%
Plant and machinery	20%
Furniture, fixtures, office and computer equipment	20%
Motor vehicles	20% – 25%
Moulds	20%

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

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Because of the allocation of lease payments between the leasehold land and building elements owned by the Group cannot be made reliably, the leasehold interest in land is treated as a finance lease and accounted for as leasehold land included within property, plant and equipment.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

Investment properties

Investment properties are properties which are held by owner or lessee under finance lease to earn rentals and/ or for capital appreciation and are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in income statement for the period in which they arise.

A property interest held under operating lease is classified and accounted for as investment property when the Group holds it to earn rental income and/ or capital appreciation and applies the fair value model as above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, direct labour and an appropriate proportion of all production overhead expenditure in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

Trade receivables and payables

Trade receivables and payables are recognised at cost which approximates their fair values, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amounts and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

Bank and other borrowings

All loans and borrowings are recognised at fair value, net of transactions costs incurred. After initial recognition, loans and borrowings are measured at amortised cost using effective interest method.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following bases:

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

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.

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rental payable under operating leases are recognised as an expense on the straight-line basis over the term of relevant lease.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the approximate rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the translation reserve.

Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Defined contribution plans

The Group operates a defined contribution plan for the Hong Kong employees based on local laws and regulations. The plan covers all eligible employees. The Group's contributions to the defined contribution plan are expensed as incurred.

Pursuant to the law and regulations of the PRC, contributions to the defined contribution retirement schemes for the Group's local staff are made to the relevant government authorities in the PRC, which are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

5. CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are currently evaluated on the basis of historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarises estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Company is based on the evaluation of collectability and ageing analysis of the trade receivables and on management's judgment. At the balance sheet date, the trade receivables, net of provision, amounted to HK$28,527,000 (2005: HK$40,769,000). A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Allowance for inventories

The Group's management reviews the carrying amount of inventories at each balance sheet date, and make allowance for obsolete and slow-moving items identified that are no longer recoverable or suitable for use in production. Management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

6. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United State dollar exchange rate remains pegged and the PRC government continues to be conservative in their foreign exchange and monetary policies. The currency risk for bank and other borrowings was minimal as they were denominated in Hong Kong dollars.

6. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Interest rate risk

The Group's interest rate risk primarily relates to the Group's bank and other borrowings (included in current and non-current liabilities) which mainly bear interest at floating rates with reference to the Hong Kong Interbank Offered Rates. Management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

The Group had net current liabilities of approximately HK$175,193,000 as at 31 March 2006 which include bank loans and other borrowings of approximately HK$148,922,000 and HK$5,288,000 respectively. Management will monitor the cash flows of the Group and, upon maturity, arrange refinancing of the bank and other borrowings, where appropriate, to enable the Group to service repayment of these borrowings when due.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management of the Group has a credit limit policy in place and exposures to credit risk are monitored on an ongoing basis. In order to minimise credit risk, management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions is taken to recover overdue debts.

7. TURNOVER AND REVENUE

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing and trading of household products.

Turnover and revenue recognised by category for the Group are analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Sale of goods	**233,865**	445,830
Other revenue		
Rental income	**185**	359
Interest income	**613**	599
Others	**1,262**	1,154
	2,060	2,112
Revenue	**235,925**	447,942

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format and no business segment information is presented as over 90% of the turnover and contribution to the Group's results are attributable to the manufacturing and trading of household products.

An analysis of the group's turnover and results for the year by location of customers is as follows:

	Group			
	Turnover		Segment results	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States of America	**181,787**	287,095	**3,159**	3,974
Canada	**7,640**	24,120	**(1,143)**	(225)
Hong Kong	**15,926**	43,710	**6,722**	5,142
PRC	**3,944**	46,311	**(15,780)**	(49,703)
Europe	**12,750**	28,406	**2,191**	3,199
Others	**11,818**	16,188	**1,698**	1,868
	233,865	445,830	**(3,153)**	(35,745)
Unallocated corporate expenses			**(40,568)**	(41,530)
Impairment loss on property, plant and equipment			**(13,171)**	(91,733)
Reversal of impairment loss on property, plant and equipment			**15,849**	–
Finance costs			**(11,466)**	(6,945)
Taxation credit			**5,537**	–
Loss attributable to shareholders			**(46,972)**	(175,953)

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as over 90% (2005: 80%) of the Group's assets are located in the PRC.

9. OTHER INCOME

	Group	
	2006	2005
	HK$'000	HK$'000
Gain on disposal of property, plant and equipment	**2,282**	–
Net write-back of provision for bad and doubtful debts	**6,359**	–
	8,641	–

10. LOSS BEFORE TAXATION

	Group	
	2006	2005
	HK$'000	HK$'000
This is stated after charging:		
Finance costs		
Interest on bank borrowings wholly repayable within five years	**8,030**	4,651
Interest on mortgage loan	**993**	–
Finance charges on obligations under finance leases	**1,279**	1,094
Interest on trade payables overdue	**1,164**	1,200
	11,466	6,945
Other items		
Auditors' remuneration	**760**	795
Cost of inventories	**207,883**	372,307
Depreciation of property, plant and equipment	**30,869**	34,487
Loss on disposal of property, plant and equipment	**–**	153
Operating lease rentals of leasehold land and buildings	**1,551**	5,044
Provision for bad and doubtful debts	**–**	35,316
Provision for inventory obsolescence	**5,685**	8,907
Provision for impairment in interests in associates	**–**	1,049
Staff costs (excluding directors' emoluments):		
Wages and salaries	**43,295**	59,547
Termination benefits	**2,563**	1,212
Contributions to retirement schemes	**1,314**	1,533
	47,172	62,292

11. DIRECTORS' EMOLUMENTS

		2006				
	Note	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Compensation for loss of office HK$'000	Total HK$'000
Executive directors						
Chan Chun Hing	i	–	10	–	–	10
Chan Ying Gi, Dorice	ii	–	899	2	–	901
Cheung Tak Ming, Paul	iii	11	110	–	–	121
Ho Yau Shun	iv	–	47	–	–	47
Lee Kwa Ching, Peter	v	–	193	1	360	554
Tong Cheehung, Richard	vi	–	26	–	–	26
Non-executive directors						
Lai Yik Yee, Andona	vii	20	–	–	–	20
Lau Kin Hon	viii	51	461	7	–	519
Kok Zhi Yi, Katrina	ix	–	283	5	–	288
Independent non-executive directors						
Fok Kam Chau, Peter	x	109	–	–	–	109
Lee Kwan Hung, Eddie	xi	19	–	–	–	19
Leung Milton Kwan	xii	66	–	–	–	66
Ng Shiu Kwan	xiii	15	–	–	–	15
Tso Hon Sai, Bosco	xiv	50	–	–	–	50
U Keng Tin	xv	16	–	–	–	16
Wong Hui Ching, Jeoffrey	xvi	105	–	–	–	105
Yeung Po Chin	xvii	93	–	–	–	93
Yim Kai Pung	xviii	93	–	–	–	93
		648	2,029	15	360	3,052

11. DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

2005/2006

i) Resigned on 19 April 2005.

ii) Appointed on 19 April 2005 as Non-executive Director, re-designated as Executive Director on 31 May 2005 and Non-executive Director on 24 March 2006.

iii) Appointed on 26 September 2005 as Independent Non-executive Director, re-designated as Executive Director on 13 October 2005 and resigned on 23 January 2006.

iv) Appointed on 23 January 2006.

v) Resigned on 10 May 2005.

vi) Appointed on 24 March 2006.

vii) Appointed on 9 August 2005 and resigned on 19 October 2005.

viii) Appointed on 19 April 2005 as Independent Non-Executive Director and re-designated as Non-executive Director on 31 May 2005.

ix) Re-designated as Non-Executive Director on 19 April 2005 and resigned on 9 August 2005.

x) Appointed on 1 April 2005 and retired on 23 September 2005.

xi) Resigned on 23 April 2005.

xii) Appointed on 13 October 2005 and resigned on 10 February 2006.

xiii) Appointed on 14 February 2006.

xiv) Appointed on 31 May 2005 and retired on 23 September 2005.

xv) Resigned on 19 April 2005.

xvi) Appointed on 11 April 2005 and retired on 23 September 2005.

xvii) Appointed on 26 September 2005.

xviii) Appointed on 26 September 2005 and resigned on 14 June 2006.

11. DIRECTORS' EMOLUMENTS (CONTINUED)

		2005				
	Note	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Compensation for loss of office HK$'000	Total HK$'000
Executive directors						
Chan Chun Hing	i	–	189	2	–	191
Kong Yick Ming	ii	–	1,248	9	–	1,257
Ku Ling Yu, John	iii	–	982	9	600	1,591
Lee Kwa Ching, Peter	iv	–	73	1	–	74
Zee Patrick	v	–	86	4	–	90
Non-executive directors						
Hoon Wee Teng, Will	vi	63	–	–	–	63
Hui Yat On	vii	16	–	–	–	16
Keung Sau Tim	viii	67	97	5	–	169
Lee Lok Man	ix	41	–	–	–	41
Wong Kwong Chi	x	27	–	–	–	27
Independent non-executive directors						
Cheung Sun Lung	xi	106	–	–	–	106
Ma Chiu Cheung, Andrew	xii	133	–	–	–	133
Tam Chi Kwan, Michael	xiii	116	–	–	–	116
Tsui Sing Kee, Rawdon	xiv	222	–	–	–	222
U Keng Tin	xv	41	–	–	–	41
		832	2,675	30	600	4,137

11. DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

2004/2005

i) Appointed on 21 October 2004 as Non-executive Director, re-designated as Executive Director on 4 February 2005 and resigned on 19 April 2005.

ii) Re-designated as Non-executive Director on 10 December 2004 and re-designated as Executive Director on 4 February 2005.

iii) Resigned on 24 February 2005.

iv) Appointed on 15 March 2005 and resigned on 10 May 2005.

v) Appointed as Executive Director on 10 December 2004 and re-designated as Non-executive Director on 4 February 2005.

vi) Appointed on 18 October 2004.

vii) Appointed on 1 February 2005 and resigned on 15 March 2005.

viii) Resigned on 24 September 2004.

ix) Appointed on 1 February 2005 and resigned on 27 April 2005.

x) Resigned on 10 March 2005.

xi) Resigned on 2 February 2005.

xii) Appointed on 18 October 2004 and resigned on 1 April 2005.

xiii) Resigned on 24 September 2004.

xiv) Resigned on 31 January 2005.

xv) Appointed on 1 February 2005 and resigned on 19 April 2005.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year. Compensation for loss of office in both years were paid by the Company for the loss of office as director of the Company.

12. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals of the Group during the year included two (2005: two) directors of the Company, details of whose emoluments are set out in note 11 above. The emoluments of the remaining three (2005: three) individuals are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,442**	2,101
Termination benefits	**–**	95
Contributions to MPF scheme	**34**	31
	1,476	2,227

The emoluments fell within the following bands:

	Group Number of individuals	
	2006	2005
Nil to HK$1,000,000	**3**	3

Except as disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

13. TAXATION

Hong Kong Profits Tax has not been provided as the Company incurred a loss for taxation purposes for the year.

In previous years, the Hong Kong Inland Revenue Department (the "IRD") had issued notices of assessments or additional assessments to a number of the companies within the Group and challenged certain intercompany charges and profit allocations within the Group for Hong Kong Profits Tax purposes. The Group had filed objections to these assessments in previous years. Subsequent to the balance sheet date, the IRD has issued final assessments in respect of these previous years. After netting off the tax reserve certificates purchased and the provision for such potential tax liabilities made in prior years, the amount of over-provision for taxation has been reversed in the financial statements.

PRC enterprise income tax has not been provided as the PRC subsidiary incurred a loss for taxation purposes.

13. TAXATION (CONTINUED)

	Group	
	2006	2005
	HK$'000	HK$'000
The credit comprises:		
Current tax		
Hong Kong Profits Tax:		
Over-provision in prior years	(5,822)	–
Deferred taxation		
Origination and reversal of temporary difference	285	–
Total tax credit for the year	(5,537)	–

	Group	
	2006	2005
	%	%
Reconciliation of effective tax rate		
Applicable tax rate	(15)	15
Non-deductible expenses	(1)	(1)
Utilisation of previously unrecognised tax losses	(1)	(1)
Unrecognised temporary differences	(4)	(11)
Unrecognised tax losses	19	(5)
Over provision in prior years	11	–
Others	1	3
Effective tax rate for the year	10	–

The applicable tax rate is the average tax rate prevailing in the territories in which the Group operates.

14. LOSS FOR THE YEAR

Of the Group's loss for the year of HK$46,972,000 (2005: HK$175,953,000), a loss of HK$46,453,000 (2005: HK$141,912,000) has been dealt with in the financial statements of the Company.

15. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$46,972,000 (2005: HK$175,953,000) and on the weighted average number of 868,733,440 (2005: 868,733,440) shares in issue during the year.

The diluted loss per share figures for the years of 2006 and 2005 are not shown as there are no potential ordinary shares in issue in both years.

16. INVESTMENT PROPERTIES

	2006 HK$'000	2005 HK$'000
At fair value		
At beginning of year	3,080	1,600
Change in fair value	–	1,480
Disposals	(3,080)	–
At balance sheet date	–	3,080

The investment properties were located in Hong Kong and were held on medium-term leases.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improve -ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office and computer equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construction-in-progress HK$'000	Total HK$'000
Group								
Reconciliation of carrying amount – year ended 31 March 2005								
At beginning of year	288,254	4,892	24,101	4,631	1,146	48,861	12,685	384,570
Additions	–	–	4,853	462	5	17,456	2,734	25,510
Disposals	–	–	(196)	(4)	–	(116)	–	(316)
Depreciation	(6,846)	(1,829)	(8,040)	(1,879)	(345)	(15,548)	–	(34,487)
Impairment loss	(71,312)	–	(5,915)	–	–	(14,506)	–	(91,733)
Reclassification	–	239	3,110	42	–	–	(3,391)	–
At balance sheet date	210,096	3,302	17,913	3,252	806	36,147	12,028	283,544
Reconciliation of carrying amount – year ended 31 March 2006								
At beginning of year	210,096	3,302	17,913	3,252	806	36,147	12,028	283,544
Additions	–	41	222	112	27	2,597	604	3,603
Disposals	(19,632)	(21)	–	(11)	(541)	–	(338)	(20,543)
Depreciation	(6,051)	(885)	(6,670)	(1,868)	(128)	(15,267)	–	(30,869)
Impairment loss	(13,171)	–	–	–	–	–	–	(13,171)
Reversal of impairment loss	–	–	3,653	–	–	12,196	–	15,849
Reclassification to properties held for sale	(12,688)	–	–	–	–	–	–	(12,688)
Reclassification from construction-in-progress	11,831	3	118	–	–	–	(11,952)	–
At balance sheet date	**170,385**	**2,440**	**15,236**	**1,485**	**164**	**35,673**	**342**	**225,725**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold land and buildings	Leasehold improve-ments	Plant and machinery	Furniture, fixtures, office and computer equipment	Motor vehicles	Moulds	Construction-in-progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005								
Cost	330,172	24,179	120,395	33,598	11,101	188,460	12,028	719,933
Accumulated depreciation and impairment losses	(120,076)	(20,877)	(102,482)	(30,346)	(10,295)	(152,313)	–	(436,389)
	210,096	3,302	17,913	3,252	806	36,147	12,028	283,544
At 31 March 2006								
Cost	253,348	23,537	120,591	33,302	6,363	191,058	342	628,541
Accumulated depreciation and impairment losses	(82,963)	(21,097)	(105,355)	(31,817)	(6,199)	(155,385)	–	(402,816)
	170,385	**2,440**	**15,236**	**1,485**	**164**	**35,673**	**342**	**225,725**

The Group's leasehold land and buildings are held on medium-term leases and their net book value is analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong	**–**	22,516
The PRC	**170,385**	187,580
	170,385	210,096

The Group's construction-in-progress was situated in the PRC under medium-term lease.

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In light of the continuing operating loss experienced by the Group during the year, the management has engaged independent professional valuers and based on value in use assessment to review the carrying value of the property, plant and machinery in order to assess their recoverable amount. Based on this assessment, reversal of (provision for) impairment loss has been recognised as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
By reference to the subsequent disposal sales considerations		
– Leasehold land and buildings in Hong Kong	**(1,638)**	–
– Leasehold land and buildings in the PRC	**(8,018)**	–
	(9,656)	–
By reference to independent professional valuation on the market value of the assets		
– Plant and machinery	**3,653**	(15,740)
Based on value in use as estimated by the management		
– Leasehold land and buildings in the PRC	**(3,515)**	(55,572)
– Plant and machinery	**–**	(5,915)
– Moulds	**12,196**	(14,506)
	8,681	(75,993)
Reversal of (provision for) impairment loss on property, plant and equipment	**2,678**	(91,733)

The net book value of the Group's property, plant and equipment includes an amount of HK$3,090,000 (2005: HK$7,726,000) in respect of assets held under finance leases.

At balance sheet date, certain plant and machinery with a net book value of approximately HK$6,036,000 (2005: HK$14,353,000) held by the Group had been frozen by the court in the PRC during the year as a result of the legal actions taken by certain creditors and employees in the PRC. Subsequent to the balance sheet date, the Group has settled the outstanding balances or reached a compromise with those creditors on the repayment schedules.

18. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Non-current		
Interests in subsidiaries		
Unlisted shares, at cost	**158,598**	158,598
Less: Provision for impairment in value	**(157,877)**	(157,877)
	721	721
Due from subsidiaries	**379,119**	520,784
Provision for doubtful debts	**(305,454)**	(259,954)
	73,665	260,830
	74,386	261,551
Due to subsidiaries	**–**	(151,900)
Current		
Due from subsidiaries	**–**	9,621
Due to subsidiaries	**–**	(2,266)

The balances with subsidiaries are unsecured, interest-free and have no fixed term of repayments.

Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Magician Investments (BVI) Limited	British Virgin Islands	US$6 ordinary	100%	–	Investment holding
Treasure Trend Development Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Diyon Development Limited	Hong Kong	HK$3 ordinary	–	100%	Purchasing of paper, plastic and metal materials and products

18. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Magicgrand Development Limited	British Virgin Islands	US$1 ordinary	–	100%	Manufacturing and trading of plastic and metal products
Magician Industrial Company Limited	Hong Kong	HK$5 ordinary	–	100%	Marketing and trading of plastic and metal products
Jinda Plastic Metal Products (Shenzhen) Co., Ltd.	The PRC	HK$180,000,000 registered capital	–	100%	Manufacturing and trading of plastic and metal products
More Concept Limited	Hong Kong	HK$3 ordinary	–	100%	Marketing and trading of plastic and metal products
Nicole (China) Company Limited	Hong Kong	HK$2 ordinary	–	100%	Marketing and trading of plastic and metal products
Grandmate Industrial Company Limited	Hong Kong	HK$251,000 ordinary	–	100%	Marketing and trading of plastic and metal products
Hopeward Holdings Limited	British Virgin Islands	US$1 ordinary	–	100%	Property holding
Falton Investment Limited	Hong Kong	HK$2 ordinary	–	100%	Property holding

All of the above subsidiaries operate principally in Hong Kong except for Magicgrand Development Limited and Jinda Plastic Metal Products (Shenzhen) Co., Ltd. which operate principally in the PRC.

The above table lists 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 net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**7,980**	14,205
Work-in-progress	**10,771**	24,511
Finished goods	**9,319**	18,299
	28,070	57,015

The amount of inventories included in above, excluding those fully provided for with nil carrying value, carried at fair value less costs to sell is HK$10,611,000 (2005: HK$14,514,000).

20. TRADE AND BILLS RECEIVABLES

In general, the Group allows a credit period of 30 to 60 days to its trade customers. An ageing analysis of the Group's trade and bills receivables (net of provision for bad and doubtful debts) is set out below:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than 1 month	**16,439**	25,282
1 month to 2 months	**7,784**	2,071
2 months to 3 months	**3,756**	8,517
3 months to 6 months	**126**	4,899
6 months to 1 year	**330**	–
	28,435	40,769

21. TRADE PAYABLES

An ageing analysis of the Group's trade payables is set out below:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than 3 months	**12,195**	34,482
3 months to 6 months	**7,451**	16,854
6 months to 1 year	**9,044**	29,285
More than 1 year	**21,566**	4,975
	50,256	85,596

22. BANK AND OTHER BORROWINGS

(a) Short-term bank and other borrowings, secured

Included in short-term bank and other borrowings was bank loans of HK$65,000,000 which have been overdue for settlement after the balance sheet date. Bank and other loans were interest bearing at HIBOR plus 2% and at 10% per annum respectively.

(b) Long-term bank borrowings, secured

	Group	
	2006	2005
	HK$'000	HK$'000
The above bank loans are repayable within a period as follows:		
Within one year	**70,000**	19,855
After one year but within two years	**–**	62,500
	70,000	82,355
Portion classified as current liabilities	**(70,000)**	(19,855)
Long-term portion	**–**	62,500

The bank loan of HK$70,000,000 bears interest at HIBOR plus 1.5% per annum: HK$7,300,000 of the loan was due for repayment on 1 March 2006 and the remaining portion of HK$62,700,000 will be due for repayment on 20 September 2006.

23. OBLIGATIONS UNDER FINANCE LEASES

	Group		Company	
	2006	2005	**2006**	2005
Minimum lease payments	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**6,980**	6,665	**–**	2,325
In the second to fifth years inclusive	**81**	3,200	**–**	–
	7,061	9,865	**–**	2,325
Future finance charges	**(774)**	(908)	**–**	(55)
Present value of lease obligations	**6,287**	8,957	**–**	2,270

	Group		Company	
	2006	2005	**2006**	2005
Present value of minimum lease payments	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**6,213**	5,931	**–**	2,270
In the second to fifth years inclusive	**74**	3,026	**–**	–
	6,287	8,957	**–**	2,270

23. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

The lease terms ranged from two to four years. During the year ended 31 March 2006, the Group failed to repay total amounts of approximately HK$4,164,000 outstanding principal and interest expense. As a result of the default payment, the whole portion of outstanding principal of HK$6,287,000 became payable on demand and was included in current liability at the balance sheet date. As detailed in note 3(a) to these financial statements, the Group has agreed with lessor to reschedule the repayment schedule subsequent to the balance sheet date.

All lease agreements are on a fixed repayment basis and no arrangement for contingent rental payments.

24. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
4,000,000,000 (2005: 4,000,000,000) ordinary shares of HK$0.10 each	400,000	400,000
Issued and fully paid:		
868,733,440 (2005: 868,733,440) ordinary shares of HK$0.10 each	86,873	86,873

25. RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Group						
At 1 April 2004	282,049	1,265	139	51	(96,994)	186,510
Net loss for the year	–	–	–	–	(175,953)	(175,953)
At 31 March 2005	282,049	1,265	139	51	(272,947)	10,557
At 1 April 2005	282,049	1,265	139	51	(272,947)	10,557
Net loss for the year	–	–	–	–	(46,972)	(46,972)
At 31 March 2006	282,049	1,265	139	51	(319,919)	(36,415)

25. RESERVES (CONTINUED)

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Company					
At 1 April 2004	282,049	1,265	158,398	(273,535)	168,177
Net loss for the year	–	–	–	(141,912)	(141,912)
At 31 March 2005	282,049	1,265	158,398	(415,447)	26,265
At 1 April 2005	282,049	1,265	158,398	(415,447)	26,265
Net loss for the year	–	–	–	(46,453)	(46,453)
At 31 March 2006	282,049	1,265	158,398	(461,900)	(20,188)

The laws and regulations of the PRC require wholly foreign-owned enterprises in the PRC ("WFOE") to provide for certain statutory reserves namely general reserve, enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the statutory accounts.

The Group's subsidiaries in the PRC, which are WFOE, are required to allocate at least 10% of their after-tax profit to the general reserve until the reserve has reached 50% of its registered capital. The general reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. The staff welfare and bonus fund can only be used for the welfare of the employees of the subsidiaries in the PRC. Appropriation to the enterprise expansion fund and staff welfare and bonus fund is at the discretion of the Board of Directors of the subsidiaries in the PRC.

The contributed surplus of the Group represents the difference between the nominal value of the aggregate share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal value of the Company's shares issued as consideration for the acquisition as the date of the Group reorganisation in 1995.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if there are reasonable grounds for believing that:

(a) the Company 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 account.

26. DEFERRED TAXATION

Recognised deferred tax assets

At the balance sheet date, the Group has recognised deferred tax assets of HK$Nil (2005: HK$285,000) in respect of the accelerated depreciation allowances.

Unrecognised deferred tax assets

	Group	
	2006	2005
	HK$'000	HK$'000
Deductible temporary differences	**9,985**	21,868
Tax losses	**32,956**	10,180
At balance sheet date	**42,941**	32,048

The tax losses of HK$36,906,000 (2005: HK$22,586,000) arising in Hong Kong have no expiry date under current tax legislation. The tax losses of HK$176,649,000 (2005: 41,543,000) and deductible temporary differences of HK$39,291,000 (2005: 145,786,000) arising in the PRC can be used to offset against future taxable profits of the respective subsidiaries for a maximum of 5 years.

27. SHARE OPTION SCHEME

On 8 August 2002, a share option scheme was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, invite any full-time employee or directors of the Company or its subsidiaries to take up options at a nominal consideration of HK$1 for each option allotment to subscribe for ordinary shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time. Each option is entitled to subscribe for one ordinary share of the Company and the subscription price is determined by the Board of Directors and shall be:

(1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer; and

(2) the average of closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer,

whichever is higher provided that it shall not be lower than the nominal value of the Company's shares. Options are exercisable in stages as determined by the Board of Directors from time to time at the date of grant.

No share options have ever been granted by the Company under the share options scheme since adoption.

28. PENSION RETIREMENT OBLIGATIONS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme are held separately in provident fund managed by independent trustee. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$20,000.

The Group's subsidiaries in the PRC also participated in defined contribution retirement schemes covering its full-time PRC employees. The schemes are administered by the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiaries.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$1,329,000 (2005: HK$1,563,000).

29. RESTRICTED BANK BALANCES

The restricted bank balances of HK$2,644,000 last year represented bank accounts held by the Group's subsidiary in the PRC which were frozen by the court in the PRC following the legal actions taken by several creditors and employees. The Group had reached settlements with them during the year ended 31 March 2006 and therefore these bank accounts were released.

30. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values were pledged to secure general banking facilities granted to the Group:

	Group	
	2006	2005
	HK$'000	HK$'000
Leasehold land and buildings	**170,385**	187,580
Bank deposits	**2,130**	984
	172,515	188,564

31. CONTINGENT LIABILITIES

(i) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK$115,600,000 (2005: HK$119,500,000) for banking facilities granted to subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$83,922,000 (2005: HK$156,201,000).

(ii) Subsequent to the balance sheet date, a supplier filed a winding up petition ("the Petition") with the High Court of Hong Kong against a wholly-owned subsidiary ("the subsidiary") of the Company for outstanding balances in respect of purchased raw materials. Subsequently, the subsidiary was being informed of notices from Mr. Kong Yick Ming ("Mr. Kong") and 4 other creditors as the supporting creditors of the Petition. Mr. Kong is a director of the subsidiary and the Company. A total claim of approximately HK$5,092,000 has been provided and subsequently settled. Having taken appropriate legal advice, the directors considered the validity of further claims of approximately HK$4,605,000 were doubtful and it is not necessary to make any provision in this regard.

32. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered by the Group during the year, details of which are set out below:

Compensation of key management personnel

The remuneration of directors and other members of key management during the year for the Group was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**3,326**	2,937
Termination benefits	**636**	–
Contributions to MPF Scheme	**48**	48
	4,010	2,985

The remuneration of directors and key executives is reviewed by the Board having regard to the performance of individuals and market trends.

33. COMMITMENTS

(a) Capital expenditure commitments

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted but not provided for, net of deposits paid	**83**	3,032

(b) Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**150**	1,172
In the second to fifth years inclusive	**–**	530
	150	1,702