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"). Its ultimate holding company is First Century Holdings Limited, a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction 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. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for annual accounting periods beginning on or after 1st January, 2005. The application of new HKFRSs has resulted in a change in the presentation of the consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

- financial instruments (HKAS 32 and HKAS 39); and
- share-based payments (HKFRS 2)

2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 32 Financial instruments: Disclosure and Presentation and HKAS 39 Financial instruments: Recognition and Measurement

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

Classification and measurement of financial assets and financial liabilities

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

Financial assets and financial liabilities

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

2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 32 Financial instruments: Disclosure and Presentation and HKAS 39 Financial instruments: Recognition and Measurement *(Continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets that the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group's bill receivables with full recourse which were derecognised prior to 1st April, 2005 have not been restated. As at 31st March, 2006, the Group's bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK$4,423,000 have been recognised on the balance sheet date.

HKFRS 2 Share-based payment

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to shares options granted before 1st April, 2005, the Group has not applied HKFRS 2 with respect to shares granted on or before 7th November, 2002 and vested before 1st April, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share option that were granted after 7th November, 2002 and had not vested on 1st April, 2005. An adjustment of HK$1,392,000 representing the estimated fair value of share options granted during the year ended 31st March, 2006 was charged to loss for the year (increase in administrative expenses), with a corresponding credit to the share option reserve.

2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

At the date of authorisation of these consolidated financial statements, the following standards, interpretations and amendments were in issue but not yet effective:

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.

2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied the above HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the results and financial position of the Group, except for the application of HK(IFRIC) – INT 4 "Determining whether an arrangement contains a lease". With the adoption of HK(IFRIC) – INT 4, prepaid rentals of HK$30,789,000 as at 31st March, 2006 would be classified as property, plant and equipment and the release of prepaid rentals will be recognised as depreciation expense in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, as explained in the principal 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 its subsidiaries (the "Group") made up to 31st March each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 presents amount 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

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

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

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 income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 comprising debtors, 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.

3. 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 is recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances, and are subject to an insignificant risk of changes in value.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Bank borrowings/obligations under finance leases

Interest-bearing bank loans, overdrafts and obligations under finance leases are initially recognised at fair value, and are subsequently measured at amortised costs, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

Creditors and accrued charges/bills payable/amounts due to directors

Creditors and accrued charges, bills payable and amounts due to directors are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Taxation 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 income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the 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 negative 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 profits 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 asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 its 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Leases

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Group as lessee

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.

Assets held under finance leases are recognised as assets of the Group at fair values at 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 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.

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 as they fall due.

4. 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.

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 together with the future discount cash flow factor. Specific provision is only made for trade debtors that are unlikely to be collected.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, bank balances and cash, creditors and accrued charges, 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 31st March, 2006 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 31st March, 2006, trade debtors of HK$12,760,000 (2005: HK$16,482,000) 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. Through factoring and related agreements, the Group assigns a portion of its trade receivables to banks and transfers the credit risk of the debtors' failure to make payments to banks. 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 the international credit rating agencies.

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 arises.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 arises.

6. 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.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

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 31st March,	
	2006	2005
	HK$'000	*HK$'000*
United States of America	**139,110**	159,794
Europe	**74,489**	87,336
Asia-Pacific (excluding Hong Kong)	**39,376**	50,209
Hong Kong	**4,847**	4,502
Others	**9,354**	9,500
	267,176	311,341

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 31st March,		Additions to property, plant and equipment Year ended 31st March,	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**185,282**	169,659	**4,847**	21,698
Hong Kong	**41,186**	35,431	**268**	203
Others	**9,664**	23,596	**–**	–
	236,132	228,686	**5,115**	21,901

7. LOSS (PROFIT) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Loss (Profit) for the year attributable to equity holders of the company has been arrived at after charging:		
Directors' emoluments (note 8)	**3,949**	5,192
Other staff costs	**54,355**	58,870
Share-based payment expense	**546**	–
Retirement benefit scheme contributions for other staff	**2,556**	2,592
Forfeited contributions utilised to offset employers' contributions	**(718)**	(17)
Total staff costs	**60,688**	66,637
Allowance for bad and doubtful debts	**2,544**	–
Release of prepared rentals included in cost of sales	**2,239**	2,239
Auditors' remuneration	**1,020**	811
Depreciation on:		
– own assets	**5,946**	7,483
– assets held under finance leases	**3,794**	3,961
Loss on disposal of property, plant and equipment	**54**	–
Minimum lease payment paid in respect of		
– rented premises	**10,591**	6,271
– hire of equipment	**251**	372
Cost of inventories recognised as expenses	**233,803**	270,331
Allowance for inventories	**510**	–
Net exchange loss	**478**	207
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	3,107
Reversal of allowance for inventories (Note)	**–**	5,383
Interest income	**26**	14

Note: The reversal made during the year ended 31st March, 2005 was primarily due to the use of the aged materials during the 2005 production.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the 8 (2005: 7) 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 31st 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 29th July, 2005)	–	–	–	–	–	–
Ng Sui Keung	100	–	–	–	–	100
Lai Kin Keung	100	–	–	–	–	100
Yueh Yung Hsin (appointed on 30th September, 2005)	50	–	–	–	–	50
	250	–	–	–	–	250
	250	2,406	413	34	846	3,949

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

(i) Directors' emoluments *(Continued)*

	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 31st March, 2005						
Executive directors:						
Kan Shiu Cheong, Frederick	–	1,800	150	12	–	1,962
Chan Hoi Lam	–	1,200	100	12	–	1,312
Yau Kang Nam	–	960	80	12	–	1,052
Jiang Hai Qing	–	696	58	12	–	766
	–	4,656	388	48	–	5,092
Independent non-executive directors:						
Liu Ngai Wing	40	–	–	–	–	40
Ng Sui Keung	40	–	–	–	–	40
Lai Kin Keung	20	–	–	–	–	20
	100	–	–	–	–	100
	100	4,656	388	48	–	5,192

During the year ended 31st March, 2006, two directors waived emoluments of HK$2,250,000. No directors waived any emoluments during the year ended 31st March, 2005.

The management consider that the directors of the Company are the key management of the Group.

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

(ii) Employees' emoluments

The five highest paid individuals of the Group for the year included two (2005: three) executive directors, details of whose emoluments are set out in (i) above. The emolument of the remaining three (2005: two) highest paid employees, not being directors of the Company, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,454**	1,752
Discretionary bonuses	**263**	224
Retirement benefit scheme contributions	**36**	24
	2,753	2,000

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2006	2005
Nil – HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	3	2

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
– bank borrowings wholly repayable within five years	**3,446**	1,666
– obligations under finance leases	**1,436**	1,102
Total finance costs	**4,882**	2,768

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group have no assessable profit for the year.

The applicable income tax rate for subsidiaries operating in the PRC is 33%.

A reconciliation of taxation is as follows:

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit for the year	**(23,762)**	3,550
Tax at Hong Kong Profits Tax rate of 17.5%	**(4,158)**	621
Tax effect of expenses not deductible for tax purpose	**2,850**	1,079
Tax effect of income not taxable for tax purpose	**(28)**	(2,515)
Tax effect of tax losses not recognised	**796**	75
Utilisation of tax losses previously not recognised	**(246)**	(391)
Effect of different tax rates of subsidiaries operating in the PRC	**786**	1,078
Others	**–**	53
Taxation for the year	**–**	–

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is computed based on the following data:

	2006	2005
	HK$'000	*HK$'000*
(Loss) earnings:		
(Loss) earnings for the year attributable to equity holders of the Company for the purposes of basic and diluted earning per share	**(23,762)**	3,550

	2006	2005
Number of shares:		
Weighted average number of shares for the purpose of basic (loss) earnings per share	**392,053,256**	291,455,301
Effect of diluted potential shares:		
Share options		3,055,343
Weighted average number of shares for the purpose of diluted earnings per share		294,510,644

No diluted loss per share has been presented for the year ended 31st March, 2006 as the exercise of the Company's outstanding share options would reduce the loss per share for the year.

The denominator for the purposes of calculating basic earnings per share for the year ended 31st March, 2005 has been adjusted to reflect the consolidation of shares in April 2006 on the basis that twenty shares were consolidated into one share and the rights issue of shares in March 2006.

11. (LOSS) EARNINGS PER SHARE *(Continued)*

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on both basic and diluted earnings per share:

	Impact on basic (loss) earnings per share		**Impact on diluted earnings per share**	
	2006	2005	**2006**	2005
	HK	*HK*	***HK***	*HK*
Figures before adjustments	**(5.70) cents**	1.22 cents	**N/A**	1.21 cents
Adjustments arising from changes in accounting policies	**(0.36) cents**	–	**N/A**	–
As adjusted	(6.06) cents	1.22 cents	**N/A**	1.21 cents

12. 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 1st April, 2004	7,596	3,478	187,859	3,736	1,208	7,825	211,702
Additions	–	3,689	17,520	150	–	542	21,901
Disposals	–	–	(24,435)	(308)	–	(33)	(24,776)
At 31st March, 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 31st March, 2006	7,596	7,603	183,769	3,560	1,208	8,645	212,381
DEPRECIATION							
At 1st April, 2004	2,358	3,163	130,255	2,466	1,204	6,694	146,140
Provided for the year	308	402	9,882	280	3	569	11,444
Eliminated on disposals	–	–	(17,893)	(308)	–	(33)	(18,234)
At 31st March, 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 31st March, 2006	2,974	4,040	129,547	2,424	1,208	7,499	147,692
CARRYING VALUES							
At 31st March, 2006	4,622	3,563	54,222	1,136	–	1,146	64,689
At 31st March, 2005	4,930	3,602	58,700	1,140	1	1,104	69,477

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

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 value of machinery and equipment includes an amount of approximately HK$36,464,000 (2005: HK$39,009,000) in respect of assets held under finance leases.

13. PREPAID RENTALS

	2006	2005
	HK$'000	*HK$'000*
Amount to be utilised within one year	**2,239**	2,239
Amount to be utilised after one year	**28,550**	30,789
	30,789	33,028
Less: Amount to be utilised within one year included in debtors, deposits and prepayments	**(2,239)**	(2,239)
	28,550	30,789

Prepaid rentals represent the amounts advanced by the Group to a third party for the construction of production and related facilities in Baoan, the PRC. Pursuant to the original and supplementary agreements signed between a subsidiary of the Company and the third party, the Group is entitled to use the production and related facilities for a term of 30 years up to 31st 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 (2005: HK$2,239,000). The advances are unsecured and interest free.

14. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity securities (note 32)	**9,500**	–

The above investments represent unlisted equity investments in Vevion, a company incorporated in Hong Kong, in which the Company acquired 1,900,000 shares or 19% of the equity interests in Vevion during the year. 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.

15. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	44,370	38,657
Work in progress	19,814	18,132
Finished goods	10,732	4,478
	74,916	61,267

16. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31st March, 2006, the balance of debtors, deposit and prepayments included trade debtors of approximately HK$28,958,000 (2005: HK$32,902,000).

The Group's trade debtors comprise:

	2006	2005
	HK$'000	*HK$'000*
Trade debtors from outsider	26,897	32,902
Related companies (Note)	2,061	–
	28,958	32,902

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

16. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

The aged analysis of trade debtors at the reporting date is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**21,040**	30,642
31 – 60 days	**2,536**	694
61 – 90 days	**254**	597
91 – 120 days	**922**	435
Over 120 days	**4,206**	534
	28,958	32,902

The Group allows an average credit period of 35 days (2005: 35 days) to its trade customers.

The fair value of the debtors approximates its corresponding amount.

17. AMOUNT DUE FROM A RELATED COMPANY

	2006	2005
	HK$'000	*HK$'000*
Deferred consideration receivable for disposal of a subsidiary (Note)	**3,360**	7,200
Advance	**–**	2,000
	3,360	9,200
Maximum amount outstanding during the year	**11,340**	9,200

Note: On 31st March, 2005, the Company and Vevion entered into an agreement in connection with the disposal of Easyfil as described in note 33, to Vevion (the "Easyfil Disposal Agreement"). Pursuant to the Easyfil Disposal Agreement, the deferred consideration receivable of HK$7,200,000 from Vevion at 31st March, 2005 should be settled by cash by five equal monthly instalments of HK$1,440,000 each, commencing from 15th May, 2005 to 15th September, 2005. As at 31st March, 2006, a balance of HK$3,360,000 of the deferred consideration receivable is remained unsettled. The amount due from Vevion is unsecured, non-interest bearing and repayable on demand.

The directors consider the fair value of the amount due from a related company approximate its corresponding amount.

18. BANK BALANCES AND CASH

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

The directors consider the fair value of the bank balances and cash approximate its corresponding amount.

19. CREDITORS AND ACCRUED CHARGES

At 31st March, 2006, the balance of creditors and accrued charges included trade creditors of approximately HK$27,065,000 (2005: HK$29,627,000). The aged analysis of trade creditors at the reporting date is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**17,036**	20,896
31 – 60 days	**1,125**	2,354
61 – 90 days	**2,077**	1,853
91 – 120 days	**1,524**	1,666
Over 120 days	**5,303**	2,858
	27,065	29,627

The fair value of the creditors approximates to its corresponding amount.

20. BILLS PAYABLE

Bills payable carry interest at prevailing market rates and aged within 30 days.

The directors consider the fair value of the bills payable approximate its corresponding amount.

21. AMOUNTS DUE TO DIRECTORS

Amounts represent advances from Mr. Chan Hoi Lam and Mr. Kan Shiu Cheong, Frederick, the directors of the Company, amounted to HK$1,000,000 and HK$3,200,000, respectively.

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

The directors consider the fair value of the amounts due to directors approximate its corresponding amount.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum leases payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The obligations under finance leases are repayable within the periods as follows:				
Within one year	**9,714**	12,200	**9,117**	11,480
In more than one year but not more than two years	**7,673**	9,084	**7,447**	8,727
In more than two years but less than three years	**1,011**	7,172	**993**	7,020
In more than three years but less than four years	**–**	608	**–**	602
	18,398	29,064	**17,557**	27,829
Less: Future finance charges	**(841)**	(1,235)	**N/A**	N/A
Present value of lease obligations	**17,557**	27,829	**17,557**	27,829
Less: Amount due within one year shown under current liabilities			**(9,117)**	(11,480)
Amount due after one year			**8,440**	16,349

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 31st March, 2006, the average effective borrowing rate (which was also equal to contracted interest rates) was ranged from 4.5 to 7.3% (2005: 2.65% to 5.03%). 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.

22. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The fair value of the Group's finance lease obligations is determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximate to its carrying amount.

23. BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Export loans (note a)	**13,368**	6,468
Discounted bills	**4,423**	–
Trust receipts and import loans (note a)	**21,494**	16,853
Short term bank loans (note b)	**3,328**	5,004
Long term bank loans	**–**	3,328
Bank overdrafts (note c)	**12,638**	8,605
	55,251	40,258
Less: Amounts due within one year shown under current liabilities	**(55,251)**	(36,930)
Amount due after one year	**–**	3,328

Notes:

a. Export loans, trust receipts and import loans carry a variable interest rate ranged from 4.5% to 9.3% (2005: 2.65% to 6.25%) per annum.

b. Short term bank loans carry a variable interest rate ranged from 4.8% to 7.0% (2005: 2.9% to 5.28%) per annum.

c. Bank overdrafts carry a variable interest rate ranged from 5.5% to 9.3% (2005: 5% to 6.25%) per annum.

All the above bank borrowings are unsecured.

The directors consider that the carrying amount of unsecured bank loans approximate their fair value.

24. SHARE CAPITAL

	Notes	Number of shares	Par value per ordinary share *HK$*	Share capital *HK$'000*
Authorised:				
At 1st April, 2004, 31st March, 2005 and 31st March, 2006		10,000,000,000	0.01	100,000
Issued and fully paid:				
At 1st April, 2004		3,901,508,071		39,015
Issue of new shares upon exercise of share options	(a)	40,082,000	0.01	401
At 31st March, 2005		3,941,590,071	0.01	39,416
Issue of new shares upon exercise of share options	(b)	12,400,000	0.01	124
Rights issue of shares	(c)	1,976,995,036	0.01	19,770
At 31st March, 2006		5,930,985,107		59,310

Notes:

(a) During the year ended 31st March, 2005, the Company issued 40,082,000 new shares upon exercising of share options, comprising exercised of 11,182,000 share options by directors at exercise price of HK$0.01344 and exercised of 28,900,000 share options by employees at exercise price of HK$0.018, totaling HK$671,000. 40,082,000 new shares at HK$0.01 par value amounted to HK$401,000 were credited to the share capital with the rest of the amount of HK$270,000 being credited to the share premium account.

(b) During the year ended 31st March, 2006, the Company issued 12,400,000 new shares upon exercising of share options, comprising exercised 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.

(c) 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.

24. SHARE CAPITAL *(Continued)*

On 11th April, 2006, every twenty shares of par value HK$0.01 each in the issued ordinary share capital of the Company were consolidated into one consolidated share of par value HK$0.20. The paid up capital of each Consolidated Share in issue cancelled to the extent of HK$0.19 on the nominal value of HK$0.20 of each Consolidated Share so as to form one reorganised share of par value of HK$0.01 each. The credit arising from the capital reorganisation was transferred to the contributed surplus account of the Company.

25. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed on 19th February, 1992, the Company adopted a share option scheme (the "Old Scheme") on that date for the primary purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the Old Scheme, the board of directors of the Company may grant share options to executive directors and employees of the Company and of its subsidiaries to subscribe for shares in the Company. Options granted must be taken up within the period as specified in the offer of options, and upon payment of HK$1 as the consideration for the options granted and are exercisable on the expiry of six months after the date of acceptance of the options granted or on such other date as the board of directors may at its discretion determine and will expire on the last day of the three years period.

The maximum number of shares in respect of which share options may be granted under the Old Scheme and any other schemes of the Company in aggregate shall not exceed 10% of the issued share capital of the Company from time to time. The maximum entitlement of each participant under the Old Scheme shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme. The exercise price shall be 80% of the average of the closing prices of the shares quoted on the Stock Exchange for the five trading days immediately preceding the date the options are granted or the nominal value of the Company's share, whichever is the higher.

The implementation of relevant terms of the Old Scheme had been adjusted to comply with the new requirements of the Listing Rules, which was adopted on 1st September 2001.

The Old Scheme expired on 18th February, 2002 and no further options can be granted under the Old Scheme thereafter.

25. SHARE OPTIONS *(Continued)*

The details of the movements in the number of options outstanding during the year end 31st March, 2005 which have been granted under the Old Scheme are as follows:

			Number of share options			
Date of grant	**Exercise period**	**Exercise price**	**Outstanding at 1.4.2004**	**Exercised during the previous year**	**Lapsed during the previous year**	**Outstanding at 31.3.2005**
		HK$				
31.8.2001	31.8.2001 – 30.8.2004	0.01344	11,182,000	(11,182,000)	–	–
18.2.2002	18.2.2002 – 17.2.2005	0.02400	10,000,000	–	(10,000,000)	–
18.2.2002	1.6.2002 – 31.5.2005	0.02400	4,000,000	–	(4,000,000)	–
			25,182,000	(11,182,000)	(14,000,000)	–

Details of share options granted under the Old Scheme held by directors included in the above table are as follows:

			Number of share options			
Date of grant	**Exercise period**	**Exercise price**	**Outstanding at 1.4.2004**	**Exercised during the previous year**	**Lapsed during the previous year**	**Outstanding at 31.3.2005**
		HK$				
31.8.2001	31.8.2001 – 30.8.2004	0.01344	11,182,000	(11,182,000)	–	–
18.2.2002	18.2.2002 – 17.2.2005	0.02400	10,000,000	–	(10,000,000)	–
			21,182,000	(11,182,000)	(10,000,000)	–

The closing price of the company's shares as at 31st March, 2005 upon the dates of the exercise of option under the Old Scheme was HK$0.028.

All the outstanding options under the Old Scheme were exercised or lapsed during the year ended 31st March, 2005.

Pursuant to an ordinary resolution of the Company passed on 29th August, 2002, the Company adopted a new share option scheme (the "New Scheme") on that date for the primary purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

25. SHARE OPTIONS *(Continued)*

Pursuant to the New Scheme, the board of directors of the Company may at any time within ten years from the adoption date, offer any eligible participant (including any director of the Company or any of its subsidiaries) options to subscribe for shares in the Company at a price not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option scheme of the Company shall not exceed 10% of the shares of the Company in issue on the adoption date. The maximum entitlement of each participant in any twelve month period under the New Scheme shall not exceed 1% of the shares of the Company in issue at the relevant time.

Each grant of options to any director, chief executive or substantial shareholder of the Company shall be subject to approval of the independent non-executive directors. In addition, any grant of options to a substantial shareholder or an independent non-executive director, or any of their associates would result in the shares issuable upon exercise of all options granted and to be granted to such person in the twelve month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares quoted on the Stock Exchange on the date of grant) in excess of HK$5 million, such further grant of options shall be subject to approval by the shareholders in general meeting.

Options granted must be taken up within 28 days from the date of grant, upon payment of the consideration of HK$1 per each grant of option. The exercise period of the options is determinable by the directors, and shall expire not later than ten years from the date of grant. The New Scheme does not specify the requirement as to minimum period for which an option must be held.

25. SHARE OPTIONS *(Continued)*

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

Date of grant	Exercise period	Exercise price per share *HK$*	Adjusted exercise price per share *HK$* (Note)	Number of options: Outstanding at 1.4.2004	Exercised during the previous year	Lapsed during the previous year	Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Adjustment during the year (Note)	Outstanding at 31.3.2006
3.4.2003	3.4.2003 – 2.4.2006	0.0180	0.0160	106,900,000	(28,900,000)	(7,100,000)	70,900,000	–	(12,400,000)	7,312,500	65,812,500
26.4.2005	26.4.2005 – 25.4.2008	0.0362	0.0322	–	–	–	–	39,000,000	–	4,875,000	43,875,000
20.9.2005	20.9.2005 – 19.9.2008	0.0274	0.0244	–	–	–	–	79,000,000	–	9,875,000	88,875,000
				106,900,000	(28,900,000)	(7,100,000)	70,900,000	118,000,000	(12,400,000)	22,062,500	198,562,500

Details of share options held by director included in the above table are as follows:

Date of grant	Exercise period	Exercise price per share *HK$*	Adjusted exercise price per share *HK$* (Note)	Number of options: Outstanding at 1.4.2004 and 1.4.2005	Granted during the year	Exercised during the year	Adjustment during the year (Note)	Outstanding at 31.3.2006
3.4.2003	3.4.2003 – 2.4.2006	0.0180	0.0160	44,000,000	–	(6,000,000)	4,750,000	42,750,000
20.9.2005	20.9.2005 – 19.9.2008	0.0274	0.0244	–	79,000,000	–	9,875,000	88,875,000
				44,000,000	79,000,000	(6,000,000)	14,625,000	131,625,000

Note: The Company allotted 1,976,995,036 rights shares on 23rd March, 2006. Pursuant to the terms of the Share Options Scheme, the exercise price and number of shares that can be subscribed for under the New Scheme are required to be adjusted as a result of the rights issue with effect from 23rd March, 2006.

25. SHARE OPTIONS *(Continued)*

The closing prices of the Company's shares upon the dates of exercise of options under the New Scheme ranged from HK$0.029 to HK$0.043 (2005: from HK$0.026 to HK$0.038).

The financial impact of options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their costs. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

The fair values of options granted during the year ended 31st March, 2006 were calculated using The Black-Scholes pricing model which is considered by the Directors to be the best pricing model currently available for estimating the fair values of these options. The inputs into the model were as follows:

Date of grant	**26th April, 2005**	**20th September, 2005**
Share price at date of grant	HK$0.0360	HK$0.0270
Exercise price	HK$0.0362	HK$0.0274
Expected volatility	55%	55%
Expected life in years	3	3
Risk free rate	2.776%	3.840%
Expected dividend yield	0.0%	0.0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

During the year ended 31st March, 2006, options were granted on 26th April, 2005 and 20th September, 2005 and the estimated fair values of the options granted on those dates are HK2.2 cents and HK1.7 cents respectively.

26. MAJOR NON-CASH TRANSACTION

During the year, certain subsidiaries of the Group entered into finance lease arrangements of HK$1,548,000 (2005: HK$12,703,000) in respect of property, plant and equipment with capital value at the inception of the lease of HK$1,720,000 (2005: HK$14,656,000).

27. 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 1st April, 2004	(3,409)	3,409	–
Credit (charge) to income statement for the year	1,144	(1,144)	–
At 31st March, 2005	(2,265)	2,265	–
Credit (charge) to income statement for the year	901	(901)	–
At 31st March, 2006	(1,364)	1,364	–

At 31st March, 2006, the Group has unused tax losses of approximately HK$131,037,000 (2005: HK$133,048,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$7,790,000 (2005: HK$12,941,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$123,247,000 (2005: HK$120,107,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

28. CONTINGENT LIABILITIES

	2006	2005
	HK$'000	*HK$'000*
Bills receivable discounted with recourse	**–**	1,981

29. CAPITAL COMMITMENTS

	2006	2005
	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	**7,764**	1,088

30. OPERATING LEASE COMMITMENTS

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**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**9,594**	5,223	**130**	186
In the second to fifth year inclusive	**41,141**	8,691	**454**	–
Over five years	**30,024**	7,432	**–**	–
	80,759	21,346	**584**	186

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 of eight years. The lease payments are fixed and no arrangements have been entered into for contingent rental.

31. RETIREMENT BENEFIT SCHEME

Hong Kong

A retirement plan has been established for all eligible employees of the Group in Hong Kong starting from 1st 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 1st 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:

	2006	2005
	HK$'000	*HK$'000*
Employers' contributions under defined contribution schemes	**644**	751
Less: Forfeited contributions utilised to offset employers' contributions to the defined contribution scheme	**(718)**	(17)
	(74)	734

At both balance sheet dates, 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 was 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 31st March, 2006 was approximately HK$1,946,000 (2005: HK$1,889,000). No forfeited contributions may be used by the employers to reduce the existing level of contributions.

32. RELATED PARTY TRANSACTIONS

On 23rd January, 2006, the Company acquired 1,900,000 ordinary shares of Vevion, representing 19% of the equity interests in Vevion, from Mr. Chan Hoi Lam, the director of the Company, at a consideration of HK$9,500,000.

During the year ended 31st March, 2006, the Group sold goods, amounting of approximately HK$2,133,000, to Easyfil, in which Mr. Chan Hoi Lam, the director of the Company, has a beneficial interest.

During the year ended 31st March, 2006 and 2005, the Group had paid emoluments to directors of the Company, who are also considered as the key management of the Group.

On 31st March, 2005, the Group disposed of its subsidiary Easyfil, to Vevion, in which Mr. Chan Hoi Lam, the director of the Company, has a beneficial interest, at consideration of HK$8,000,000 (see note 33).

33. GAIN ON DISPOSAL OF A SUBSIDIARY

On 31st March, 2005, the Group disposed of its entire interest in Easyfil.

The net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Inventories	755
Debtors, deposits and prepayment	503
Bank balances and cash	84
Creditors and accrued charges	(134)
	1,208
Gain on disposal of a subsidiary	6,792
Total consideration	8,000
Satisfied by:	
Cash	800
Deferred consideration receivable	7,200
	8,000
Net cash inflow arising on disposal:	
Cash received	800
Bank balances and cash disposed of	(84)
	716

The deferred consideration receivable should be settled by cash by five equal monthly instalments of HK$1,440,000 each, commencing from 15th May, 2005 to 15th September, 2005 (see note 17).

The subsidiary disposed of during the year contributed HK$3,282,000 Group's turnover and HK$421,000 to the Group's loss from operations.

34. 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

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 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 31st March, 2006 or at any time during the year.

35. BALANCE SHEET INFORMATION OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Non-current assets		
Interests in subsidiaries	**179,654**	179,654
Current assets		
Amounts due from subsidiaries	**39,287**	18,367
Prepayment	**267**	267
Bank balances	**7**	8
	39,561	18,642
Current liabilities		
Creditors and accrued charges	**1,191**	375
Amounts due to subsidiaries	**98,309**	98,256
	99,500	98,631
Net current liabilities	**(59,939)**	(79,989)
Net assets	**119,715**	99,665
Capital and reserves		
Share capital	**59,310**	39,416
Reserves	**60,405**	60,249
Total equity attributable equity holders of the Company	**119,715**	99,665

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

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 31st March, 2006, the Company's reserves available for distribution to shareholders consisted of contributed surplus of HK$47,297,000 (2005: HK$47,297,000) and accumulated profits of HK$12,111,000 (2005: HK$12,113,000).

36. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company undertook the following capital reorganisation:

(a) 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;

(b) the paid up capital of each Consolidated Share in issue cancelled to the extent of HK$0.19 on the nominal value of HK$0.20 of each Consolidated Share so as to form one reorganised share of par value of HK$0.01 each; and

(c) the credit arising from the capital reorganisation was transferred to the contributed surplus account of the Company.

Subsequent to the year end date on 14th July, 2006, Mr. Chan as the vendor entered into a placing agreement pursuant to which the placing agent, Kingston Securities Limited, had agreed to procure, on a fully underwritten basis, independent placees for up to 39,000,000 shares at a price of HK$0.21 per share ("Placing"), as agent for and on behalf of the vendor. On the same date, the Company entered into a subscription agreement with the vendor whereby, the vendor had agreed, upon completion of the Placing and subject to (a) the Listing Committee of the Stock Exchange granting the approval of the listing of and permission to deal in the subscription shares; and (b) completion of the Placing pursuant to the placing agreement, to subscribe for 39,000,000 new Shares as is equal to the Placing of shares actually placed by the placing agent at a price of HK$0.21 per share.