MAGICIAN INDUSTRIES (HOLDINGS) LIMITED
通達工業(集團)有限公司

Stock Code 股份代號 : 526

ANNUAL REPORT 07 年報

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BOARD OF DIRECTORS

Executive Director

Mr XU Jin *(Chairman)*

Non-Executive Director

Mr LAU Kin Hon

Independent Non-Executive Directors

Mr HE Chengying
Mr CHAN Man Sum Ivan
Mr CHEUNG Kiu Cho Vincent

QUALIFIED ACCOUNTANT

Mr TONG Kam Lung

COMPANY SECRETARY

Mr LAU Kin Hon

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton
HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Flat A, 2/F, Yeung Yiu Chung (No.6)
Industrial Building, 19 Cheung Shun Street
Cheung Sha Wan, Kowloon, Hong Kong

SECURITIES CODE

Hong Kong Stock Code: 526

AUDITORS

Mazars CPA Limited
34/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

PRINCIPAL BANKERS

Bank of China, Baoan Sub-branch, Shenzhen, PRC
Indover bank (Asia) Limited
Bank of Communications, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre, 11 Bermudiana Road, Pembroke,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INVESTOR RELATIONS ADVISOR

PR Concepts Company Limited

EXECUTIVE DIRECTOR

Mr XU Jin, aged 41, is the founder and currently the chairman of a private enterprise incorporated in the People's Republic of China whose principal businesses include manufacturing and trading of plastic and metal household products. Mr Xu has extensive experience in manufacturing and trading of plastic and metal products. He was appointed as chairman and executive director of the Company and director of various subsidiaries in March 2006.

NON-EXECUTIVE DIRECTOR

Mr LAU Kin Hon, aged 39, is a Hong Kong practicing solicitor and is currently a partner of Messrs. Tang Tso & Lau, Solicitors. He has been practicing law in Hong Kong for 15 years. Mr. Lau received his bachelor of laws degree from University College, London, UK. He was appointed as non-executive director and company secretary of the Company in May 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr HE Chengying, aged 44, graduated from the Department of Accountancy of South Western University of Finance and Economics, holds a Master Degree of Economics from Zhejiang University and a Doctoral Degree of Economics from Xiamen University. He previously worked for Shenzhen Investment Holding Corporation, China Eagle Securities and United Securities. Mr He is currently the Assistant to President and General Manager of the R&D Department of Guosen Securities. He is also an associate professor, senior economist and a special research fellow of the China Management Science Research Institute. Mr He had previously engaged in state enterprise, state-owned asset management, as well as directly participated in drafting and formulating policies for state enterprise and state-owned asset management reforms. Subsequently, Mr He has engaged in stock market innovation, assets reorganization, as well as capital market operation and research. He has accumulated extensive experience in corporate reform, assets reorganization and capital management planning. He was appointed as independent non-executive director of the Company in September 2006.

Mr CHAN Man Sum Ivan, aged 33, is a member of the American Institute Certified Public Accountants and holds a Bachelor of Science Degree in Business Administration with emphasis on Accounting issued by California State University Los Angeles. Currently Mr. Chan is working in an investment bank. Prior to his current occupation, he was a chief financial officer of a listed company. Mr. Chan has over 9 years of experience in the field of investment banking, accounting and financial management. He was appointed as independent non-executive director of the Company in June 2006.

Mr CHEUNG Kiu Cho Vincent, aged 31, is a Registered Professional Surveyor in the General Practice Division and member of both The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors. Mr. Cheung holds a Master of Business Administration degree in International Management granted by University of London in association with Royal Holloway and Bedford New College and a Bachelor of Science (Honours) degree in Real Estate granted by The Hong Kong Polytechnic University. Mr. Cheung is an Associate Director of an international corporate valuation and advisory company. Mr. Cheung has over 10 years. of experience in the field of assets valuation, assets management and corporate advisory. He was appointed as independent non-executive director of the Company in June 2006.

SENIOR MANAGEMENT

Mr TANG Yu Ping, aged 37, is the chief financial officer of the Group. Mr Tang possesses over 13 years of experience in corporate development, financial management and consulting for various industries including logistics and manufacturing. He was the financial controller of a Greater China group listed in Hong Kong for which he led the successful IPO process. By profession, Mr Tang is a Certified Public Accountant of Hong Kong, and he is also a Fellow of the Association of Chartered Certified Accountants in UK. Moreover, he holds a Master degree in Operational Research and Information Systems from the London School of Economics and Political Science. He joined the Group in April 2006.

Mr MUNG Chin Yue, aged 41, is the general manager of the Group and is responsible for overall operations of the Group including marketing, sales, product development and manufacturing. Mr Mung possesses more than 17 years of experience in sales and marketing of consumer products and in management of manufacturing companies. Prior to joining the Group, he was the general manager of a manufacturing company in Greater China. Mr Mung obtained his Bachelor Degree in Sociology and Politics, Combined Honors, from the University College of Swansea, UK. He joined the Group in June 2007.

Ms YANG Shu Ying, aged 44, is the senior sales and marketing manager of the Group. Ms Yang is responsible for the international marketing and sales of the Group. She has over 23 years' experience in marketing and sales of household products, garment & sundry. Ms Yang graduated from Ming Chuan College, Taiwan. She joined the Group in 1992, left in 1995 and rejoined in 1996.

Mr Tong Kam Lung, aged 38, is the qualified accountant of the Company. He is the finance manager of the Group and responsible for group accounting matters. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia. He has 15 years working experience in financial accounting and management accounting. Prior to his current occupation, he was a financial controller and qualified accountant of a listed company. He joined the Group in May 2006.

Dear Shareholders,

2006/07 is a year of consolidation, which enables the Group to regain its strength and lay a solid foundation for improved results in the coming years. The Group's persistent effort in cost control and revised business strategy to focus on better return products and customers have paid off. Our financial results clearly demonstrate that the loss is narrowed and the gross profit margin remains stable despite the unfavourable production and economic factors worsening during the year under review.

Like other manufacturing counterparts, the Group's bottom-line were undermined by sustained high raw material prices such as plastic and steel. The Group also fell victim to climbing wage level in southern China, shortage of quality labour and unstable electricity supply in Mainland China. The revaluation of RMB against US and Hong Kong dollars has furthered posed pressure on the Group's performance during the year under review.

For the year ended 31 March 2007, the Group reported a net loss attributable to shareholders of HK$22.8 million, compared to HK$47.0 million loss for last year. The cause of this improvement was the Group's stringent cost control measures despite unpleasant market conditions mentioned above. The Group's turnover dropped by 6.2%, from HK$233.9 million recorded last year to HK$219.5 million, owing to the Group's policy in focusing on products and customers with higher returns. Basic loss per share was HK2.63 cents (2006: HK5.41 cents).

The board of directors has resolved not to recommend any final dividend for the year ended 31 March 2007.

CLEAR BUSINIESS STRATEGIES

In face of fierce competition and ever-rising raw material costs, the Group kept on shifting the focus of our client base to high-margin products and customers. The OEM market remained the main focus of the Group, as OEM customers are willing to invest in tailor-made products that fit their specific requirements, which provides the Group with a higher profit margin. At the same time, these OEM products are protected by patents and copyrights, which shielded the Group from competition from other companies.

Riding on the success of the silicone products, the Group will continue to put emphasis on these high-margin products. At Magician, we value new product development and will further invest in research and development. Being one of the household products suppliers with the most comprehensive products range in Asia, Magician will capitalise on this competitive edge to offer more sophisticated household products with higher margins. Besides, the Group plans to diversify the product line for new products with better margins and different life cycles.

In line with the new product line and new product development, the Group is going to strengthen its sales team and effort in the near future. Moreover, backed by a solid production base and know-how on producing the most comprehensive range of household products, the Group will adopt more vigorous steps to boost sales, and at the same time maintain a high quality of earnings. Magician is well prepared to grasp every business opportunity lying ahead.

COST CONTROL

During the past few years, the Group has adopted a series of measures to cut cost. The Group will continue to impose tight control on the headcounts of all departments. During the year under review, the number of employees decreased from 2,025 to 1,517.

To enhance cost-effectiveness, the Group has realigned its product line management through several measures such as roster rearrangement, wages basis rationalization and tightened quality controls. The Group has also invested in machinery maintenance and replacement to raise production efficiency.

Despite high costs of raw materials, the Group has made use of bulk procurement and futures delivery to hedge against the cost fluctuation in raw materials. Besides, the Group will strive to negotiate better prices with key raw material suppliers and logistic service providers. Magician will closely monitor the trends of raw material prices and take swift actions to manage the risk.

APPRECIATION

With clear business strategies, stringent cost control measures, and strong product development capabilities, I am truly optimistic with Magician's business prospect. In fact, the Group has undergone stable and gradual improvement in every aspect during the year under review.

On behalf of the Board, I would like to thank our customers, suppliers, business partners and shareholders for their continuous support. Last but not least, I would also like to take this opportunity to express my heartfelt gratitude and pride in having an outstanding workforce at Magician. We shall work hard with an aim to breakeven and then generate better results in the near future.

Xu Jin
Chairman
Hong Kong
23 July 2007

FINANCIAL HIGHLIGHTS

General Information

For the year ended 31 March 2007, Magician recorded a turnover of HK$219.5 million, representing a drop of 6.2% compared to HK$233.9 million recorded last year. Loss for the year attributable to equity holders of the Company was HK$22.8 million, compared to HK$47.0 million for last year. The Group's basic loss per share was HK2.63 cents.

There was neither acquisition nor disposal of principal subsidiaries or associated companies during the year.

Liquidity and Financial Resources

As at 31 March 2007, the Group's net assets decreased to HK$27.6 million, representing net asset value per share at HK3.2 cents. The Group's total assets as at that date were valued at HK$296.2 million, including cash and bank deposits totalling approximately HK$7.9 million. Consolidated borrowings amounted to HK$181.5 million. Its debt-to-equity ratio has been increased from 318.1% as at 31 March 2006 to 656.9 % as at 31 March 2007.

Capital Structure

As at 31 March 2007, the Group's major borrowings included a one year term loan provided by Bank of China, Baoan, Shenzhen, China which had an outstanding balance of HK$120.0 million, other bank borrowings of HK$13.1 million and advance and borrowings from a shareholder and related companies totalling HK$42.8 million.

All of the Group's borrowings have been denominated in Hong Kong dollar and United States dollar made on a floating-rate and fixed rate basis respectively. As a result of rising market interest rates and the additional short term loan raised, the finance costs for the year under review increased slightly to HK$11.9 million as compared to HK$11.5 million for the previous year.

Charges on Group Assets

Certain assets of the Group with a carrying value of HK$183.4 million as at 31 March 2007 (2006: HK$172.5 million) were pledged to secure bank facilities for the Group.

Capital Expenditure and Commitments

The Group will continue to allocate a reasonable amount of resources to acquisition and improvement of capital assets such as moulds and new machines to maintain efficiency and to meet production and market demands. Sources of funding are expected to come primarily from trading revenue that the Group will generate and alternative debt and equity financing.

Exposure on Foreign-Exchange Fluctuations

The Group's trading income, monetary assets and liabilities were principally denominated in Hong Kong dollar, PRC Renminbi and U.S. dollar. As far as the Hong Kong dollar remains pegged to the U.S. dollar and the PRC government continues to be conservative in their foreign exchange and monetary policies, the currency risk was not significant.

Segment Information

North America remained the Group's primary market, which accounted for 81.1% of total sales. The remaining comprised of sales to Europe, Hong Kong, PRC and others.

Contingent Liabilities

As at the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of corporate guarantees of HK$152.5 million (2006: HK$115.6 million) for banking facilities granted to its subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$133.1 million (2006: HK$83.9 million).

Employee Information

As at 31 March 2007, the Group employed a workforce of 1,517 (2006: 2,025) employees in its various offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were provided and commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, practical seminars for knowledge update, on-the-job training and safety training programs to its employees.

There was a share option scheme in force but no share option was granted during the year under review. No bonus has been paid other than sums, each equivalent to one additional month's salary, paid to individual staff members as part of agreed salary package, which applied to most of the employees.

Staff costs during the year amounted to HK$36.8 million (2006: HK$50.2 million), representing a decrease of 26.7% compared to that of last year.

REVIEW OF OPERATIONS

For the year ended 31 March 2007, the Group recorded a loss for the year of HK$22.8 million. The loss was mainly due to stagnant sales and the persisting high levels of production costs as a result of surging price level of raw materials. Rise in labour costs and shortage of labour in Guangdong Province also further eroded the Group's bottom line.

During the year under review, the Group continued to experience severe challenges. The Group's major markets remained sluggish. Demand for household products slackened while competition was fierce that resulted in intense pressure on profit margins. The Group responded by declining low margin sales orders while focusing on higher margin products such as metal silicone over-mould bakeware, silicone bakeware and OEM products.

International sales for the year ended 31 March 2007 declined by 5.4% to HK$202.5 million from HK$214.0 million in prior year. For the year under review, sales in the US market dropped by 7.9% to HK$167.5 million when compared to HK$181.8 million for last year. Sales in the Canadian market increased by 38.2% to HK$10.5 million from the HK$7.6 million recorded last year. The sales performance of the European market dropped to HK$10.4 million, compared to HK$12.8 million in the previous year. Sustained high oil prices had a negative impact on the demand for household products in these markets. To enhance the quality of earnings, the Group focused its efforts on orders with reasonable profit margins and favourable payment terms, which also contributed to the reduction in sales.

PROSPECTS

Looking ahead, the Group is facing three major challenges, namely rise in the materials and labor cost, the gradual appreciation of RMB and shareholders' expectation of improved bottom-line. The first two are results of the shifts in the macroeconomic environment and has impact upon the final one. As a manufacturer in China, Magician cannot overturn the macroeconomic environment. However we can ride on the mega trend and hence provide favourable returns for our shareholders.

To cope with the changes in the macro environment, the Group will adopt a three-pronged strategy, namely, innovation, cost controls and higher efficiency.

As one of the leading household products manufacturer in Asia, Magician has always emphasised innovation. The Group's innovative product development and marketing team has numerous creative ideas in terms of product design and promotion. With our strong innovative capabilities, the Group firmly believes that we can produce quality products meeting the market needs and commanding higher price and margins.

Cost control is one of the important means for improving our bottom-line. Apart from streamlining our workforce, the Group in future will instill cost efficacy consciousness into all of our staff. With the gradual implementation of various cost containment measures, we are confident to maintain our production and administrative costs at a competitive level.

Ever since the new management is in place, the Group has adopted various measures to achieve greater operational efficiency and lower wastage at all levels, from the production line to the senior management. We shall carry on to try our best endeavor to achieve continuous improvement in this respect.

With all of the above measures in place, the Group believes it will turn to black in the near future and hence meet the shareholders' expectation.

The Group's experience in the last decade vividly demonstrates how a listed manufacturing player strives for a better future under the tough economic environment. We believe that with the booming PRC economy and the resilience of the Hong Kong community, Hong Kong has back to its rebound path. At Magician, after weathering all of the uncertainties in the past, we are now on the right track and will have a bright future too.

CORPORATE GOVERNANCE PRACTICES

The Company recognises that maintaining good corporate governance is essential for enhancing shareholder value. The Company has complied with the code provisions of the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), save for the deviations discussed below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors (the "Model Code"). Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standards as set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the formulation of strategies and control of the Group and for monitoring the performance of the management teams. During the year 9 full board meetings were held. The Board currently comprised of one executive director, one non-executive director and three independent non-executive directors. The names of the directors and their attendances are as follows :

	Attendance
Executive directors	
Xu Jin	9/9
Tong Cheehung, Richard *(resigned on 1 August 2006)*	6/9
Ho Yau Shun *(retired on 27 September 2006)*	6/9
Non-executive directors	
Lau Kin Hon	9/9
Chan Ying Gi, Dorice *(resigned on 24 August 2006)*	0/9
Chan Shu Wah *(retired on 27 September 2006)*	4/9
Kong Yick Ming *(retired on 27 September 2006)*	3/9
Independent non-executive directors	
He Chengying *(appointed on 27 September 2006)*	1/9
Chan Man Sum Ivan *(appointed on 14 June 2006)*	4/9
Cheung Kiu Cho Vincent *(appointed on 14 June 2006)*	3/9
Yeung Po Chin *(retired on 27 September 2006)*	2/9
Ng Shiu Kwan *(retired on 27 September 2006)*	3/9
Yim Kai Pung *(resigned on 14 June 2006)*	0/9

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of chairman and chief executive officer had been separate and performed by different individuals during the period until resignation of the former chief executive officer with effect from 1 August 2006. Since then Mr Xu Jin, the chairman, has been acting as interim chief executive officer of the Company until the vacancy is filled by an appropriate candidate. The Company considers that the arrangement is temporary and the Company is in the process of identifying an appropriate candidate as the Company's chief executive officer.

NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for a fixed term of two years, subject to retirement and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

REMUNERATION OF DIRECTORS

The roles and functions of the remuneration committee are principally advising the board on the policy and structure for remuneration of directors and senior management and on establishing a formal and transparent procedure for developing policy on such remuneration, determining the specific remuneration packages of all executive directors and senior management and ensuring that no director or any of his associates is involved in deciding his own remuneration.

The remuneration committee currently comprised of two independent non-executive directors, namely Mr Chan Man Sum Ivan and Mr Cheung Kiu Cho Vincent and one executive director, namely Mr Xu Jin (Chairman). One meeting was held during the year under review which was attended by all the said committee members. The Remuneration Committee reviewed the remuneration policy of the Directors.

The terms of reference of the remuneration committee was available on request but has not been included in the Company's website as required by Code Provision B.1.4 Notes 1 during the year under review as the Company's website was not yet updated. The Company has already updated its website to include the terms of reference of the remuneration committee as from April 2007.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. All appointments of directors was determined by the board as a whole based on considerations including the vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

AUDITORS' REMUNERATION

During the year under review, the auditors' remuneration paid and payable in respect of the audit services and non-audit services, namely tax and consultancy service, provided by the auditors to the Group amounted to HK$800,000 and HK$88,000 respectively.

AUDIT COMMITTEE

The audit committee currently comprised of three independent non-executive directors. Three audit committee meetings were held during the year under review. The names of the committee members and their attendances are set out below:

	Attendance
Chan Man Sum Ivan *(Chairman)* *(appointed on 14 June 2006)*	3/3
Cheung Kiu Cho Vincent *(appointed on 14 June 2006)*	3/3
He Chengying *(appointed on 27 September 2006)*	1/3
Yim Kai Pung *(resigned on 14 June 2006)*	0/3
Yeung Po Chin *(retired on 27 September 2006)*	2/3
Ng Shiu Kwan *(retired on 27 September 2006)*	2/3

The roles and functions of the audit committee are principally making recommendation to the board on the engagement of external auditors, reviewing the financial information of the Group and overseeing the Group's financial reporting system and internal control procedures.

During the year under review, the audit committee reviewed the Company's annual results for the year ended 31 March 2006 and the interim results for the six months ended 30 September 2006.

The terms of reference of the audit committee was available on request but has not been included in the Company's website as required by Code Provision C.3.4 Notes 1 during the year under review as the Company's website was not yet updated. The Company has already updated its website to include the terms of reference of the audit committee as from April 2007.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Group. As stated in the independent auditors' report, the directors are currently undertaking and intend to take such measures detailed in note 2 to the financial statements to generate sufficient liquid funds to finance its operations and that it is appropriate to prepare the financial statements on a going concern basis. As detailed in note 2 to the financial statements, the Group is dependent upon the continued support of its banks and shareholders. Provided that the measures as detailed in note 2 to the financial statements can accomplish successful outcome, the directors are satisfied that the Group will be able to finance its operations and to meet in full its financial obligations as they fall due for the foreseeable future. However it is uncertain whether the measures as detailed in note 2 to the financial statements can accomplish successful outcome and it is uncertain whether the Group could obtain continuing support from its banks and shareholders. If the outcome turns out to be adverse, it may have significant potential adverse effect on the financial position of the Group and may in turn affect the going concern basis of the preparation of the financial statements.

The board has conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries.

The directors submit their report together with the audited financial statements of Magician Industries (Holdings) Limited (hereinafter as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing and trading of household products.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

FIXED ASSETS

Details of the movement in fixed assets of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2007 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2007, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of approximately HK$158,398,000 (2006: HK$158,398,000) is available for distribution, subject to certain conditions as described in note 24 to the financial statements. The Company's share premium account of HK$282,049,000 (2006: HK$282,049,000) as at 31 March 2007 may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

SHARE OPTIONS

Details of share options of the Company are set out in note 26 to the financial statements.

DIRECTORS

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

Executive directors:

Xu Jin *(Chairman)*
Tong Cheehung, Richard
(resigned on 1 August 2006)
Ho Yau Shun
(retired on 27 September 2006)

Non-executive directors:

Lau Kin Hon
Chan Ying Gi, Dorice
(resigned on 24 August 2006)
Chan Shu Wah
(retired on 27 September 2006)
Kong Yick Ming
(retired on 27 September 2006)

Independent non-executive directors:

He Chengying
(appointed on 27 September 2006)
Chan Man Sum Ivan
(appointed on 14 June 2006)
Cheung Kiu Cho Vincent
(appointed on 14 June 2006)
Yeung Po Chin
(retired on 27 September 2006)
Ng Shiu Kwan
(retired on 27 September 2006)
Yim Kai Pung
(resigned on 14 June 2006)

In accordance with bye-law 87 of the Company's bye-laws, Mr Xu Jin and Mr Lau Kin Hon retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 86 of the company's bye-laws, Mr He Chengying, having been appointed to the board after the last annual general meeting, retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

The Company has received confirmation of independence from each of the independent non-executive directors pursuant to rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' emoluments and of the five highest paid individuals of the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as set out in notes 18, 19 and 28 of the financial statement, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") were as follows:

Name of director	Nature of interests	Number of issued ordinary shares of HK$0.10 each in the Company	Percentage of total issued ordinary shares
Mr Xu Jin	Personal	253,837,198	29.2%

Save as disclosed herein, as at 31 March 2007, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

Share option scheme

The company adopted a share option scheme (the "Scheme") on 8 August 2002 and the particulars of the Scheme are as follows:

Purpose of the Scheme:

To enable the Company to grant options to the participant who accepts the offer of the grant of the options as incentives and/or rewards for their contributions made to the Group.

Participants:

Full-time employees and directors (including executive, non-executive and independent non-executive directors) of any member of the Group.

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report:

86,873,344 ordinary shares ("Shares") (10% of the issued share capital).

Maximum entitlement of each participant:

Shall not exceed 1% of the aggregate number of ordinary shares issued and issuable under the Scheme.

Period within which the securities must be taken up as an option:

No option will be exercisable later than 10 years after its date of grant.

Minimum holding period before an option can be exercised:

Will be defined by directors based on grantee's seniority and other relevant factors.

Period within which payments or loans must be made or repaid:

Not applicable.

Basis of determining the exercise price:

Determined by the Board of Directors and shall be:

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

(2) the average of closing price of the 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 Shares.

The remaining life of the Scheme:

The Scheme remains in force until 8 August 2012.

No share options had been granted under the Scheme up to 31 March 2007 and there were no other options outstanding at the beginning or at the end of the year.

Saved as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18 have any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of the directors and chief executives, as at 31 March 2007, the register of substantial shareholders maintained under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital

Name	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Transpac Nominees Pte Ltd.	213,279,577	24.6%
Big-Max Manufacturing Co., Limited *(Note 1)*	143,492,000	16.5%
Silvermark International Limited *(Note 2)*	55,657,926	6.4%

Note 1: Mr. Li Li Xin is deemed to have a beneficial interest in 143,492,000 shares of the Company through Big-Max Manufacturing Co., Limited, 90% of its issued share capital is beneficially owned by Mr. Li Li Xin. Ms. Jin Ya Er being the spouse of Mr. Li Li Xin, is deemed to have a beneficial interest in 143,492,000 shares of the Company.

Note 2: Ms Zhou Hui Lian is deemed to have a beneficial interest in 55,657,926 shares of the Company through Silvermark International Limited, the entire issued share capital of which is beneficially owned by Ms Zhou Hui Lian.

Save as disclosed above, as at 31 March 2007, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	15.6%
– five largest suppliers	39.0%

Sales

– the largest customer	63.8%
– five largest customers	72.4%

None of the directors, their associate or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

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

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

RETIREMENT SCHEME

Particulars of retirement scheme of the Group are set out in note 27 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company maintained sufficient public float at all times during the year.

AUDITORS

The financial statements for the financial years ended 31 March 2004, 31 March 2005 and 31 March 2006 were audited by Moores Rowland Mazars.

On 31 May 2007, the auditors, Moores Rowland Mazars resigned following their firm's reorganisation and Mazars CPA Limited, Certified Public Accountants, were appointed as auditors of the Company. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xu Jin
Chairman

Hong Kong, 23 July 2007

MAZARS

To the members of
Magician Industries (Holdings) Limited
(incorporated in Bermuda with limited liability)

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the consolidated financial statements of Magician Industries (Holdings) Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 21 to 57, which comprise the consolidated and the Company's balance sheet as at 31 March 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion section, we are not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1) We were not able to form a view in the previous year on the appropriateness of the impairment loss of HK$3,515,000 and the reversal of impairment loss of HK$12,196,000 on property, plant and equipment and whether the property, plant and equipment of HK$210,489,000 were fairly stated at 31 March 2006. We had expressed a qualified opinion in our audit report accordingly and details of our qualification were fully explained in the 2006 annual report. Any adjustments to the opening carrying amount of the property, plant and equipment which we have previously qualified would have consequential effects on the results for the year ended 31 March 2007.

As stated in note 13 to the financial statements, in light of the continuing operating loss experienced by the Group, management has carried out an impairment review of its property, plant and equipment. However, we have not been able to obtain adequate supporting information from management in respect of its assessment on the value in use of property, plant and equipment with carrying amount of HK$211,155,000 as of 31 March 2007 and therefore unable to satisfy ourselves whether the recognition of the impairment loss of HK$4,569,000 and the reversal of impairment loss of HK$12,016,000 are appropriate. Consequently, we have been unable to satisfy ourselves whether the property, plant and equipment of HK$211,155,000 were fairly stated at the balance sheet date and whether the loss for the year ended 31 March 2007 was fairly stated.

2) We were not able to form a view in the previous year on the completeness and accuracy of the assets, liabilities, income and expenses, cash flows, commitments, contingent liabilities, related party transactions and other disclosures in the financial statements in connection with the Group's sales division in the People's Republic of China ("PRC"). We had expressed a qualified opinion in our audit report accordingly and details of our qualification were fully explained in the 2006 annual report.

The Group's PRC sales division's operation has substantially been curtailed since 2006 and therefore its transactions for the year under review were minimal. However, because of the high turnover of members of management and accounting personnel, the present management is unable to give an unqualified representation that all liabilities and contingent liabilities in relation to the PRC sales division as at the balance sheet date has been properly included and disclosed in the Group's financial statements.

Accordingly, we have been unable to carry out audit procedures that we considered necessary to obtain adequate assurance regarding the completeness and accuracy of the liabilities and contingent liabilities in connection with the PRC sales division.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (1) and (2) above. Any adjustments to the above figures may have a consequential significant effect on the Company's interests in subsidiaries as recorded in the Company's balance sheet, the Group's loss for the year and the Group's net assets as at 31 March 2007.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains the measures that the directors are currently undertaking and intend to take to generate sufficient liquid funds to finance its operations and, accordingly, that it is appropriate to prepare the financial statements on a going concern basis.

As detailed in note 2 to the financial statements, the Group is dependent upon the continued support of its banks and shareholders. Provided that the measures as detailed in note 2 to the financial statements can accomplish successful outcome, the directors are satisfied that the Group will be able to finance its operations and to meet in full its financial obligations as they fall due in the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the measures. The financial statements do not include any adjustments that may result from the failure of these measures to accomplish successful outcome. However, if the outcome turns out to be adverse, it may have significant potential adverse effect on the financial position of the Group and may in turn affect the going concern basis of the preparation of the financial statements.

QUALIFIED OPINION: DISCLAIMER OF OPINION ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effect of:

- the limitation in evidence available to us on the matters as set out in the basis for disclaimer of opinion section; and

- the fundamental uncertainty relating to the going concern basis,

we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Mazars CPA Limited
Certified Public Accountants

Hong Kong
23 July 2007

Kwok Yuen Man
Practicing Certificate number: P04604

	Note	2007 HK$'000	2006 HK$'000
Turnover	4	**219,508**	233,865
Cost of sales		**(189,717)**	(207,883)
Gross profit		**29,791**	25,982
Other revenue	4	**2,538**	2,060
Other income	6	**463**	8,641
Selling and distribution expenses		**(9,076)**	(15,384)
Administrative and other operating expenses		**(44,287)**	(65,020)
Impairment loss on property, plant and equipment	13	**(4,569)**	(13,171)
Reversal of impairment loss on property, plant and equipment	13	**14,278**	15,849
Finance costs	7	**(11,904)**	(11,466)
Loss before taxation	7	**(22,766)**	(52,509)
Taxation (charge) credit	10	**(56)**	5,537
Loss for the year attributable to equity holders of the Company	11	**(22,822)**	(46,972)
Loss per share – Basic	12	**HK(2.63) cents**	HK(5.41) cents

Consolidated Statement of Changes in Equity

Year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
Opening balance – Total equity	**50,458**	97,430
Loss for the year	**(22,822)**	(46,972)
Closing balance – Total equity	**27,636**	50,458

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	13	222,011	225,725
Current assets			
Inventories	15	29,534	28,070
Trade and bills receivables	16	27,015	28,435
Prepayments, deposits and other receivables		4,395	7,826
Tax recoverable		233	–
Pledged deposits		5,058	2,130
Bank balances and cash		7,919	4,629
		74,154	71,090
Non-current assets classified as held for sale		–	12,688
		74,154	83,778
Current liabilities			
Trade and other payables	17	86,992	97,375
Advance from a related company	18	7,000	–
Loan from a related company, unsecured	19	7,800	–
Loans from a shareholder, unsecured	20	28,000	–
Short-term bank and other borrowings, secured	21(a)	133,068	84,210
Current portion of long-term bank borrowing, secured	21(b)	–	70,000
Current portion of obligations under finance leases	22	2,003	6,213
Provision for taxation		–	1,173
		264,863	258,971
Net current liabilities		(190,709)	(175,193)
Total assets less current liabilities		31,302	50,532
Non-current liabilities			
Obligations under finance leases	22	3,666	74
NET ASSETS		27,636	50,458
Capital and reserves			
Share capital	23	86,873	86,873
Reserves	24	(59,237)	(36,415)
TOTAL EQUITY		27,636	50,458

Approved and authorised for issue by the Board of Directors on 23 July 2007

Xu Jin
Chairman

Lau Kin Hon
Director

Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	14	88,570	74,386
Current assets			
Prepayments, deposits and other receivables		687	505
Bank balances and cash		47	7
		734	512
Current liabilities			
Other payables and accruals		2,731	2,709
Loan from a related company, unsecured	19	7,800	–
Loans from a shareholder, unsecured	20	28,000	–
Short-term bank and other borrowings, secured		–	5,288
Provision for taxation		–	216
		38,531	8,213
Net current liabilities		(37,797)	(7,701)
NET ASSETS		50,773	66,685
Capital and reserves			
Share capital	23	86,873	86,873
Reserves	24	(36,100)	(20,188)
TOTAL EQUITY		50,773	66,685

Approved and authorised for issue by the Board of Directors on 23 July 2007

Xu Jin	**Lau Kin Hon**
Chairman	*Director*

Year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	(22,766)	(52,509)
Depreciation	17,563	30,869
Reversal of impairment loss on property, plant and equipment, net	(9,709)	(2,678)
Interest income	(690)	(613)
Interest expense	11,904	11,466
Gain on disposal of property, plant and equipment	(319)	(2,282)
Write-back of provision for doubtful debts	(144)	(6,359)
Provision for inventory obsolescence	–	5,685
Changes in working capital:		
Trade and bills receivables, prepayments, deposits and other receivables	4,995	18,827
Inventories	(1,464)	23,260
Trade and other payables	(10,383)	(40,173)
Cash used in operating activities	(11,013)	(14,507)
Interest paid	(11,632)	(8,900)
Hong Kong profits tax paid	(1,462)	(12)
Net cash used in operating activities	(24,107)	(23,419)

Consolidated Cash Flow Statement

Year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES		
Increase in pledged deposits	(2,928)	(1,146)
Purchase of property, plant and equipment	(5,985)	(3,603)
Proceeds on disposal of property, plant and equipment	14,852	22,791
Proceeds on disposal of investment properties	–	3,114
Interest received	690	576
Net cash generated from investing activities	6,629	21,732
FINANCING ACTIVITIES		
Advance from a related company	7,000	–
Loan from a related company	7,800	–
Loans from a shareholder	28,000	–
New short-term bank borrowings	143,068	93,922
Repayment of short-term bank borrowings	(94,210)	(95,913)
Repayment of long-term bank borrowings	(70,000)	–
Repayment of obligation under finance leases	(618)	(2,670)
Interest paid on obligation under finance leases	(272)	(109)
Net cash generated from (used in) financing activities	20,768	(4,770)
Net increase (decrease) in cash and cash equivalents	3,290	(6,457)
Cash and cash equivalents at beginning of year	4,629	8,442
Decrease in restricted bank balances	–	2,644
Cash and cash equivalents at end of year, represented by bank balances and cash	7,919	4,629

1. CORPORATE INFORMATION

Magician Industries (Holdings) Limited ("the Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's principal place of business is located at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong. The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are detailed in note 14 to the financial statements.

2. BASIS OF PREPARATION

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 2007, 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 banks and shareholders.

- Included in the short-term bank borrowings are secured bank loans of HK$120,000,000 which were due for settlement in October 2007. The Group is now in the process of negotiation with the bank to extend the loan facilities. The management is optimistic about the outcome of the loan extension as the Group's relationship with the bank had been improved since previous loan renewal in 2006. Since then, the credit terms and status of the Group have been improved because the repayments of the current bank loan were all made on time.

- The Group has agreed with a related company and a shareholder to extend their loans of US$1,000,000 (equivalent to HK$7,800,000) and HK$28,000,000 to September 2007. Details of the loans are described in notes 19 and 20 to the financial statements.

- As mentioned in the announcement dated 8 August 2006, the Group is in the process of negotiation for further equity financing. Moreover, as stated in the announcement dated 28 June 2007 and the circular dated 6 July 2007, a convertible bond of HK$26,000,000 is being arranged subject to the approval by the shareholders in a special general meeting to be held on 24 July 2007.

(ii) In order to improve the cash flows of the Group, management will continue to step up the effort in debts collection from the customers of the Group's sales division in the People's Republic of China ("PRC"), such as pursuing litigation and 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 revised. Moreover, an increased credit limit of export credit insurance has been arranged in order to facilitate the increase in the bank trade finance facilities in the future.

2. BASIS OF PREPARATION (CONTINUED)

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

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

3. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with 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"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2006 financial statements except for the adoption of Amendments to HKAS 39 Financial instruments: Recognition and measurement and HKFRS 4 Insurance contracts: Financial guarantee contracts. The adoption of these new/amended standards has no significant effects on the financial statements of the Group and the Company. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 March each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balances, transactions, incomes and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

As the Group's lease payments for its leasehold land and buildings cannot be allocated reliably between the land and buildings elements at the inception of the lease because similar land and buildings are not sold or leased separately, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

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 ready for their intended use.

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 as set out below 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	10% – 14.3%

It is the Group's policy to periodically review the depreciation methods and estimated useful lives of its property, plant and equipment to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment. This review during the year indicated that the useful lives of the mould for metal and plastic products, which are to be operated at their optimum capacity with obsolescence and impairment being factors in, could reach 7 years and 10 years respectively. As a result, the depreciable period of moulds for metal and plastic products is extended from 5 years to 7 years and 10 years respectively, retroactive from 1 April 2006. The effect of this change in estimate was to reduce depreciation charge and decrease net loss for the year by approximately HK$9,600,000. Because of the change of the estimated useful lives of the mould retroactive from 1 April 2006, the financial position of the Group as at 30 September 2006 and the net loss for the period then ended as reported in its interim report dated 15 December 2006 would be increased and decreased respectively by approximately HK$4,800,000.

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the term of the leases.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Loans and receivables

Loans and receivables including trade and bills receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Financial liabilities

The Group's financial liabilities include trade and other payables, loans from related parties, bank and other borrowings and obligations under finance leases. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within other payables and accruals at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Cash equivalents

For the purpose of the consolidated 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.

3. 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 is passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The results and financial position of entities within the Group that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet date;
- Income and expenses for each income statement are translated at the average rate during the period;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity and recognised in the consolidated income statement on disposal of the foreign operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred 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 costs of completion and the estimated costs necessary to make the sale.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the 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. 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 loss 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 loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, 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.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits

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 recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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

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 at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

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 at 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.

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);

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(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.

Critical accounting estimates and judgements

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of collectability of the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing 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. At the balance sheet date, the carrying amount of trade receivables after provision for impairment amounted to HK$27,015,000 (2006: HK$28,435,000).

Allowance for inventories

The Group's management reviews the condition of inventories and makes allowance for inventories that are identified as obsolete, slow-moving or 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.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued the following new/revised HKFRS that are not yet effective for the current year, which the Group has not early adopted.

The directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HKFRS 8	Operating segments
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements

4. TURNOVER AND REVENUE

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

	Group	
	2007	2006
	HK$'000	HK$'000
Turnover		
Sale of goods	219,508	233,865
Other revenue		
Rental income	–	185
Interest income	690	613
Others	1,848	1,262
	2,538	2,060
Revenue	222,046	235,925

5. 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	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
United States of America	167,462	181,787	3,365	3,159
Canada	10,463	7,640	(1,120)	(1,143)
Hong Kong	16,533	15,926	1,737	6,722
PRC	493	3,944	124	(15,780)
Europe	10,396	12,750	439	2,191
Others	14,161	11,818	893	1,698
	219,508	233,865	5,438	(3,153)
Unallocated corporate expenses			(26,009)	(40,568)
Impairment loss on property, plant and equipment			(4,569)	(13,171)
Reversal of impairment loss on property, plant and equipment			14,278	15,849
Finance costs			(11,904)	(11,466)
Taxation (charge) credit			(56)	5,537
Loss attributable to equity holders of the Company			(22,822)	(46,972)

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as approximately 90% (2006: 90%) of the Group's assets are located in the PRC.

6. OTHER INCOME

	Group	
	2007 HK$'000	2006 HK$'000
Gain on disposal of property, plant and equipment	319	2,282
Net write-back of provision for doubtful debts	144	6,359
	463	8,641

7. LOSS BEFORE TAXATION

	Group	
	2007	2006
	HK$'000	HK$'000
This is stated after charging:		
Finance costs		
Interest on bank borrowings wholly repayable within five years	9,495	8,030
Interest on mortgage loan wholly repayable within five years	87	993
Interest on loans from a shareholder wholly repayable within five years	1,026	–
Interest on loan from a related company wholly repayable within five years	330	–
Finance charges on obligations under finance leases	272	1,279
Interest on trade payables overdue	528	1,164
Other interest expenses	166	–
	11,904	11,466
Other items		
Auditors' remuneration		
– Current year	600	760
– Underprovision in previous year	200	–
	800	760
Cost of inventories	189,717	207,883
Depreciation of property, plant and equipment	17,563	30,869
Exchange loss, net	4,762	1,795
Operating lease charge on premises	907	1,551
Provision for inventory obsolescence	–	5,685
Staff costs (excluding directors' emoluments):		
Wages and salaries	32,452	43,295
Termination benefits	1,558	2,563
Contributions to retirement schemes	987	1,314
	34,997	47,172

8. DIRECTORS' EMOLUMENTS

	Note	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
		2007			
Executive directors					
Ho Yau Shun	i	–	308	10	318
Tong Cheehung, Richard	ii	–	482	4	486
Xu Jin		–	–	–	–
Non-executive directors					
Chan Shu Wah	iii	–	–	–	–
Chan Ying Gi, Dorice	iv	–	–	–	–
Kong Yick Ming	v	–	–	–	–
Lau Kin Hon		–	600	12	612
Independent non-executive directors					
Chan Man Sum Ivan	vi	115	–	–	115
Cheung Kiu Cho Vincent	vii	96	–	–	96
He Chengying	viii	61	–	–	61
Ng Shiu Kwan	ix	59	–	–	59
Yeung Po Chin	x	59	–	–	59
Yim Kai Pung	xi	25	–	–	25
		415	**1,390**	**26**	**1,831**

Notes:

2006/2007

i) Retired on 27 September 2006.

ii) Resigned on 1 August 2006.

iii) Retired on 27 September 2006.

iv) Resigned on 24 August 2006.

v) Retired on 27 September 2006.

vi) Appointed on 14 June 2006.

vii) Appointed on 14 June 2006.

viii) Appointed on 27 September 2006.

ix) Retired on 27 September 2006.

x) Retired on 27 September 2006.

xi) Resigned on 14 June 2006.

8. DIRECTORS' EMOLUMENTS (CONTINUED)

		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

8. 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.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year. Compensation for loss of office in 2006 were paid by the Company for the loss of office as director of the Company.

9. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals of the Group during the year included two (2006: two) directors of the Company, details of whose emoluments are set out in note 8 above. The emoluments of the remaining three (2006: three) individuals are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	2,066	1,442
Contributions to retirement scheme	36	34
	2,102	1,476

The emoluments fell within the following bands:

	Group Number of individuals	
	2007	2006
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.

10. TAXATION

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax:		
Under (Over) provision in prior years	**56**	(5,822)
Deferred taxation		
Origination and reversal of temporary difference	**–**	285
Total taxation charge (credit) for the year	**56**	(5,537)

	Group	
	2007	2006
Reconciliation of effective tax rate	**%**	%
Applicable tax rate	**(16)**	(15)
Non-deductible expenses	**–**	(1)
Utilisation of previously unrecognised tax losses	**(1)**	(1)
Unrecognised temporary differences	**(17)**	(4)
Unrecognised tax losses	**33**	19
Over provision in prior years	**–**	11
Others	**1**	1
Effective tax rate for the year	**–**	10

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

11. LOSS FOR THE YEAR ATTRIBUTALE TO EQUITY HOLDERS OF THE COMPANY

Of the Group's loss for the year of HK$22,822,000 (2006: HK$46,972,000), a loss of HK$15,912,000 (2006: HK$46,453,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$22,822,000 (2006: HK$46,972,000) and on the weighted average number of 868,733,440 (2006: 868,733,440) shares in issue during the year.

Diluted loss per share for the years of 2007 and 2006 are not shown as there are no potential ordinary shares in issue in both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'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 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
Reconciliation of carrying amount – year ended 31 March 2007								
At beginning of year	170,385	2,440	15,236	1,485	164	35,673	342	225,725
Additions	593	634	443	467	223	3,388	237	5,985
Disposals and write-off	–	(53)	(1,766)	(26)	–	–	–	(1,845)
Depreciation	(4,628)	(818)	(5,319)	(1,109)	(140)	(5,549)	–	(17,563)
Impairment loss	–	–	–	–	–	(4,569)	–	(4,569)
Reversal of impairment loss	12,016	–	2,262	–	–	–	–	14,278
Reclassification from construction-in- progress	–	221	–	–	–	–	(221)	–
At balance sheet date	**178,366**	**2,424**	**10,856**	**817**	**247**	**28,943**	**358**	**222,011**
At 1 April 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
At 31 March 2007								
Cost	253,941	15,791	104,288	32,833	6,421	194,446	358	608,078
Accumulated depreciation and impairment losses	(75,575)	(13,367)	(93,432)	(32,016)	(6,174)	(165,503)	–	(386,067)
	178,366	**2,424**	**10,856**	**817**	**247**	**28,943**	**358**	**222,011**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's leasehold land and buildings were situated in the PRC under medium-term leases.

In light of the continuing operating loss experienced by the Group during the year, the management has reviewed the carrying value of the property, plant and machinery in order to assess their recoverable amount. Based on this assessment, reversal of and provision for impairment loss have been recognised as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
By reference to the subsequent disposal 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	2,262	3,653
Based on value in use as estimated by the management		
– Leasehold land and buildings in the PRC	12,016	(3,515)
– Moulds	(4,569)	12,196
	7,447	8,681
Reversal of (Provision for) impairment loss on property, plant and equipment	9,709	2,678

Represented by:

	Group	
	2007	2006
	HK$'000	HK$'000
Impairment loss on property, plant and equipment	(4,569)	(13,171)
Reversal of impairment loss on property, plant and equipment	14,278	15,849
	9,709	2,678

The net book value of the Group's property, plant and equipment includes an amount of HK$801,000 (2006: HK$3,090,000) in respect of assets held under finance leases.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
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	408,989	379,119
Provision for doubtful debts	(321,140)	(305,454)
	87,849	73,665
	88,570	74,386

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying value of the amounts due approximates their fair values.

Details of the 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		Principal activities
			Directly	Indirectly	
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
Magician Strategic Ltd.	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
Well Harbour Development Limited	Hong Kong	HK$1 ordinary	–	100%	Purchasing of paper, plastic and metal materials and products
Falton Investment Limited	Hong Kong	HK$2 ordinary	–	100%	Property holding

14. INTERESTS IN 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
Jinda Plastic Metal Products (Shenzhen) Co., Ltd.	The PRC	HK$180,000,000 registered capital	–	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
More Concept Limited	Hong Kong	HK$3 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
Magician Lifestyle Limited	Hong Kong	HK$1 ordinary	–	100%	Marketing and trading of plastic and metal products

All of the above subsidiaries operate principally in Hong Kong except for Magicgrand Development Limited, Diyon Development Limited, Well Harbour 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.

15. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**12,638**	7,980
Work-in-progress	**9,842**	10,771
Finished goods	**7,054**	9,319
	29,534	28,070

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$3,522,000 (2006: HK$10,611,000).

16. 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	
	2007	2006
	HK$'000	HK$'000
Less than 1 month	**14,026**	16,439
1 month to 2 months	**10,181**	7,784
2 months to 3 months	**2,267**	3,756
3 months to 6 months	**201**	126
6 months to 1 year	**340**	330
	27,015	28,435

17. TRADE AND OTHER PAYABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade payables		
From a related company	**1,923**	–
From third parties	**36,581**	50,256
	38,504	50,256
Other payables and accruals	**48,488**	47,119
	86,992	97,375

17. TRADE AND OTHER PAYABLES (CONTINUED)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Less than 3 months	**23,158**	12,195
3 months to 6 months	**5,177**	7,451
6 months to 1 year	**2,179**	9,044
More than 1 year	**7,990**	21,566
	38,504	50,256

Included in the other payables and accruals is an advance from a third party of HK$13,177,000 (2006: HK$Nil) which is unsecured, interest-free and has no fixed repayment term.

18. ADVANCE FROM A RELATED COMPANY

The advance from a related company, a company in which Mr. Xu Jin has beneficial interest, is unsecured, interest-free and has no fixed repayment term.

19. LOAN FROM A RELATED COMPANY, UNSECURED

The loan from a related company, a company in which Mr. Xu Jin has beneficial interest, was unsecured, interest bearing at a fixed interest rate of 7% per annum and repayable on 11 May 2007. In May 2007, the Company entered into a loan renewal agreement with the related company in the same terms as the previous loan agreement. The loan is repayable in September 2007.

20. LOANS FROM A SHAREHOLDER, UNSECURED

The loans from a shareholder were unsecured and interest bearing at HIBOR plus 3% per annum. Out of the loans from the shareholder of HK$28,000,000, HK$13,000,000 was due for settlement on 18 March 2007. In May 2007, the Company entered into loan renewal agreements with the shareholder in the same terms as the previous loan agreements. The entire loans are repayable in September 2007.

21. BANK AND OTHER BORROWINGS

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

Included in short-term bank and other borrowings was bank loan of HK$120,000,000 which is repayable within 1 year. Bank and other loans were interest bearing at LIBOR/HIBOR plus 1.5% to 2% per annum.

(b) Long-term bank borrowing, secured

The bank loan of HK$70,000,000 was interest bearing at HIBOR plus 1.5% per annum. The bank loan was fully repaid during the year.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Amounts payable:				
Within one year	2,273	6,980	2,003	6,213
In the second to fifth years inclusive	4,006	81	3,666	74
	6,279	7,061	5,669	6,287
Future finance charges	(610)	(774)	–	–
Present value of lease obligations	5,669	6,287	5,669	6,287

The lease terms ranged from three to five years. All lease agreements are on a fixed repayment basis and no arrangement for contingent rental payments.

23. SHARE CAPITAL

	2007 HK$'000	2006 HK$'000
Authorised:		
4,000,000,000 (2006: 4,000,000,000) ordinary shares of HK$0.10 each	400,000	400,000
Issued and fully paid:		
868,733,440 (2006: 868,733,440) ordinary shares of HK$0.10 each	86,873	86,873

24. 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 2005	282,049	1,265	139	51	(272,947)	10,557
Loss for the year	–	–	–	–	(46,972)	(46,972)
At 31 March 2006	282,049	1,265	139	51	(319,919)	(36,415)
At 1 April 2006	282,049	1,265	139	51	(319,919)	(36,415)
Loss for the year	–	–	–	–	(22,822)	(22,822)
At 31 March 2007	**282,049**	**1,265**	**139**	**51**	**(342,741)**	**(59,237)**

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Company					
At 1 April 2005	282,049	1,265	158,398	(415,447)	26,265
Loss for the year	–	–	–	(46,453)	(46,453)
At 31 March 2006	282,049	1,265	158,398	(461,900)	(20,188)
At 1 April 2006	282,049	1,265	158,398	(461,900)	(20,188)
Loss for the year	–	–	–	(15,912)	(15,912)
At 31 March 2007	**282,049**	**1,265**	**158,398**	**(477,812)**	**(36,100)**

24. RESERVES (CONTINUED)

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 at 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.

25. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	Group	
	2007	2006
	HK$'000	HK$'000
Deductible temporary differences	15,763	66,561
Tax losses	305,474	213,555
At the balance sheet date	321,237	280,116

The tax losses of HK$95,056,000 (2006: HK$36,906,000) arising in Hong Kong have no expiry date under current tax legislation. The tax losses of HK$210,418,000 (2006: HK$176,649,000) and deductible temporary differences of HK$15,763,000 (2006: HK$66,561,000) arising in the PRC can be used to offset against future taxable profits of the respective subsidiaries for a maximum of 5 years. The Group has not recognised deferred tax asset in respect of tax losses and deductible temporary differences because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The unrecognised tax losses arising in PRC at the balance sheet date will expire as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Year of expiry		
2010	41,543	41,543
2011	135,106	135,106
2012	33,769	–
At the balance sheet date	210,418	176,649

26. 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.

27. 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$1,013,000 (2006: HK$1,329,000).

28. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties, details of which are set out below:

		Group	
		2007	2006
Related party relationship	**Nature of transaction**	HK$'000	HK$'000
Key management personnel, including directors (note i)	Compensation		
	Salaries and other benefits	3,636	3,326
	Termination benefits	–	636
	Contribution to MPF Scheme	63	48
	Total compensation	3,699	4,010
Companies owned by Mr. Xu Jin, a director and shareholder of the Company	Advances to the Group	7,000	–
	Loan to the Group	7,800	–
	Guarantee for short-term bank borrowings granted to the Group	10,000	–
	Interest expenses on loans granted	330	–
A company owned by the beneficial owner of the Company's shareholer	Guarantee for short-term bank borrowings granted to the Group	10,000	–
A shareholder	Loans to the Group	28,000	–
	Interest expenses on loans granted	1,026	–
Ex-director, Mr. Kong Yick Ming, and a related company of the ex-director	Settlement of claims in respect of financial guarantee granted to the Group in previous years	3,354	–

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

(ii) In November 2006, the Group entered into two agency agreements with its related companies, companies owned by Mr. Xu Jin, a director and shareholder of the Company, and the beneficial owner of the Company's shareholder respectively for providing trade financial assistance in relation to the procurement of the Group's raw materials. The related companies only recovered any charges and expenses incurred for the provision of such services from the Group.

29. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal 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. Moreover, the currency risk for bank and other borrowings was minimal as they were denominated in Hong Kong dollars and United States dollars. However, management monitors currency risk exposure and will consider hedging significant exposure should the need arise.

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) and obligation under finance leases. The interest rates and terms of repayment have been disclosed in Note 19, 20, 21 and 22 to the financial statements respectively. 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$190,709,000 as at 31 March 2007 which include bank loans and other borrowings of approximately HK$133,068,000 and HK$42,800,000 respectively. As mentioned in note 2 to the financial statements, 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.

30. COMMITMENTS

(a) Capital expenditure commitments

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for, net of deposits paid	**244**	83

(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	
	2007	2006
	HK$'000	HK$'000
Within one year	**898**	150
In the second to fifth years inclusive	**149**	–
	1,047	150

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company has contingent liabilities not provided for in the financial statements in respect of corporate guarantees of HK$152,500,000 (2006: HK$115,600,000) for banking facilities granted to its subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$133,100,000 (2006: HK$83,922,000).

The Company has not recognised any deferred income for the corporate guarantees given in respect of the banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil.

At the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees.

32. 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	
	2007	2006
	HK$'000	HK$'000
Leasehold land and buildings	**178,366**	170,385
Bank deposits	**5,058**	2,130
	183,424	172,515

33. POST BALANCE SHEET EVENTS

On 27 June 2007, the Company entered into a conditional Placing Agreement for the placing of zero-coupon convertible bonds in an aggregate principal amount of up to HK$26,000,000 at a maturity date of eighteen months (the "Maturity Date") from the issue date of the convertible bonds (the "Issue Date"). Each convertible bond is convertible into one ordinary share at an exercise price of HK$0.15 each. Bondholders shall not be entitled to receive notice of, attend or vote at any general meeting of the Company.

If the convertible bonds or any part thereof are not converted into ordinary shares, the Company shall have the right at any time during the period commencing from the date immediately following the Issue Date and expiring on the Maturity Date to redeem the whole or part of the outstanding convertible bonds at a premium at the rate of 10% of the principal amount of the convertible bonds to be redeemed.

GENERAL INFORMATION

The consolidated results and the assets and liabilities of the Group of the last five financial years, as extracted from the Group's published audited accounts and reclassified as appropriate, are set below:

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Turnover	**219,508**	233,865	445,830	470,812	523,399
(Loss) Profit from operating activities	**(22,766)**	(52,509)	(175,953)	1,422	26,172
Share of results of an associated company	**–**	–	–	(233)	(320)
(Loss) Profit before tax	**(22,766)**	(52,509)	(175,953)	1,189	25,852
Taxation (charge) credit	**(56)**	5,537	–	116	(7,738)
Net (loss) profit for the year	**(22,822)**	(46,972)	(175,953)	1,305	18,114
Assets and liabilities					
Total assets	**296,165**	309,503	405,490	601,034	621,907
Total liabilities	**(268,529)**	(259,045)	(308,060)	(327,651)	(349,829)
Net assets	**27,636**	50,458	97,430	273,383	272,078

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