2008 ANNUAL REPORT 年報

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

Stock Code 股份代號：526

C O N T E N T S

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 Communications, Shenzhen Branch, PRC
Bank of Communications, Hong Kong Branch
Indover bank (Asia) Limited

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

EXECUTIVE DIRECTOR

Mr XU Jin, aged 42, 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 40, is a Hong Kong practicing solicitor. He has been practicing law in Hong Kong for 16 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 45, 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 34, is a member of the American Institute of 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 10 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 32, 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, UK. 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 11 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 38, is the chief financial officer of the Group. Mr Tang possesses over 14 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 a Chartered Accountant in England and Wales, 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 42, 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 18 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 45, 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 24 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 39, 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 16 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,

This year was a year of consolidation for Magician as well as the household sector. The Group's continuous efforts in cost control and enhancing sales efficiency have paid off. Despite the unfavourable economic environment during the year under review, the Group's results demonstrated a narrowed loss together with a stable gross profit margin which was encouraging.

Like other manufacturing counterparts, the Group's bottom-line was facing severe challenge in several aspects, such as ever-rising raw material prices, elevation of labor wages and reduction in export tax rebate. The sluggish market had further posed pressure on the performance of the Group as well as the entire industry during the year under review.

For the year ended 31 March 2008, the Group reported a net loss attributable to shareholders of HK$16.3 million, compared to HK$22.8 million loss for last year. Such improvement was due to the Group's continuous effort in effective cost control measures and increased market and product development effort. Implementing the Group's policy of focusing on products and customers with quality returns, the Group's turnover slightly dropped by 1.6%, from HK$219.5 million recorded last year to HK$216.0 million. Basic loss per share was HK1.28 cents (2007: HK1.83 cents).

The board of directors has resolved not to recommend any final dividend for the year ended 31 March 2008.

CLEAR BUSINESS STRATEGIES

The Group kept on adopting the effective cost management measures throughout the year, which resulted in narrowing the loss of the Group. In order to cope with the environment of fierce competition and ever-rising raw material costs, the Group continued to align the focus of our customer base to those with quality products and market leadership. The Group also kept on producing OEM products, which remained as the main stable income stream to the Group because OEM customers are willing to invest in the tailor-made products that suit their specific requirements. In addition, being protected by patents and copyrights, the OEM products could shield the Group from competition from other manufacturers.

Riding on the success of products such as silicon and metal bakeware, Magician will continue to invest in product research and development not only on OEM products but also our own new products to attract higher profit margin. Being one of the household products suppliers with multi-product categories in Asia, Magician will capitalise on this competitive edge to offer more sophisticated household products with favourable margins. Besides, the Group is endeavoring to diversify the product line for new products with different life cycles.

Apart from new product line and product development, the Group has further strengthened its sales team by reorganizing the establishment and the duties in order to serve our customers in a better and more effective manner. Together with the support of a solid production base and the most comprehensive range of household products, the Group is going to intensify our existing strategies to boost sales as well as to maintain pleasing earnings. Magician is well equipped to grasp the business opportunities lying ahead resulting from consolidation among household product manufacturers under this tough economic environment.

APPRECIATION

With clear business strategies, stringent cost management measures, strong product development capabilities and strengthened sales team, 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 strive for better results in the near future.

Xu Jin
Chairman

Hong Kong, 8 July 2008

FINANCIAL HIGHLIGHTS

General Information

For the year ended 31 March 2008, the Group recorded a turnover of HK$216.0 million, representing a slightly drop of 1.6% compared to HK$219.5 million recorded last year. Loss for the year attributable to equity holders of the Company was HK$16.3 million, compared to a loss of HK$22.8 million for last year. The Group's basic loss per share was HK1.28 cents.

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

Liquidity and Financial Resources

As at 31 March 2008, the Group's net assets increased to HK$61.6 million, representing net asset value per share at HK4.45 cents. The Group's total assets as at that date were valued at HK$298.2 million, including cash and bank deposits totaling approximately HK$14.7 million. Consolidated borrowings amounted to HK$172.0 million. Its debt-to-equity ratio has been decreased from 656.9% as at 31 March 2007 to 279.1% as at 31 March 2008.

Capital Structure

As at 31 March 2008, the Group's major borrowings included a three-year term loan provided by Bank of Communications, Shenzhen branch, which had an outstanding balance of approximately HK$127.8 million, other bank borrowings of HK$10.4 million and advance and borrowings from a shareholder and a related company totaling approximately HK$12.4 million. On 1 August 2007, the Company issued convertible bonds in the principal amount of HK$26 million to various placees. During the year ended 31 March 2008, convertible bonds in the aggregate amount of HK$9 million were converted into 81,818,180 ordinary shares.

All of the Group's borrowings have been denominated in Hong Kong dollar, U.S. dollar and PRC Renminbi made on a floating rate or fixed rate basis. The finance costs for the year under review increased slightly to approximately HK$12.4 million as compared to HK$11.9 million for the previous year.

During the year under review, the Company carried out an open offer on the basis of one offer share for every two existing shares held. A total of 434,366,720 offer shares were issued at the subscription price of HK$0.10.

Charges on Group Assets

Certain assets of the Group having a carrying value of approximately HK$172.8 million as at 31 March 2008 (2007: HK$183.4 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 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 takes prudent and gradual measures against the appreciation of Renminbi, the Group's exposure to currency exchange fluctuation risk would be in line with the gradual appreciation of Renminbi. Given that Renminbi is not an international currency, there is no effective method to hedge the relevant risk for the size and cashflow pattern of the Group. However, as most of our raw materials procurement have been settled in U.S. dollar and Hong Kong dollar, and most of the Group's customers accept the passing-on of the rising costs, to various extent, due to the appreciation of Renminbi, the effect arising from the relevant risk can be reduced significantly.

As at 31 March 2008, the Group had no financial instrument for foreign exchange hedging purposes. However, the Group would continue to monitor the Renminbi currency fluctuation and adopt appropriate measures if the need arises.

Segment Information

North America remained the Group's primary market, which accounted for 80.0% of total sales. The remaining comprised of sales to Europe (2.6%), Hong Kong (9.3%), PRC (1.0%) and others (7.1%).

Contingent Liabilities

As at 31 March 2008, the Company had contingent liabilities not provided for in the financial statements in respect of corporate guarantee of HK$33.6 million (2007: HK$152.5 million) for banking facilities granted to its subsidiaries, which were utilized by subsidiaries to the extent of approximately HK$10.4 million (2007: HK$133.1 million).

Employee Information

As at 31 March 2008, the Group employed a workforce of 984 (2007: 1,517) 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 in the period between December 2007 and March 2008 as part of agreed salary package, which applied to the employees who joined the Group before January 2008.

Staff costs including directors' emolument during the year amounted to HK$36.8 million (2007: HK$36.8 million), which remain constant compared to that of last year.

REVIEW OF OPERATIONS

For the year ended 31 March 2008, Magician recorded a loss for the year of HK$16.3 million. The loss was mainly caused by the stagnant sales and the sustaining high levels of production costs which included surging price level of raw materials, e.g. iron, plastic, paper, etc. Elevation of minimum wage, reduction of export tax rebate and RMB appreciation also further increased the effective costs of production.

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. Meanwhile, Magician also stepped up its effort in developing new products to achieve a greater share of new product in its product portfolio.

International sales for the year ended 31 March 2008 slightly dropped by 4.3% to HK$193.8 million as compared with HK$202.5 million in prior year. For the year under review, sales in the US market slightly dropped by 1.7% to HK$164.6 million when compared to HK$167.5 million for last year. Sales in the Canadian market fell by 21.0% to HK$8.3 million from the HK$10.5 million recorded last year. The sales performance of the European market dropped to HK$5.6 million, compared to HK$10.4 million in the previous year. Sustained high crude 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 in accordance with the strategy of quality sales and customers, which also contributed to the reduction in sales. In addition, the Group had successfully opened the business opportunity in a new market, Russia, by the end of 2007.

On the other hand, the Group had taken effective measures for internal productivity and cost management. Through merging of departments, the Group had a more flexible allocation of workforce, which optimized the human resources deployment as well as cost saving in slack labor. In order to increase the operating effectiveness, the Group rationalised the sales establishment to achieve better customer services as well as efficient product development and delivery.

PROSPECTS

Looking ahead, the Group is facing several major challenges in the industry, namely the rising production factors of materials and labor cost, sustaining appreciation of Renminbi, diminishing support from the PRC government for the labor-intensive industry, and shareholders' expectation of improved bottom-line. We believe that we have the qualities to gain from the consolidation of industry among household product manufacturers. As a manufacturer in the mainland China, Magician cannot overturn the macroeconomic environment, however, we will keep a proactive approach to ride on those rapid changes and challenges and to achieve favourable returns for our shareholders.

To cope with the rapid changes in the macro environment, the Group will continue to adopt a series of strategy, namely, product innovation, cost management, productivity enhancement and balanced market development.

As one of the leading household products manufacturer in Asia, Magician has always emphasized innovation. Apart from tailor-made products for customers, the Group will focus on developing its own new products so as to serve different customers of various market demands. By refreshing the product mix, the Group appreciates that on the one hand, new products of quality attract greater return for the Group; while on the other hand, the Group can explore business opportunities beyond existing market segments in order to optimize resource utilization as well as market risk exposure. With our strong innovative capabilities and commitment, the Group firmly believes that we can produce quality products meeting different emerging market needs while commanding better margins and more stable income stream.

Cost management is one of the important means for improving our bottom-line. Apart from rationalising our workforce, the Group in future will instill cost efficacy consciousness into all of our staff, for example, adopting flexible allocation of workforce and production schedule for various workflows in different seasons in order to reduce overtime wages. Meanwhile, the Group will continue to monitor the sustainability of the current operating environment for a profitable operation, and take appropriate corresponding measures. With the gradual implementation of various cost containment measures, we are confident to maintain our production and administrative costs at a competitive level.

The Group will adopt various measures to enhance productivity. These measures include replacing machines of low efficiency and high maintenance effort, streamlining workflow, revision of work practice and parameters, and exploring opportunities for utlitising the idle capacity.

Moreover, we are now expanding our business in some markets such as Middle East, Japan and Australia in order to obtain a balanced market portfolio and a covered position to market fluctuation. We shall carry on to try our best endeavor to achieve continuous improvement in our results.

CORPORATE GOVERNANCE PRACTICES

The Company recognises that maintaining good corporate governance is essential for enhancing shareholder's 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, 10 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 director	
Xu Jin	8/10
Non-executive director	
Lau Kin Hon	9/10
Independent non-executive directors	
He Chengying	6/10
Chan Man Sum Ivan	7/10
Cheung Kiu Cho Vincent	7/10

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. Mr Xu Jin, the chairman, has been acting as interim chief executive officer of the Company since 1 August 2006 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). No meeting was held during the year under review.

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, provided by the auditors to the Group amounted to HK$600,000 and HK$118,000 respectively.

AUDIT COMMITTEE

The audit committee currently comprised of three independent non-executive directors. Two 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)*	1/2
Cheung Kiu Cho Vincent	2/2
He Chengying	2/2

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 Group's annual results for the year ended 31 March 2007 and the interim results for the six months ended 30 September 2007.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Group. As stated in note 2 to the financial statements, the directors are currently undertaking and intend to take such measures to generate sufficient liquid funds to finance its operations and that it is appropriate to prepare the financial statements on a going concern basis. At the balance sheet date, the Group had net current liabilities of HK$52,512,000. The validity of the going concern basis depends on the Group's future profitable operation and the outcome of the measures as detailed in note 2 to 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 2008.

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 19.

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 25 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 2008 are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the share capital, share options and convertible bonds of the Company are set out in notes 24, 27 and 23 respectively to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2008, 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$77,753,000 (2007: HK$158,398,000) is available for distribution, subject to certain conditions as described in note 25 to the financial statements. The Company's share premium account of HK$7,982,000 (2007: HK$282,049,000) as at 31 March 2008 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 62.

DIRECTORS

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

Executive director:
Xu Jin *(Chairman)*

Non-executive director:
Lau Kin Hon

Independent non-executive directors:
He Chengying
Chan Man Sum Ivan
Cheung Kiu Cho Vincent

In accordance with bye-law 87 of the Company's bye-laws, Mr Chan Man Sum Ivan and Mr Cheung Kiu Cho Vincent retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves 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 30 of the financial statements, 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 2008, 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$0.01 each in the Company	Percentage of total issued ordinary shares
Mr Xu Jin	Personal	253,837,198	18.3%

Save as disclosed herein, as at 31 March 2008, 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 of the Company at the date of approval of the Scheme).

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 2008 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 2008, 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
Big-Max Manufacturing Co., Limited *(Note 1)*	377,247,014	27.2%
Silvermark International Limited *(Note 2)*	55,657,926	6.4%

Note 1: Mr. Li Li Xin is deemed to have a beneficial interest in 377,247,014 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 377,247,014 shares of the Company.

Note 2: The number of shares held and percentage of total issued shares were recorded prior to the open offer of the Company effective on 19 December 2007. 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 2008, 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	8.3%
– five largest suppliers	32.4%
Sales	
– the largest customer	61.9%
– five largest customers	72.5%

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 28 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 year ended 31 March 2006 was audited by Moores Rowland Mazars.

The financial statements for the financial years ended 31 March 2007 and 2008 were audited by Mazars CPA Limited, Certified Public Accountants. 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, 8 July 2008

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 19 to 61, which comprise the consolidated and the Company's balance sheets as at 31 March 2008, 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 disclosure requirements of 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 Companies Act 1981 of Bermuda (as amended), 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 matter 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

We were not able to form a view in the previous year on the appropriateness of recognising the impairment loss of HK$4,569,000 and the reversal of impairment loss of HK$12,016,000 on property, plant and equipment and whether the property, plant and equipment of HK$211,155,000 were fairly stated at 31 March 2007. A qualified opinion has been expressed in the auditors' report on the financial statements for the year ended 31 March 2007 accordingly. Any adjustments to the opening carrying amount of the property, plant and equipment which have previously been qualified would have consequential effects on the results for the year ended 31 March 2008.

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 sufficient information from management to support its assessment on the value in use of property, plant and equipment with a carrying amount of HK$95,607,000 as of 31 March 2008 and therefore unable to satisfy ourselves whether the recognition of the reversal of impairment loss of HK$14,207,000 are appropriate. Consequently, we have been unable to satisfy ourselves whether the property, plant and equipment of HK$95,607,000 were fairly stated at 31 March 2008 and whether the loss for the year then ended was fairly stated.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matter set out in the above paragraphs. 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 2008.

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 matter as set out in the basis for disclaimer of opinion section, 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 2008 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.

Without qualifying our report in this respect, we draw attention to 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. At the balance sheet date, the Group had net current liabilities of HK$52,512,000. The validity of the going concern basis depends on the Group's future profitable operation and the outcome of the measures as detailed in note 2 to the financial statements. The financial statements do not include any adjustments that would result from a failure of these measures to accomplish successful outcome. We consider that appropriate disclosures have been made in this respect.

Mazars CPA Limited
Certified Public Accountants

Hong Kong
8 July 2008

Eunice Y M Kwok
Practising Certificate number: P04604

	Note	2008 HK$'000	2007 HK$'000
Turnover	5	215,997	219,508
Cost of sales		(182,104)	(189,717)
Gross profit		33,893	29,791
Other revenue	5	2,067	2,538
Other income	6	14,271	10,172
Selling and distribution expenses		(9,390)	(9,076)
Administrative and other operating expenses		(44,699)	(44,287)
Finance costs	7	(12,445)	(11,904)
Loss before taxation	7	(16,303)	(22,766)
Taxation credit (charge)	10	10	(56)
Loss for the year attributable to equity holders of the Company	11	(16,293)	(22,822)
Loss per share – Basic	12	HK(1.28) cents	HK(1.83) cents

Consolidated Statement of Changes in Equity

Year ended 31 March 2008

	2008 HK$'000	2007 HK$'000
Opening balance – Total equity at 1 April	27,636	50,458
Issue of zero-coupon convertible bonds, net of issuing expenses	330	–
Issue of shares for Open Offer, net of issuing expenses	41,276	–
Issue of shares on conversion of zero-coupon convertible bonds	8,686	–
Loss for the year	(16,293)	(22,822)
Closing balance – Total equity at 31 March	61,635	27,636

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	231,695	222,011
Current assets			
Inventories	15	20,202	29,534
Trade and bills receivables	16	23,243	27,015
Prepayments, deposits and other receivables		3,087	4,395
Tax recoverable		–	233
Pledged deposits		5,298	5,058
Bank balances and cash		14,680	7,919
		66,510	74,154
Current liabilities			
Trade and other payables	17	64,579	86,992
Advance from a related company	18	–	7,000
Loan from a related company	19	6,396	7,800
Loans from a shareholder	20	6,000	28,000
Short-term bank borrowings	21(a)	10,374	133,068
Current portion of long-term bank borrowing	21(b)	11,111	–
Current portion of obligations under finance leases	22	3,173	2,003
Zero-coupon convertible bonds	23	17,389	–
		119,022	264,863
Net current liabilities		(52,512)	(190,709)
Total assets less current liabilities		179,183	31,302
Non-current liabilities			
Obligations under finance leases	22	881	3,666
Long-term bank borrowing	21(b)	116,667	–
		117,548	3,666
NET ASSETS		61,635	27,636
Capital and reserves			
Share capital	24	13,849	86,873
Reserves	25	47,786	(59,237)
TOTAL EQUITY		61,635	27,636

Approved and authorised for issue by the Board of Directors on 8 July 2008.

Xu Jin
Chairman

Lau Kin Hon
Director

Balance Sheet

At 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	14	110,063	88,570
Current assets			
Prepayments, deposits and other receivables		534	687
Bank balances and cash		113	47
		647	734
Current liabilities			
Other payables and accruals		2,368	2,731
Loan from a related company	19	6,396	7,800
Loans from a shareholder	20	6,000	28,000
Zero-coupon convertible bonds	23	17,389	–
		32,153	38,531
Net current liabilities		(31,506)	(37,797)
NET ASSETS		78,557	50,773
Capital and reserves			
Share capital	24	13,849	86,873
Reserves	25	64,708	(36,100)
TOTAL EQUITY		78,557	50,773

Approved and authorised for issue by the Board of Directors on 8 July 2008.

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

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	(16,303)	(22,766)
Depreciation	15,991	17,563
Reversal of impairment loss on property, plant and equipment, net	(12,731)	(9,709)
Interest income	(802)	(690)
Interest expense	12,445	11,904
Gain on disposal of property, plant and equipment	(1,245)	(319)
Write-back of allowance for bad and doubtful debts	(295)	(144)
Provision for bad and doubtful debts in respect of prepayments, deposits and other receivable	2,010	–
Allowance for inventory obsolescence	917	–
Changes in working capital:		
Trade and bills receivables,	4,067	1,420
Prepayments, deposits and other receivables	(702)	3,575
Inventories	8,415	(1,464)
Trade and other payables	(21,902)	(10,383)
Cash used in operating activities	(10,135)	(11,013)
Interest paid	(11,586)	(11,632)
Hong Kong Profits Tax refund (paid)	135	(1,462)
Net cash used in operating activities	(21,586)	(24,107)

Consolidated Cash Flow Statement

Year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Interest received		802	690
Increase in pledged deposits		(240)	(2,928)
Purchase of property, plant and equipment		(14,267)	(5,985)
Proceeds on disposal of property, plant and equipment		2,568	14,852
Net cash (used in) from investing activities		(11,137)	6,629
FINANCING ACTIVITIES			
(Repayment) Advance from a related company		(7,000)	7,000
Loan from a related company		–	7,800
Loans from a shareholder		10,000	28,000
Net proceeds from Open Offer	29	25,075	–
New short-term bank borrowings		–	143,068
Net proceeds from issue of zero-coupon convertible bonds		25,423	–
New long-term bank borrowing		133,333	–
Repayment of loan from a shareholder		(15,799)	–
Repayment of short-term bank borrowings		(122,694)	(94,210)
Repayment of long-term bank borrowing		(5,555)	(70,000)
Repayment of obligation under finance leases		(1,615)	(618)
Repayment of loan from a related company		(1,404)	–
Interest paid on obligation under finance leases		(280)	(272)
Net cash from financing activities		39,484	20,768
Net increase in cash and cash equivalents		6,761	3,290
Cash and cash equivalents at beginning of year		7,919	4,629
Cash and cash equivalents at end of year, represented by bank balances and cash		14,680	7,919

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 as at 31 March 2008. The excess of current liabilities over current assets as at 31 March 2008 has been reduced greatly comparing to the last year position.

In preparing the financial statements for the year ended 31 March 2008, the directors adopted a going concern basis as the following actions have been taken by the Group to improve the financial position and performance of the Group:

(i) The Group has adopted measures to improve its liquidity, including obtaining continuing support from its banks and shareholders.

- In August 2007, the Company issued zero-coupon convertible bonds of HK$26,000,000 due on 1 February 2009 ("Convertible Bonds"). The effects of the issuance of Convertible Bonds include:

  – No outflow of cash for settlement of interest is required.

  – The financial position of the Group will be strengthened upon with the conversion of the Convertible Bonds into equity capital upon exercise of the conversion right. As at 31 March 2008, HK$9,000,000 Convertible Bonds had been converted to 81,818,180 shares which contributes to a reduction of projected cash outflow effect of HK$9,900,000 upon maturity of the Convertible Bonds.

- In October 2007, the Group obtained a 3-year term loan facility in the amount of RMB120,000,000 (equivalent to HK$133,333,000) to refinance the then outstanding short-term bank loan of HK$108,750,000. Such 3-year term loan provides a long-term funding to the Group and improves its liquidity position.

- On 19 December 2007, the Company made an open offer of 434,366,720 shares of HK$ 0.1 each in proportion of one offer share for every two existing shares held on 28 November 2007 ("Open Offer"). The proceeds from this Open Offer increased the cash flow, enhanced working capital, strengthened capital base and financial position of the Group. To raise the capital through the Open Offer would allow shareholders who entitled to take up the shares maintaining their respective pro rata shareholdings in the Company and participating in the future growth of the Group.

2. BASIS OF PREPARATION (CONTINUED)

(i) (Continued)

- The Group has agreed with a related company and a shareholder to extend their loans of USD820,000 (equivalent to HK$6,396,000) and HK$6,000,000 to 7 September 2008 and 30 July 2008 respectively. Details of the loans are described in notes 19 and 20 to the financial statements respectively.

(ii) The Group improved the productivity through the replacement of machineries in new models. Among others, the Group signed a sale and purchase contract to purchase 9 sets of plastic injection machines on 2 April 2008 for replacing some machines of low productivity.

(iii) In order to improve the cash flow of the Group, the management continues to keep up the effort in debts collection from the customers of the Group's sales division in the People's Republic of China ("PRC") by pursuing litigation and appointing external professionals for collection. Besides, excessive inventories have been and being sold at discount and idle assets have been and being disposed of. Moreover, the management negotiates with suppliers for the extension of credit period from time to time. Credits periods granted to customers are reviewed from time to time in order to determine if any revision is needed. Furthermore, the credit limits of export credit insurance has been increased for facilitating a corresponding increase in bank trade finance facilities in order to improve the working capital base of the Group.

(iv) The management will continue the strategy to focus on higher-margin business opportunities and creditworthy customers so as to boost up the quality and return of sales.

(v) Since the change of management in March 2006, the Group has committed substantial effort in improving production efficiency, cost effectiveness and sales effort, and resulted in improvement in performance of the Group. Recently, sales effort has been stepped up by reorganising the sale staff structure and management and by exploring the markets with greater potential such as non-US markets. Measures in productivity improvement, supply chain streamlining, cost reengineering, technology updating and strengthening of internal controls will continue to be implemented.

3. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

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 and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the 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 2007 financial statements except for the adoption of the following new / revised HKFRS that are effective from the current year.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Statement of compliance (Continued)

HKAS 1 (Amendment): Capital disclosures

The amendment requires financial statements to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 32 to the financial statements.

HKFRS 7: Financial instruments: Disclosures

HKFRS 7 superseded *HKAS 30 Disclosures in the financial statements of banks and similar financial institution* and incorporated all the disclosure requirements previously in HKAS 32, while the presentation requirements in HKAS 32 remain unchanged. HKFRS 7 requires financial statements to disclose information for the purpose of evaluating the significance of the Group's financial instruments, the nature and risks arising from those financial instruments to which the Group is exposed to and how the Group manages them. The new disclosures are included throughout the financial statements.

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 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. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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

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%

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

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicator that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

When a receivable is uncollectible, it is written off against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

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.

Convertible bonds

The component of the convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of issue costs. The carrying amount of the conversion option is not re-measured in subsequent years.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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. For the balance sheet classification, cash equivalent represent assets similar in nature to cash and which are not restricted as to use.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

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.

Impairment of other 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is related to the Group if

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

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

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

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

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

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

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

Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)

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$23,243,000 (2007: HK$27,015,000).

Allowance for inventories

The Group's management reviews the condition of inventories, as stated in note 15 to the financial statements, at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. Management carries out the inventory review on a product by product basis and makes allowances by reference to the latest market prices and current market conditions.

Impairment of investments and receivables

The Company assesses annually if investment in subsidiaries has suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

Future changes in HKFRS

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

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 8	Operating segments
HK(IFRIC)-INT 12	Service concession arrangements
HK(IFRIC)-INT 13	Customer loyalty programmes
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

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.

4. 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	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
United States of America	164,573	167,462	3,067	3,365
Canada	8,316	10,463	416	(1,120)
Hong Kong	19,995	16,533	1,932	1,737
PRC	2,154	493	(359)	124
Europe	5,646	10,396	344	439
Others	15,313	14,161	927	893
	215,997	219,508	6,327	5,438
Unallocated corporate expenses			(10,185)	(16,300)
Finance costs			(12,445)	(11,904)
Taxation credit (charge)			10	(56)
Loss for the year attributable to equity holders of the Company			(16,293)	(22,822)

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as approximately 90% (2007: 90%) of the Group's assets are located in the PRC.

5. TURNOVER AND REVENUE

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

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover		
Sale of goods	215,997	219,508
Other revenue		
Interest income	802	690
Others	1,265	1,848
	2,067	2,538
Total revenue	218,064	222,046

6. OTHER INCOME

		Group	
		2008	2007
	Note	HK$'000	HK$'000
Reversal of impairment loss on property, plant and equipment	13	12,731	9,709
Gain on disposal of property, plant and equipment		1,245	319
Write-back of allowance for bad and doubtful debts		295	144
		14,271	10,172

7. LOSS BEFORE TAXATION

	Group	
	2008	2007
This is stated after charging:	HK$'000	HK$'000
Finance costs		
Amortised costs on zero-coupon convertible bonds	982	–
Interest on bank borrowings wholly repayable within five years	8,856	9,495
Interest on mortgage loan wholly repayable within five years	–	87
Interest on loans from a shareholder wholly repayable within five years	1,802	1,026
Interest on loan from a related company wholly repayable within five years	525	330
Finance charges on obligations under finance leases	280	272
Interest on trade payables overdue	–	528
Other interest expenses	–	166
	12,445	11,904
Other items		
Auditors' remuneration		
– Current year	600	600
– Under provision in previous year	–	200
	600	800
Allowance for bad and doubtful debts in respect of prepayments, deposits and other receivables	2,010	–
Cost of inventories	182,104	189,717
Depreciation of property, plant and equipment	15,991	17,563
Exchange losses, net	15,412	4,762
Operating lease charge on premises	922	907
Allowance for inventory obsolescence	917	–
Staff costs (excluding directors' emoluments):		
Wages and salaries	33,061	32,452
Termination benefits	1,636	1,558
Contributions to retirement schemes	1,018	987
	35,715	34,997

8. DIRECTORS' EMOLUMENTS

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	2008			
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive director				
Xu Jin	–	–	–	–
Non-executive director				
Lau Kin Hon	–	653	12	665
Independent non-executive directors				
Chan Man Sum Ivan	144	–	–	144
Cheung Kiu Cho Vincent	120	–	–	120
He Chengying	120	–	–	120
	384	653	12	1,049

		2007			
	Note	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
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

8. DIRECTORS' EMOLUMENTS (CONTINUED)

Note:

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.

9. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals of the Group during the year included one (2007: two) director of the Company, details of whose emoluments are set out in note 8 above. The emoluments of the remaining four (2007: three) individuals are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Salaries and other benefits	2,743	2,066
Contributions to retirement scheme	46	36
	2,789	2,102

The emoluments fell within the following bands:

	Group Number of individuals	
	2008	2007
Nil to HK$1,000,000	4	3

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 subsidiaries incurred a loss for taxation purposes.

	Group	
The (credit) charge comprises:	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong Profits Tax:		
(Over) Under provision in prior years	(10)	56
Total taxation (credit) charge for the year	(10)	56

	Group	
Reconciliation of effective tax rate	2008 %	2007 %
Applicable tax rate	(18)	(16)
Non-deductible expenses	8	–
Utilisation of previously unrecognised tax losses	–	(1)
Unrecognised temporary differences	(21)	(17)
Unrecognised tax losses	31	33
Others	–	1
Effective tax rate for the year	–	–

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

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

Of the Group's loss for the year of HK$16,293,000 (2007: HK$22,822,000), a loss of HK$22,508,000 (2007: HK$15,912,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share for the years 2008 and 2007 is based on the net loss for the year of HK$16,293,000 (2007: HK$22,822,000) and on the weighted average number of 1,276,727,000 (2007: 1,248,348,000) shares in issue during the year.

No diluted loss per share is presented for 2008 as the potential ordinary shares under the Convertible Bonds are anti-dilutive. No diluted loss per share is presented for 2007 as there were no dilutive events during the year ended 31 March 2007.

The comparative amount of the loss per share has been adjusted as a result of the Open Offer effected during the year.

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 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
Transferred from construction-in-progress	–	221	–	–	–	–	(221)	–
At balance sheet date	178,366	2,424	10,856	817	247	28,943	358	222,011
Reconciliation of carrying amount – year ended 31 March 2008								
At beginning of year	178,366	2,424	10,856	817	247	28,943	358	222,011
Additions	–	–	37	305	70	3,969	9,886	14,267
Disposals and write-off	–	–	(1,221)	(5)	(13)	(84)	–	(1,323)
Depreciation	(4,732)	(1,121)	(3,098)	(757)	(68)	(6,215)	–	(15,991)
Impairment loss	–	–	–	–	–	(5,175)	–	(5,175)
Reversal of impairment loss	17,906	–	–	–	–	–	–	17,906
Transferred from construction-in- progress	8,881	536	12	63	–	–	(9,492)	–
At balance sheet date	**200,421**	**1,839**	**6,586**	**423**	**236**	**21,438**	**752**	**231,695**
At 1 April 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
At 31 March 2008								
Cost	262,822	16,053	75,584	32,659	5,901	198,173	752	591,944
Accumulated depreciation and impairment losses	(62,401)	(14,214)	(68,998)	(32,236)	(5,665)	(176,735)	–	(360,249)
	200,421	**1,839**	**6,586**	**423**	**236**	**21,438**	**752**	**231,695**

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, management has reviewed the carrying value of the property, plant and machinery in order to assess their recoverable amount. Management considered that the recoverable amount of the leasehold land and buildings in the PRC has been increased as a result of, among others, the completion of fire safety construction works during the year. On the other hand, management considered that further provision on certain idle moulds, by reference to their utilisation analysis, should be made. Based on their assessments, reversal of and provision for impairment loss have been recognised as follows:

	Group	
	2008 HK$'000	2007 HK$'000
By reference to independent professional valuation on the market value of the assets		
– Leasehold land and buildings in the PRC	3,699	–
– Plant and machinery	–	2,262
	3,699	2,262
Based on value in use as estimated by management		
– Leasehold land and buildings in the PRC	14,207	12,016
– Moulds	(5,175)	(4,569)
	9,032	7,447
Reversal of impairment loss on property, plant and equipment	12,731	9,709

Represented by:

	Group	
	2008 HK$'000	2007 HK$'000
Impairment loss on property, plant and equipment	(5,175)	(4,569)
Reversal of impairment loss on property, plant and equipment	17,906	14,278
Included in other income	12,731	9,709

The net book value of the Group's property, plant and equipment includes an amount of HK$632,000 (2007: HK$801,000) in respect of assets held under finance leases.

14. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	158,598	158,598
Provision for impairment loss	(158,598)	(157,877)
	–	721
Due from subsidiaries	452,979	408,989
Allowance for bad and doubtful debts	(342,916)	(321,140)
	110,063	87,849
	110,063	88,570

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment term. 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 Directly	Indirectly	Principal activities
Magician Investments (BVI) Limited	British Virgin Islands	US$6 ordinary	100%	–	Investment holding
Treasure Trend Development Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Magician Strategic Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
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%	Subletting of premises to the group companies

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 Directly	Indirectly	Principal activities
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, 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	
	2008	2007
	HK$'000	HK$'000
Raw materials	8,876	12,638
Work-in-progress	8,194	9,842
Finished goods	3,132	7,054
	20,202	29,534

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$1,408,000 (2007: HK$3,522,000).

16. TRADE AND BILLS RECEIVABLES

		Group	
		2008	2007
	Note	HK$'000	HK$'000
Trade and bills receivables from third parties		64,644	66,855
Allowance for bad and doubtful debts	(i)	(41,401)	(39,840)
		23,243	27,015

In general, the Group allows a credit period of 30 to 60 days to its trade customers. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$6,537,000 (2007: HK$14,585,000), which were past due at the balance sheet date but not impaired as there has not been a significant change in credit quality and management believes that the amounts are still considered receivable. These relate to a wide range of customers for whom there is no recent history of default.

16. TRADE AND BILLS RECEIVABLES (CONTINUED)

At the balance sheet date, the ageing analysis of the trade and bills receivables (net of allowance for bad and doubtful debts) is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Current	16,706	12,430
Less than 1 month past due	4,358	1,596
1 month to 2 months past due	328	10,181
2 months to 3 months past due	1,294	2,267
3 months to 6 months past due	22	201
6 months to 1 year past due	3	132
Over 1 year past due	532	208
	6,537	14,585
	23,243	27,015

During the year, the Group discounted bills receivable to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of bills receivable and has recognised the cash received as secured bank borrowings and included in note 21(a). At the balance sheet date, the carrying amount of discounted bills receivable and the associated liability is HK$10,374,000 (2007: HK$13,068,000).

Note

(i) Allowance for bad and doubtful debts

As at 31 March 2008, trade receivables of HK$41,401,000 (2007: HK$39,840,000) were impaired. The amount of the provision was HK$41,401,000 as at 31 March 2008 (2007: HK$39,840,000). The individual impaired receivables mainly related to unsuccessful collection of receivables from the customers of the Group's sales division in the PRC, which has been recognised in 2005. It was assessed that no portion of the receivables is expected to be recovered.

16. TRADE AND BILLS RECEIVABLES (CONTINUED)

(i) Allowance for bad and doubtful debts (Continued)

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of year	(39,840)	(39,984)
Amount written off	2,088	–
Amount recovered	295	144
Exchange difference	(3,944)	–
At balance sheet date	(41,401)	(39,840)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no history of default.

The creation and release of provision for impaired receivables have been included in "administrative and other operating expenses" and "other income" in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

17. TRADE AND OTHER PAYABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade payables		
From a related company	6	1,923
From third parties	27,075	36,581
	27,081	38,504
Other payables and accruals	37,498	48,488
	64,579	86,992

17. TRADE AND OTHER PAYABLES (CONTINUED)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Less than 3 months	14,623	23,158
3 months to 6 months	4,928	5,177
6 months to 1 year	200	2,179
More than 1 year	7,330	7,990
	27,081	38,504

The trade payable to a related company is unsecured, interest-free and has no fixed repayment term. The Company's director, Mr. Xu Jin, has beneficial interest in the related company.

Included in the other payables and accruals is an advance from a third party of HK$8,401,000 (2007: HK$13,177,000) which is unsecured, interest-free and has no fixed repayment term.

18. ADVANCE FROM A RELATED COMPANY

The advance from a related company, in which Mr. Xu Jin has beneficial interest, was unsecured, interest-free and was fully repaid during the year.

19. LOAN FROM A RELATED COMPANY

The loan from a related company, in which Mr. Xu Jin has beneficial interest, was unsecured, interest-bearing at 7% per annum and repayable in September 2008.

20. LOANS FROM A SHAREHOLDER

The loans from a shareholder were unsecured and interest-bearing at HIBOR plus 3% per annum. During the year, a new loan of HK$10,000,000 with the same terms as the previous loan agreements was obtained from the shareholder. Part of the loans of HK$32,000,000 was settled by way of setting off HK$16,201,000 against the net proceeds of the Open Offer and by the cash repayment of HK$15,799,000 during the year. The remaining balance of HK$6,000,000 was repayable in July 2008.

21. BANK BORROWINGS

(a) Short-term bank borrowings, secured

Included in short-term bank borrowings as at 31 March 2007 was bank loan of HK$120,000,000 which was interest-bearing at HIBOR plus 1.5% per annum and was fully repaid during the year.

At 31 March 2008, the short-term bank borrowings represented the associated liability of the discounted bills receivable, which was interest-bearing at LIBOR / HIBOR plus 1.75% to 2% per annum.

21. BANK BORROWINGS (CONTINUED)

(b) Long-term bank borrowing, secured

	Group 2008 HK$'000	Group 2007 HK$'000
Within one year	11,111	–
In the second to fifth years inclusive	116,667	–
	127,778	–

The long term bank borrowing represents a 3-year term loan of RMB120,000,000 (equivalent to HK$133,333,000) obtained during the year. It was interest-bearing at 105% of the base lending rate published by the People's Bank of China and repayable in various quarterly installments up to October 2010.

22. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease Payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Amounts payable:				
Within one year	3,486	2,273	3,173	2,003
In the second to fifth years inclusive	953	4,006	881	3,666
	4,439	6,279	4,054	5,669
Future finance charges	(385)	(610)	–	–
Present value of lease obligations	4,054	5,669	4,054	5,669

The lease term ranged from three to five years. All lease agreements are on a fixed repayment basis.

23. ZERO-COUPON CONVERTIBLE BONDS

On 1 August 2007, the Company issued zero-coupon convertible bonds in an aggregate principal amount of HK$26,000,000 with maturity date on 1 February 2009. The convertible bonds can be converted into ordinary shares of the Company at a conversion price of HK$0.15 at any time from the date of issue and up to the maturity date. The conversion price of the convertible bonds was adjusted from HK$0.15 to HK$0.11 with effect from 19 December 2007 following the Open Offer as detailed in note 24(i) to the financial statements.

During the year, the convertible bonds with principal amount of HK$9,000,000 were converted into 81,818,180 ordinary shares of HK$0.01 each of the Company at a conversion price of HK$0.11 per share.

23. ZERO-COUPON CONVERTIBLE BONDS (CONTINUED)

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 date of issue and up to 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.

24. SHARE CAPITAL

	Note	No. of shares of HK$0.1 each	No. of shares of HK$0.01 each	HK$'000
Authorised:				
At 1 April 2006 and 31 March 2007		4,000,000,000	–	400,000
Subdivision of shares	(ii)(b)	(4,000,000,000)	40,000,000,000	–
		–	40,000,000,000	400,000
Cancellation of shares	(ii)(c)	–	(30,000,000,000)	(300,000)
At balance sheet date		–	10,000,000,000	100,000
Issued and fully paid:				
At 1 April 2006 and 31 March 2007		868,733,440	–	86,873
Issue of shares on Open Offer	(i)	434,366,720	–	43,437
Capital reduction	(ii)(a)	(1,303,100,160)	1,303,100,160	(117,279)
		–	1,303,100,160	13,031
Conversion of zero-coupon convertible bonds	23	–	81,818,180	818
At balance sheet date		–	1,384,918,340	13,849

Note:

(i) By an ordinary resolution passed at a special general meeting of shareholders held on 28 November 2007, the issued share capital of the Company was increased to HK$130,310,000 by allotting 434,366,720 ordinary shares of HK$0.10 each in the proportion of one ordinary share for every two existing ordinary shares by the way of Open Offer, to provide for additional working capital.

24. SHARE CAPITAL (CONTINUED)

(ii) At a special general meeting of shareholders held on 19 February 2008, the resolutions in respect of the Capital Reorganisation including reduction of capital, adjustment of nominal value of the issued shares of the Company, cancellation of authorised but unissued share capital ("Capital Reduction") were approved by the shareholders. All conditions of the Capital Reorganisation have been fulfilled and the Capital Reorganisation became effective on 20 February 2008 (Effective Date") and the effects of the Capital Reorganisation were as follows:

(a) the paid-up and nominal value of the issued shares was reduced by HK$0.09 per share by cancelling an equivalent amount of paid-up capital per share so that the nominal value of each such share will be reduced from HK$0.1 to HK$0.01. Based upon the number of shares in issue as at the Effective Date, the issued share capital of the Company of HK$130,310,000 consisting of 1,303,100,160 ordinary shares of HK$0.1 each was reduced by HK$117,279,000 to HK$13,031,000 consisting of 1,303,100,160 ordinary shares of HK$0.01 each;

(b) each authorised but unissued share has been subdivided into 10 new shares of HK$0.01 each;

(c) the authorised share capital of the Company has been reduced from HK$400,000,000 to HK$100,000,000 by cancelling 30,000,000,000 unissued new shares; and

(d) the credit amount of HK$399,328,000, represented by a credit amount of HK$117,279,000 arising from the reduction referred to in (a) above and the cancellation of the entire balance standing to the credit of the share premium account of the Company, which was HK$282,049,000 as at 31 March 2007, was credited to the contributed surplus account of the Company. The amounts in the contributed surplus account can be applied to a distributable reserve of the Company at the discretion of the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including fully utilised to eliminate the accumulated losses of the Company.

All the shares issued during the year rank pari passu in all respects with the then existing shares.

25. RESERVES

	Share premium HK$'000	Zero-coupon convertible bonds HK$'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 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)
At 1 April 2007	282,049	–	1,265	139	51	(342,741)	(59,237)
Issue of zero-coupon convertible bonds, net of issuing expenses	–	330	–	–	–	–	330
Expenses relating to Open Offer	–	–	–	–	(2,161)	–	(2,161)
Creation of contributed surplus pursuant to the Capital Reorganisation *(Note (i))*	(282,049)	–	–	–	399,328	–	117,279
Contributed surplus set off against accumulated losses pursuant to the Capital Reorganisation *(Note (i))*	–	–	–	–	(342,741)	342,741	–
Conversion of zero-coupon convertible bonds	7,982	(114)	–	–	–	–	7,868
Loss for the year	–	–	–	–	–	(16,293)	(16,293)
At 31 March 2008	**7,982**	**216**	**1,265**	**139**	**54,477**	**(16,293)**	**47,786**

25. RESERVES (CONTINUED)

	Share premium HK$'000	Zero-coupon convertible bonds HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Company						
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)
At 1 April 2007	282,049	–	1,265	158,398	(477,812)	(36,100)
Issue of zero-coupon convertible bonds, net of issuing expenses	–	330	–	–	–	330
Expenses relating to Open Offer	–	–	–	(2,161)	–	(2,161)
Creation of contributed surplus pursuant to the Capital Reorganisation *(Note (i))*	(282,049)	–	–	399,328	–	117,279
Contributed surplus set off against accumulated losses pursuant to the Capital Reorganisation *(Note (i))*	–	–	–	(477,812)	477,812	–
Conversion of zero-coupon convertible bonds	7,982	(114)	–	–	–	7,868
Loss for the year	–	–	–	–	(22,508)	(22,508)
At 31 March 2008	**7,982**	**216**	**1,265**	**77,753**	**(22,508)**	**64,708**

25. RESERVES (CONTINUED)

Note:

(i) As mentioned in note 24(ii)(d) to the financial statements, an amount of HK$399,328,000 arising from the Capital Reorganisation was transferred to the contributed surplus account of the Company. Such credit amount was applied to set off the Company's accumulated losses of HK$477,812,000 as at 31 March 2007. On consolidation, the application of the credit amount to set off the Group's accumulated losses amounted to HK$342,741,000 as at 31 March 2007.

(ii) 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 subsidiaries in the PRC had not generated any profits for appropriations to these statutory reserves for the year ended 31 March 2007 and 2008.

(iii) 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.

At 31 March 2008, the aggregate amount of reserves available for distribution to the equity holders of the Company comprising the contributed surplus and accumulated losses amounted to HK$55,245,000.

26. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	Group	
	2008 HK$'000	2007 HK$'000
Deductible temporary differences	1,227	15,763
Tax losses	335,559	305,474
At the balance sheet date	336,786	321,237

The tax losses of HK$107,215,000 (2007: HK$95,056,000) arising in Hong Kong have no expiry date under current tax legislation. The tax losses of HK$228,344,000 (2007: HK$210,418,000) and deductible temporary differences of HK$1,227,000 (2007: HK$15,763,000) 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 the PRC at the balance sheet date will expire as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Year of expiry		
2010	41,543	41,543
2011	135,106	135,106
2012	33,769	33,769
2013	17,926	–
At the balance sheet date	228,344	210,418

27. SHARE OPTION SCHEME

On 8 August 2002, a share option scheme was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, invite any full-time employee or directors of the Company or its subsidiaries to take up options at a nominal consideration of HK$1 for each option allotment to subscribe for ordinary shares in the Company, subject to a maximum of 10% of the issued share capital of the Company at the date of approval of the share option scheme. Each option will entitle the holder thereof 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.

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

28. PENSION RETIREMENT OBLIGATIONS

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

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

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$1,030,000 (2007: HK$1,013,000).

29. MAJOR NON-CASH TRANSACTION

As mentioned in note 24(i) to the financial statements, 434,366,720 ordinary shares of HK$0.10 each were alloted by the way of Open Offer in which proceeds of HK$16,201,000 was applied to set off the Company's loans from a shareholder by the same amount.

30. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

		Group	
		2008	2007
Related party relationship	Nature of transaction	HK$'000	HK$'000
Key management personnel, including directors (Note i)	Compensation		
	Salaries and other benefits	3,895	3,636
	Contribution to MPF Scheme	70	63
	Total compensation	3,965	3,699
Companies owned by Mr. Xu Jin, a director and shareholder of the Company	Interest expenses on loans granted	525	330
A company owned by the beneficial owner of the Company's shareholder	Guarantee for long-term bank borrowings granted to the Group	133,333	–
A shareholder	Interest expenses on loans granted	1,802	1,026

Note:

(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 finance assistance in relation to the procurement of the Group's raw materials. The related companies only recovered the charges and expenses incurred for the provision of such services from the Group.

(iii) Companies owned by a director and shareholder of the Company, Mr. Xu Jin, and the beneficial owner of the Company's shareholder each have provided a corporate guarantee of HK$10,000,000 to secure the Group's short-term bank borrowings. Upon the maturity and repayment of the short-term bank borrowings in October 2007, the corporate guarantees were simultaneously released.

31. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise of long-term bank borrowing, other borrowings, zero-coupon convertible bonds, finance leases and bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and bill receivables and trade and other payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on its risk management and limit the Group's exposure to these risks to a minimum. Management reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

31. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to trade and bills receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of trade and bills receivables is set out in note 16 to the financial statements. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In extending credit terms to customers the Group has carefully assessed creditworthiness and financial standing of each customer. Management also closely monitors all outstanding debts and reviews the collectibility of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not hold any collateral over these assets.

At the balance sheet date, the Group had a concentration of credit risk as 65% (2007: 76%) and 81% (2007: 91%) of the total trade and bills receivables were made up by the Group's largest customer and the five largest customers' outstanding balances respectively.

The Group's bank balances and pledged deposits are placed with credit-worthy banks in Hong Kong and in the PRC.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing bank and other borrowings with a fixed or floating interest rate as at balance sheet date. The interest rates and terms of repayment of which have been disclosed in notes 19, 20 and 21 to the financial statements. Management does not expect any significant interest rate risk as at the balance sheet date.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 100 basis points ("bps") was applied to the yield curves at the respective balance sheet date.

At the balance sheet date, if interest rates had been 100 basis points higher / lower and all other variables were held constant, the Group's net loss would increase / decrease by HK$1,442,000 (2007: HK$1,611,000), but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

31. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Foreign currency risk

Most of the Group business transactions were conducted in Hong Kong dollar, Renminbi and United States dollar. As at 31 March 2008, the Group's debts borrowings were denominated in Hong Kong dollar, Renminbi and United States dollar.

The Group considers the risk exposure to foreign currency fluctuation would be in line with the gradual appreciation of Renminbi as long as the Hong Kong dollar remains pegged to the U.S. dollar and the PRC government takes prudent and gradual measures against the appreciation of Renminbi. Given that Renminbi is not an international currency, there is no effective method to hedge the relevant risk for the size and cashflow pattern of the Group. However, as most of the Group's raw materials procurement were settled in U.S. dollars and Hong Kong dollars, and most of the Group's customers accepted the passing-on of the rising costs, to various extent, due to the appreciation of Renminbi, the effect arising from the relevant risk can be reduced significantly.

Sensitivity analysis

The sensitivity analysis has been determined assuming that the change in exchange rate had occurred at the balance sheet date and had been applied to both derivative and non-derivative financial instruments (excluding items which are denominated in United States dollar) that would have affected the profit or loss.

At the balance sheet date, if Renminbi had weakened/strengthened by 10% with all other variables held constant, the Group's net loss for the year would have been HK$17,146,000 (2007: HK$6,990,000) lower/higher, but there would be no impact on the other equity reserves.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at the date, and that all other variables, in particular interest rates, remain constant. No impact on the other equity reserves is expected. The analysis is performed on the same basis for 2007.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies.

Liquidity risk

The Group closely monitors its liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

31. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The following table details the remaining contractual maturity of the Group for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. For cash flows denominated in currencies other than Hong Kong dollar, the prevailing foreign exchange rates at the balance sheet date are used to convert the cash flows into Hong Kong dollar.

	2008				2007			
	On demand HK$'000	Less than 1 year HK$'000	1-2 years HK$'000	Total HK$'000	On demand HK$'000	Less than 1 year HK$'000	1-2 years HK$'000	Total HK$'000
Trade and other payables	58,857	5,722	–	64,579	76,374	10,618	–	86,992
Advance from a related company	–	–	–	–	7,000	–	–	7,000
Loan from a related company	–	6,479	–	6,479	–	7,861	–	7,861
Loan from a shareholder	–	6,031	–	6,031	–	28,582	–	28,582
Short-term bank borrowings	–	10,415	–	10,415	–	137,192	–	137,192
Long-term bank borrowing	–	20,924	129,412	150,336	–	–	–	–
Obligations under finance leases	–	3,486	953	4,439	–	2,273	4,006	6,279
Zero-coupon convertible bonds	–	18,700	–	18,700	–	–	–	–
	58,857	71,757	130,365	260,979	83,374	186,526	4,006	273,906

32. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 2007.

Fair value

The directors consider that the carrying amounts of financial assets and liabilities in the consolidated financial statements approximate their fair values.

33. COMMITMENTS

(a) Capital commitments

During the year, the Group established a wholly-owned subsidiary in the PRC with a registered capital of HK$5,000,000 and injected totalling HK$2,000,000 into the subsidiary. The capital commitment of HK$3,000,000 at the balance sheet date has subsequently been fully paid.

33. COMMITMENTS (CONTINUED)

(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	
	2008 HK$'000	2007 HK$'000
Within one year	824	898
In the second to fifth years inclusive	926	149
	1,750	1,047

34. 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$33,600,000 (2007: HK$152,500,000) for banking facilities granted to its subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$10,374,000 (2007: HK$133,100,000).

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 zero.

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

35. 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	
	2008 HK$'000	2007 HK$'000
Leasehold land and buildings	167,480	178,366
Bank deposits	5,298	5,058
	172,778	183,424

36. POST BALANCE SHEET EVENTS

In addition to the post balance sheet events disclosed elsewhere in the financial statements, subsequent to the balance sheet date, the Group entered into a contract to acquire machineries at an aggregate consideration of HK$1,380,000.

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:

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	215,997	219,508	233,865	445,830	470,812
(Loss) Profit from operating activities	(16,303)	(22,766)	(52,509)	(175,953)	1,422
Share of results of interest in an associate	–	–	–	–	(233)
(Loss) Profit before taxation	(16,303)	(22,766)	(52,509)	(175,953)	1,189
Taxation credit (charge)	10	(56)	5,537	–	116
Net (loss) profit for the year	(16,293)	(22,822)	(46,972)	(175,953)	1,305
Assets and liabilities					
Total assets	298,205	296,165	309,503	405,490	601,034
Total liabilities	(236,570)	(268,529)	(259,045)	(308,060)	(327,651)
Net assets	61,635	27,636	50,458	97,430	273,383

MAGICIAN
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