

# Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

To the members of

**Magician Industries (Holdings) Limited**

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 33 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

- (1) As stated in note 14 to the financial statements, an impairment loss of HK\$91,733,000 has been recognised for the year ended 31 March 2005. In light of the operating loss experienced by the Group during the year, management has reviewed the carrying value of its property, plant and equipment ("PPE") to assess their recoverable amounts. For PPE with carrying value of HK\$323,466,000, after reviewing their value in use, management has recognised impairment loss of HK\$75,993,000. However, we have not been able to obtain adequate supporting information from the management in respect of its assessment of the value in use of these PPE. Accordingly we have been unable to obtain sufficient information or carrying out alternative procedures to conclude that the director's assessment in connection with the value in use of these PPE is appropriate. Consequently, we have been unable to satisfy ourselves whether the PPE of HK\$247,473,000 were fairly stated at the balance sheet date.

- (2) As at 31 March 2005, the trade and bills receivables of the Group included trade receivables from the Group's domestic sales divisions in the People's Republic of China ("PRC debtors") of HK\$1,700,000, which were arrived at after a provision for doubtful debts of HK\$41,500,000 based on subsequent cash receipts as explained below. During the course of our audit, we have sought independent confirmations from a sample of PRC debtors and the returned confirmations showed discrepancies with the amount recorded in the Group's accounting records. As of the date of this report, management of the Group is still in the process of reconciling the discrepancies. Present management has attributed the slow progress to the high turnover of members of management and staff responsible for the Group's operation in the PRC during the year and subsequent to the balance sheet date, which has resulted in difficulty in locating underlying records of the relevant transactions. Management further advised that it is using its best endeavors to resolve the matter and considered that, in the interim, it would be prudent to make full provision for the balances that remained unsettled as of the latest practicable date. Because of the above, we have not been able to obtain adequate evidence or explanations in relation to the nature of the discrepancies noted on the confirmations. Consequently, we were unable to conclude whether the domestic sales in the PRC of approximately HK\$44,000,000 for the year ended 31 March 2005 and the balance of PRC debtors as at that date were fairly stated. We were also unable to satisfy ourselves as to the appropriateness of the provision made for doubtful debts.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (1) and (2) above. Any adjustments to the above figures may have a consequential significant effect on the Company's interests in subsidiaries as recorded in the Company's balance sheet, the Group's loss for the year and the Group's net assets as at 31 March 2005.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS**

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

As detailed in note 2 to the financial statements, the Group is dependent upon the continued support of its creditors and banks. Certain creditors of the Group have taken legal actions to recover overdue balances which totalling approximately HK\$34,000,000. Some of the creditors have also applied to the court in the PRC to freeze certain plant and machinery and bank balances of the Group.

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

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

Because of the significance of the possible effect of:

- the limitation in evidence available to us on the matters as set out in the basis of opinion section; and
- the fundamental uncertainty relating to the going concern basis;

we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended. 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.

### **Moores Rowland Mazars**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong

22 July 2005



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