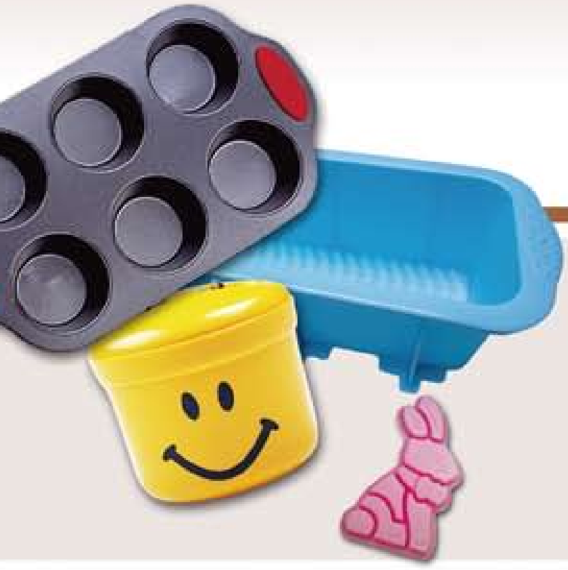
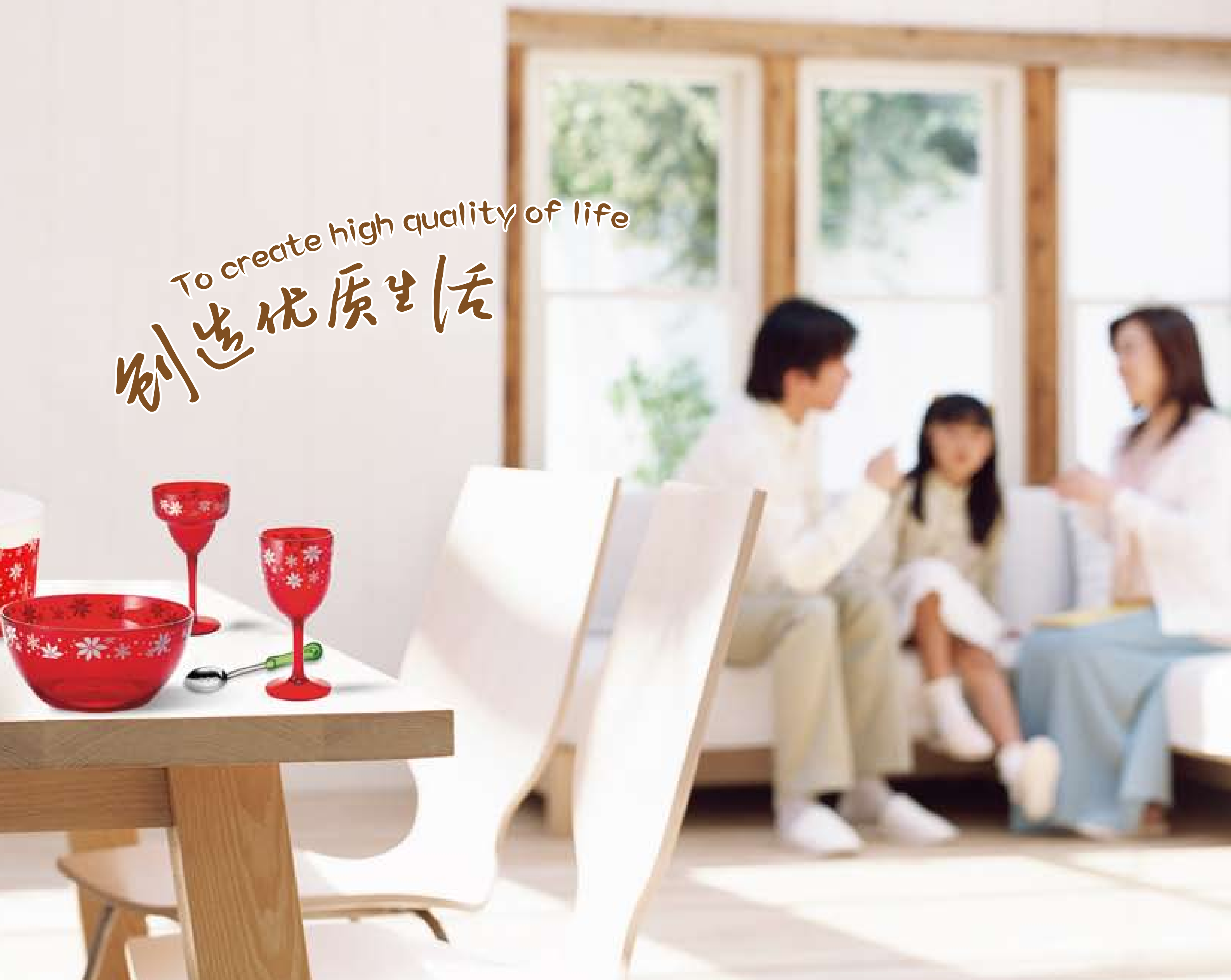


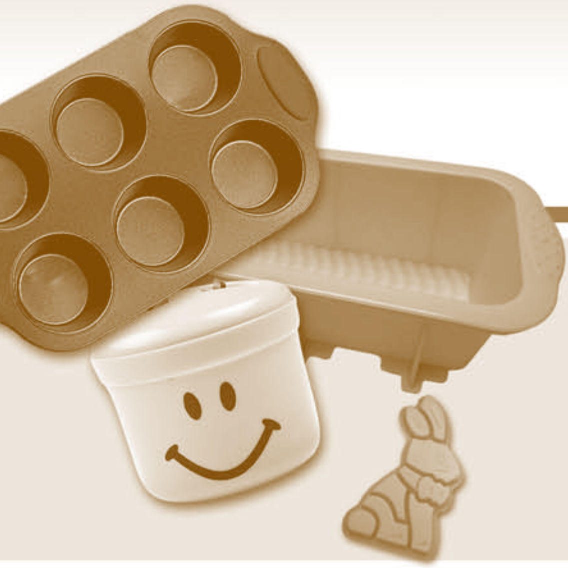
MAGICIAN
INDUSTRIES (HOLDINGS) LIMITED
通達工業(集團)有限公司

Stock Code 股份代號：526

# Annual Report 年報 2010

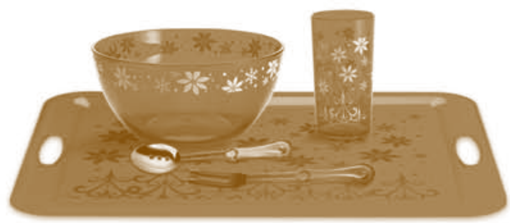
To create high quality of life
创造优质生活





# Contents





# Corporate Information

## BOARD OF DIRECTORS

**Chairman**
Mr LI Li Xin *(non-executive director)*

**Executive Director**
Mr CHENG Jian He

**Non-Executive Directors**
Mr XU Jin
Mr LAU Kin Hon

**Independent Non-Executive Directors**
Mr HE Chengying
Mr CHAN Man Sum Ivan
Mr CHEUNG Kiu Cho Vincent

## 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

## AUDITOR

Mazars CPA Limited
*Certified Public Accountants*
42nd Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Bank of Communications, Shenzhen Branch, PRC
Bank of Communications, Hong Kong Branch
Agricultural Bank of China, Shenzhen Branch, PRC

## 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

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

# Profiles of Directors and Senior Management

## CHAIRMAN

**Mr LI Li Xin**, aged 42, is the non-executive director and chairman of the Group. Mr Li holds an Executive Master of Business Administration degree from Fudan University, and is the founder and current chairman of Lisi Group (a private group of companies established in the PRC). The principal businesses of Lisi Group include manufacturing, retail, and real property development. As regards manufacturing, the group mainly manufactures and sells plastic and hardware products and products for daily consumption. On the retail business side, the group owns a number of department stores and a local supermarket chain. The group also has investments in real property development in the PRC. Mr Li has 19 years of experience in the manufacture and sale of plastic and hardware products and products for daily consumption.

Mr Li is currently a committee member of the Eleventh National Committee of the Chinese People's Political Consultative Conference, a committee member of All-China Youth Federation, the vice chairman of the China Plastics Processing Industry Association, an executive committee member of National Industrial and Commercial Union, the vice chairman of Ningbo City Industrial and Commercial Union, a member of Chinese People's Political Consultative Conference of Ningbo City, a representative of the People's Congress of Yinzhou District of Ningbo City, a standing committee member of the Political Consultative Conference of Yinzhou District, and the chairman of the Yinzhou District Federation of Industry and Commerce.

Mr Li was awarded the title of model worker in Ningbo City for the years 2001 to 2003. He was awarded the titles of "Outstanding Builder of Socialist Undertakings of Chinese Characteristics" in both 2003 and 2006 and was renowned for his contribution to the "Honourable Undertakings" promotional programme by the People's Government of Ningbo City. He was appointed as non-executive director and chairman of the Group in September 2008.

## EXECUTIVE DIRECTOR

**Mr CHENG Jian He**, aged 44, is the Chief Executive Officer of the Group. Mr Cheng has over 21 years of experience in the financial management, tax planning, cost control, investment and financing management fields in various industries, including manufacturing, business and paper mills. He is currently the Chief Financial Officer of Lisi Group. Mr Cheng graduated from the Jiangxi University of Finance and Economics and majored in financial accounting, and completed the Advanced Programme in Business Administration for Managers offered by Tsinghua University. By profession, Mr Cheng is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants.

He was appointed as executive director and Chief Executive Officer of the Group in September 2008.

## NON-EXECUTIVE DIRECTORS

**Mr XU Jin**, aged 44, 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 joined the Group in March 2006.

**Mr LAU Kin Hon**, aged 42, is a Hong Kong practicing solicitor. He has been practicing law in Hong Kong for 18 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 47, graduated from the Department of Accountancy of South Western University of Finance and Economics, holds a Master Degree of Economics from Zhejiang University, 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 and Researcher (Professor) of Zhejiang University of Finance and Economy. 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 36, 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 12 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 34, 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 a Director of an international corporate valuation and advisory company. Mr Cheung has over 13 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 PUN Kam Wai Peter**, aged 48, is the Chief Financial Officer of the Group. Mr Pun possesses over 20 years of experience in financial management and corporate planning in various industries including FMCG (fast moving consumer goods), entertainment, telecom service, manufacturing and financial information service. He was the financial controller of a listed company in Hong Kong for which he led the successful IPO on the GEM (Growth Enterprise Market) Board. By profession, Mr Pun is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Besides, he holds a Master degree in Business Administration from the Chinese University of Hong Kong and a Master degree in Professional Accounting from University of Southern Queensland, Australia. He joined the Group in July 2009.

**Ms YANG Shu Ying**, aged 47, 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 26 years experience in marketing and sales of household products, garment and sundry. Ms Yang graduated from Ming Chuan College, Taiwan. She joined the Group in 1992, left in 1995 and rejoined in 1996.

**Mr CHEN Tao Li**, aged 36, is the Operation Manager of the Group. He is responsible for the production management, production planning, quality control, logistic and plant's operation. He has over 11 years' experience in production management. Prior to joining the Group, he was the production manager (vice-president), quality control manager and management representative of an electronic components specialists company in Guangdong. Mr Chen obtained his Bachelor Degree in machine manufacturing from Henan Mechanical and Electrical Engineering College. Moreover, he obtained his second degree in Business Administration from Shenzhen University. He joined the Group in January 2007.

Dear Shareholders,

It was a relatively successful year for the Magician Group for the year ended 31 March 2010. The Group had recorded an increase in turnover as well as net profit as compared to last year. Like other manufacturing counterparts, the Group's bottom-line was still facing severe pressure in several aspects, especially in the historical high prices of raw materials and the elevation of labor wages, for the year under review. The sluggish market had further posed pressure on the performance of the Group as well as the entire industry.

Despite the economic downturn which was resulted from the global financial crisis as erupted in late 2008, the Group still recorded an increase in turnover with an improved gross and net profitability during the year under review. Such improved performance was attributable to the Group's continuous efforts in cost management and sales enhancement that led the Group in the right direction with the strategies in place.

For the year ended 31 March 2010, the Group reported a net profit attributable to shareholders of HK$8.7 million, compared to HK$10.9 million loss for the last year. With the Group's strategies of focusing on profitability and product portfolio realignment, the Group's turnover increased by 14.1%, from HK$251.6 million recorded last year to HK$287.2 million. Basic earnings per share was HK0.56 cent (2009: basic loss per share HK0.77 cent).

The board of directors has resolved not to recommend any final dividend for the year ended 31 March 2010.

## CLEAR BUSINESS STRATEGIES

The Group kept on adopting effective sales and cost management measures throughout the year and succeeded in improving the financial performance of the Group by turning loss into profits for the year under review. In order to cope with the environment of fierce competition and gloomy market outlook, the Group continued to realign the client base with higher-margin products and customers.

Moreover, being one of the household products suppliers with multi-product categories in Asia, Magician will capitalise on this competitive edge to develop and offer more sophisticated range of household products with favourable margins. Meanwhile, by stepping up the development effort, the product lines will be diversified and characterised with different life cycles.

Besides, the Group has further strengthened its sales and marketing effort by better allocation of sales staff with specialized scope of duties. Together with the support of a solid production base and know-how on producing the most comprehensive range of household products, the Group is going to have more intensive strategies to boost sales as well as maintaining sustainable earnings.

On 2 November 2009, the Group had announced the acquisition of business of plastics and household products and the related manufacturing equipment of a substantial shareholder of the Magician Group. The newly acquired business will strengthen the customer base and different range of household products of the Magician Group. It is expected that after the completion of the acquisition, the Magician Group as a whole will be able to enjoy synergies of the larger customer base, as well as increased efficiency on production and enhancement of the brand name of the products.

Looking ahead, the Group will continue to explore potential businesses that have good earnings and growth potentials and are within the acceptance risk profile, in order to maximize the Group's as well as shareholders' return.

## COST MANAGEMENT

A series of cost management measures were successfully implemented during the past few years, which have led to the Group's improved results. The Group will continue to impose effective measures on the establishment as well as the organisation. During the year under review, the number of employees increased from 1,022 to 1,334 to cope with the increased turnover.

To enhance cost-effectiveness, the Group continues to realign its product lines and extend the product mix. The Group is able to maintain a better allocation of workforce after merging of departments. Furthermore, the Group has invested in machinery replacement to raise production efficiency. From the above measures, the team spirits of our staff as well as operation efficiency have further been improved.

To cope with the increasing raw material cost, the Group has made use of bulk procurement and futures delivery to hedge against the cost fluctuation in raw materials where appropriate. Besides, the Group will continue to negotiate more favourable terms with key raw material suppliers and logistic service providers. Magician will closely monitor the trends of raw material prices and take swift actions to manage the risk.

## APPRECIATION

With clear business strategies, stringent cost control measures, strong product development capabilities and strengthened sales team, the Group has undergone changes that position Magician to grasp the business opportunities lying ahead resulting from consolidation among competition under this tough economic environment and the anticipated recovery. I am truly optimistic with Magician's business prospect.

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 continue to work hard in order to maintain the improvement of business development, pursue and explore business opportunities and strive for better results in the near future.

**Li Li Xin**
*Chairman*

Hong Kong, 28 June 2010

## FINANCIAL HIGHLIGHTS

### General Information

For the year ended 31 March 2010, the Group recorded a turnover of HK$287.2 million, representing an increase of 14.1% compared to HK$251.6 million recorded last year. Profit for the year attributable to equity holders of the Company was HK$8.7 million, compared to a loss of HK$10.9 million for last year. The Group's basic earnings per share was HK0.56 cent.

There was neither acquisition nor disposal of principal subsidiaries or associated companies during the year. However, an acquisition of the business of a substantial shareholder of the Company, as announced on 2 November 2009, had been completed on 30 April 2010.

### Liquidity and Financial Resources

As at 31 March 2010, the Group's net assets increased to HK$78.1 million, representing net asset value per share at HK5.08 cents. The Group's total assets as at that date were valued at HK$348.1 million, including cash and bank deposits totaling approximately HK$12.4 million. Consolidated borrowings amounted to HK$168 million. Its debt-to-equity ratio has been increased from 205.3% as at 31 March 2009 to 215.1% as at 31 March 2010.

### Capital Structure

As at 31 March 2010, the Group's major borrowings included a three-year term loan provided by a PRC bank which had an outstanding balance of approximately HK$102.3 million, other bank borrowings of HK$38.5 million and advance and borrowings from a shareholder and related companies totaling approximately HK$27.2 million.

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 decreased to approximately HK$8.2 million as compared to HK$12.6 million for the previous year.

### Charges on Group Assets

Certain assets of the Group having a carrying value of approximately HK$164.9 million as at 31 March 2010 (2009: HK$168.2 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 movement of Renminbi. The Group would monitor the Renminbi currency fluctuation and adopt appropriate measures if the need arises. 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 substantial proportion of our raw materials procurement have been settled in U.S. dollar and Hong Kong dollar, and most of the Group's customers accepted the passing-on of the rising costs, to various extents, due to the appreciation of Renminbi, the effect arising from the relevant risk could be reduced significantly.

### Segment Information

North America remained the Group's primary market, which accounted for 82.8% of total sales. The remaining comprised of sales to Europe 2.9%, Hong Kong 7.1%, PRC 0.1% and others 7.1%.

### Contingent Liabilities

As at the date of this report and as at 31 March 2010, the directors are not aware of any material contingent liabilities.

### Employee Information

As at 31 March 2010, the Group employed a workforce of 1,334 employees (2009: 1,022) 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 Hong Kong in December 2009 as part of agreed salary package, which applied to most of the employees in local market. A small amount of bonus has been paid to management staff in the factory in Shenzhen.

Staff costs including directors' emolument during the year amounted to HK$48.6 million (2009: HK$43.2 million), which represents an increase of 12.5%.

## REVIEW OF OPERATIONS

For the year ended 31 March 2010, the Group recorded a profit for the year of HK$8.7 million. The generation of the profit was mainly caused by the rise in turnover and successful cost management, which resulted in the increase of gross profit margin. The drop in the finance costs also contributed to the improved profitability of the business.

During the year under review, the Group continued to experience severe challenges. The economic downturn resulting from the global financial crisis, which erupted in late 2008, exerted great pressure on the Group's performance in terms of demands in both North America and European markets. The Group responded by continuing its strategies of focusing on profitability and of product portfolio realignment that led to aggressive sales effort in better margin products and stepping-up of efforts in development of new products.

International sales for the year ended 31 March 2010 grew to HK$266.4 million as compared with HK$223.1 million in the prior year. For the year under review, sales in the US market increased by 23.3% to HK$231.0 million when compared to HK$187.4 million for last year. Sales in the Canadian market increased by 3.1% to HK$6.7 million from the HK$6.5 million recorded in last year. The sales performance of the European market dropped to HK$8.3 million, compared to HK$9.5 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. In addition, the Group had tried to explore the business opportunities in some emerging markets, such as Middle East and Russia.

On the other hand, the Group had taken effective measures for internal productivity and cost management. Through further re-organisation of units and replacement of aged machineries, the Group had aligned its production resources with the demand, which optimized the resources deployment as well as cost saving in production. In order to increase the operating effectiveness, the Group enhanced both sales and supply chain management in order to achieve more effective customer services as well as product delivery.

## PROSPECTS

The Group had succeeded in adopting a four-pronged strategy, namely product innovation, cost management, productivity enhancement and balanced market development and recorded net profit in the year under review. Looking ahead, the Group is facing several major challenges in the industry, namely global economic crisis as well as shareholders' expectation of improved bottom-line. To cope with these changes in the current dynamic environment, the Group will continue to adopt the four-pronged strategy.

As one of the leading household products manufacturers in Asia, Magician has always emphasized on innovation. 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. Moreover, we will diversify new product lines in order to optimize the product cycles and the production capacity planning.

The Group had completed the acquisition of the business of a substantial shareholder of the Company on 30 April 2010, the details of which were announced on 2 November 2009. The acquired group is specialized in the manufacturing and sales of plastic and household products. The acquisition will provide a golden opportunity for the Group to diversify its product lines into more comprehensive range of household products.

With different customer groups and different range of household products between the Group and the acquired group, the enlarged group will be able to enjoy synergies of the larger customer base, increased efficiency on production and enhancement of the brand name of the products.

Cost management is another major means for improving our bottom-line. Apart from rationalising our workforce in terms of establishment, the Group will continue to instill cost efficacy and quality consciousness into all levels of staff through revised work organisation and practice. 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.

Besides, measures will continue to be adopted 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.

In order to achieve a covered position to market fluctuation through a balanced approach, the Group will keep on exploring opportunities with our current and potential customers in our current and potential markets for our current and possible product segments.

The effectiveness of these strategies had been recognized by the improved performance of the Group, so we believe these strategies would continue to bear fruit for the Group in the future.

## CORPORATE GOVERNANCE PRACTICES

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

## 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. The Board is currently comprised of one executive director, three non-executive directors and three independent non-executive directors. The names of the directors and their attendances are as follows:

| | **Attendance** |
|---|---|
| **Executive director** | |
| Cheng Jian He | 8/8 |
| | |
| **Non-Executive directors** | |
| Li Li Xin *(Chairman)* | 5/8 |
| Xu Jin | 5/8 |
| Lau Kin Hon | 8/8 |
| | |
| **Independent non-executive directors** | |
| He Chengying | 4/8 |
| Chan Man Sum Ivan | 6/8 |
| Cheung Kiu Cho Vincent | 6/8 |

During the year, 8 full board meetings were held. Notice of at least 14 days was given to directors for regular board meetings during the year as required by Code Provision A.1.3.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the review period, Mr Li Li Xin as chairman of the Company and Mr Cheng Jian He as chief executive officer. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing.

## NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for a fixed term of two years or three 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 role and function 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 is currently comprised of two independent non-executive directors, namely Mr Chan Man Sum Ivan and Mr Cheung Kiu Cho Vincent and one non-executive director, namely Mr Xu Jin. No meeting was held during the year under review.

## NOMINATION OF DIRECTORS

The Company does not have a nomination committee. All appointments of directors were 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.

## AUDITOR'S REMUNERATION

During the year under review, the auditor's remuneration paid and payable in respect of the audit services and non-audit services, provided by the auditor to the Group amounted to HK$550,000 and HK$Nil respectively.

## AUDIT COMMITTEE

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

The roles and function 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 on 31 March 2009 and the interim results for the six months ended on 30 September 2009.

## ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Group. As stated in the independent auditor's report, the directors are currently undertaking and intend to take such measures detailed in note 2 to the financial statements to generate sufficient liquid funds to finance its operations and that it is appropriate to prepare the financial statements on a going concern basis. At the end of the reporting period, the Group had net current liabilities of HK$153,967,000. The validity of the going concern basis depends on the Group's future profitable operation or the successful and effectiveness 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 2010.

## 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 statement of comprehensive income 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 2010 are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

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

## DISTRIBUTABLE RESERVES

As at 31 March 2010, 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 (2009: HK$77,753,000) 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$25,352,000 (2009: HK$25,352,000) as at 31 March 2010 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 60.

## DIRECTORS

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

**Executive director:**

Cheng Jian He

**Non-executive directors:**

Li Li Xin *(Chairman)*
Xu Jin
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 Cheng Jian He, Mr Chan Man Sum, Ivan and Mr Cheung Kiu Cho, Vincent will 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 INDIVIDUALS

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 17, 19, 20, 21 and 29 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 2010, 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 Li Li Xin *(note 1)* | Through controlled corporation | 377,247,014 | 24.5% |
| Mr Xu Jin | Personal | 253,837,198 | 16.5% |

Note 1: Mr Li Li Xin's interest in 377,247,014 shares is held through Big-Max Manufacturing Co., Limited, whose issued share capital is benefically owned as to 90% by Mr. Li Li Xin and as to 10% by his spouse, Jin Ya Er.

Save as disclosed herein, as at 31 March 2010, 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 Scheme Mandate Limit was refreshed on 18 September 2009, 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:

153,946,379 ordinary shares ("Shares") (10% of the issued share capital of the Company at the date of approval of the refreshed Scheme Mandate Limit).

*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 2010 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 2010, the register of substantial shareholders maintained under Section 336 of Part XV of the SFO by the Company recorded no other interests or short positions in shares of the Company being 5% or more of the Company's issued share capital.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was 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 | 13% |
| – five largest suppliers | 26% |
| *Sales* | |
| – the largest customer | 72% |
| – five largest customers | 83% |

None of the directors, their associates or any shareholders (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.

## AUDITOR

The financial statements for the financial years ended 31 March 2008, 2009 and 2010 were audited by Mazars CPA Limited, *Certified Public Accountants*. A resolution for its reappointment as auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Li Li Xin**
*Chairman*

Hong Kong, 28 June 2010

MAZARS

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

We have audited 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 59, which comprise the consolidated and the Company's statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors 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.

## AUDITOR'S 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. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, 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 end of the reporting period, the Group had net current liabilities of HK$153,967,000. The validity of the going concern basis depends on the Group's future profitable operation or the successful and effectiveness 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, 28 June 2010

**Eunice Y M Kwok**
Practising Certificate number: P04604

# Consolidated Statement of Comprehensive Income

Year ended 31 March 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | 287,224 | 251,605 |
| Cost of sales | | (223,724) | (203,618) |
| Gross profit | | 63,500 | 47,987 |
| Other revenue | 5 | 1,785 | 1,990 |
| Other income | 6 | 2,782 | 6,580 |
| Selling and distribution expenses | | (11,398) | (10,424) |
| Administrative and other operating expenses | | (39,976) | (44,401) |
| Finance costs | 7 | (8,215) | (12,593) |
| **Profit (Loss) before taxation** | 7 | 8,478 | (10,861) |
| Income tax credit | 10 | 188 | – |
| **Profit (Loss) for the year** | 11 | 8,666 | (10,861) |
| **Other comprehensive income for the year** | | – | – |
| **Total comprehensive income (loss) for the year attributable to equity holders of the Company** | | 8,666 | (10,861) |
| **Earnings (Loss) per share** | | | |
| Basic and diluted | 12 | HK0.56 cent | HK(0.77) cent |

# Consolidated Statement of Financial Position

At 31 March 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 232,213 | 237,719 |
| **Current assets** | | | |
| Inventories | 15 | 39,866 | 18,233 |
| Trade and bills receivables | 16 | 56,668 | 25,557 |
| Prepayments, deposits and other receivables | | 6,921 | 3,724 |
| Due from a director | 17 | – | 170 |
| Bank balances and cash | | 12,412 | 11,168 |
| | | 115,867 | 58,852 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 101,841 | 84,436 |
| Advance from related companies | 19 | 6,818 | 3,409 |
| Loan from a related company | 20 | 6,355 | 6,396 |
| Loans from a shareholder | 21 | 14,000 | 6,000 |
| Short-term bank borrowings | 22(a) | 38,513 | 5,568 |
| Current portion of long-term bank borrowing | 22(b) | 102,273 | 17,045 |
| Current portion of obligations under finance leases | 23 | 34 | 1,830 |
| | | 269,834 | 124,684 |
| **Net current liabilities** | | (153,967) | (65,832) |
| **Total assets less current liabilities** | | 78,246 | 171,887 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 23 | 106 | 140 |
| Long-term bank borrowing | 22(b) | – | 102,273 |
| | | 106 | 102,413 |
| **NET ASSETS** | | 78,140 | 69,474 |
| **Capital and reserves** | | | |
| Share capital | 24 | 15,395 | 15,395 |
| Reserves | 25 | 62,745 | 54,079 |
| **TOTAL EQUITY** | | 78,140 | 69,474 |

Approved and authorised for issue by the Board of Directors on 28 June 2010.

| | |
|---|---|
| **Li Li Xin** | **Cheng Jian He** |
| *Chairman* | *Director* |

# Statement of Financial Position

At 31 March 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 14 | 91,820 | 101,100 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | 2,490 | 554 |
| Bank balances and cash | | 7 | 53 |
| | | 2,497 | 607 |
| **Current liabilities** | | | |
| Other payables and accruals | | 4,838 | 3,140 |
| Loan from a related company | 20 | 6,355 | 6,396 |
| Loans from a shareholder | 21 | 14,000 | 6,000 |
| | | 25,193 | 15,536 |
| **Net current liabilities** | | (22,696) | (14,929) |
| **NET ASSETS** | | 69,124 | 86,171 |
| **Capital and reserves** | | | |
| Share capital | 24 | 15,395 | 15,395 |
| Reserves | 25 | 53,729 | 70,776 |
| **TOTAL EQUITY** | | 69,124 | 86,171 |

Approved and authorised for issue by the Board of Directors on 28 June 2010.

**Li Li Xin**
*Chairman*

**Cheng Jian He**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 March 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Opening balance – Total equity at 1 April | 69,474 | 61,635 |
| Issue of shares on conversion of zero-coupon convertible bonds | – | 18,700 |
| Total comprehensive income (loss) for the year | 8,666 | (10,861) |
| Closing balance – Total equity at 31 March | 78,140 | 69,474 |

# Consolidated Statement of Cash Flows

Year ended 31 March 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit (Loss) before taxation | 8,478 | (10,861) |
| Allowance for bad and doubtful debts | – | 500 |
| Allowance for inventory obsolescence | 456 | 477 |
| Bad debts written-off | – | 86 |
| Depreciation | 13,397 | 15,188 |
| Exchange differences, net | (41) | – |
| Gain on disposal of property, plant and equipment | (2,379) | (831) |
| Interest income | (162) | (513) |
| Interest expense | 8,215 | 12,593 |
| Impairment loss (Reversal) on property, plant and equipment, net | 5,173 | (4,814) |
| Write-back of allowance for bad and doubtful debts | – | (935) |
| Changes in working capital: | | |
| Inventories | (22,089) | 1,492 |
| Trade and bills receivables | (31,111) | (2,900) |
| Prepayments, deposits and other receivables | (3,197) | 298 |
| Trade and other payables | 17,593 | 19,857 |
| **Cash (used in) generated from operating activities** | (5,667) | 29,637 |
| Interest paid | (8,130) | (10,919) |
| **Net cash (used in) from operating activities** | (13,797) | 18,718 |
| **INVESTING ACTIVITIES** | | |
| Interest received | 162 | 513 |
| Decrease in pledged deposits | – | 5,298 |
| Purchase of property, plant and equipment | (13,064) | (15,427) |
| Proceeds on disposal of property, plant and equipment | 2,379 | 1,419 |
| **Net cash used in investing activities** | (10,523) | (8,197) |

# Consolidated Statement of Cash Flows

Year ended 31 March 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Advance from a related company | 3,409 | 3,409 |
| Repayment (Advance) to a director | 170 | (170) |
| Loans from a shareholder | 8,000 | – |
| New short-term bank borrowings | 135,719 | 5,568 |
| Repayment of short-term bank borrowings | (102,774) | (10,374) |
| Repayment of long-term bank borrowing | (17,045) | (8,460) |
| Repayment of obligation under finance leases | (1,830) | (3,643) |
| Interest paid on obligation under finance leases | (85) | (363) |
| Net cash from (used in) financing activities | 25,564 | (14,033) |
| Net increase (decrease) in cash and cash equivalents | 1,244 | (3,512) |
| Cash and cash equivalents at beginning of year | 11,168 | 14,680 |
| Cash and cash equivalents at end of year, represented by bank balances and cash | 12,412 | 11,168 |

## 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 2010.

In preparing the financial statements for the year ended 31 March 2010, the directors adopted a going concern basis as the following actions and measures 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 April 2010, the bank renewed the term loan facilities as disclosed in note 22(b) to the financial statements to a 3-year term loan facility in the amount of RMB135,000,000 which was interest-bearing at 107% of the base lending rate published by the People's Bank of China and repayable in various quarterly installments up to April 2013. In addition, the Group's trade finance facility of RMB31,000,000 was renewed. These banking facilities provide long-term and short-term fundings to the Group and improved its liquidity position.

- In April 2010, the Company completed the issuance of 937,500,000 shares to Big-Max Manufacturing Co., Limited ("Big-Max") at a subscription price of HK$0.16 each for a total consideration of HK$150,000,000 in cash. The issuance of share capital has strengthened the cash and liquidity position of the Group.

- The Group had agreed with a related company and a shareholder to extend the maturity dates of their loans of US$820,000 (equivalent to HK$6,355,000) and HK$14,000,000 respectively to August 2010. Details of the loans are described in note 20 and 21 to the financial statements.

- Inventories are regularly reviewed and any excessive inventories would be sold and idle assets would be disposed of.

ii) From time to time, the Group negotiates with their suppliers for more favourable credit terms. Meanwhile, credits period granted to customers is reviewed in order to determine if any revision is needed.

iii) Credit limits of export credit insurance had been granted by China Export & Credit Insurance Corporation in April 2010 for facilitating a trade finance facilities of RMB31,000,000 from a PRC bank in April 2010.

## 2. BASIS OF PREPARATION (CONTINUED)

iv) The Group improved the productivity through the replacement of machineries in new models. The Group further acquired five sets of plastic injection machines during the year to replace certain machines with low productivity.

v) Since the change of management in March 2006, the Group has committed substantial efforts in improving production efficiency, cost effectiveness and sales impetus. The results of all these efforts had been gradually materialised and evidenced in various forms such as new customers signed, cost reductions in both direct input and overheads, improved gross margins and sales turnover.

vi) The Group would continue its current successful strategies, especially focusing on higher-margin business opportunities and creditworthy customers so as to boost up the quality and return of sales. With the continuous improvement in organisation, controls and productivity, any substantial sales increment could be comfortably accommodated without further substantial capital investment.

## 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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and 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 2009 financial statements except for the adoption of the following new / revised HKFRS effective from the current year that are relevant to the Group.

A summary of the principal accounting policies adopted by the Group is set out below.

### Adoption of new/revised HKFRS

*HKAS 1 (Revised): Presentation of Financial Statements*

HKAS 1 (Revised) requires transactions with owners to be presented separately from all other income and expenses in a revised statement of changes in equity. The revised Standard however allows non-owner changes in equity to be shown in a single statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to prepare one statement. In addition, the revised Standard requires that when comparative information is restated or reclassified, a statement of financial position as at the beginning of the comparative period, in addition to the statements of financial position as at the end of the current period and the comparative period, should be presented. Since the Company and the Group did not restate comparative information during the year, this new requirement has no impact on the financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Adoption of new/revised HKFRS (Continued)

*HKFRS 8: Operating Segments*

The Standard, replacing HKAS 14: *Segment Reporting*, requires segment information to be reported based on internal information used by management to evaluate the performance of operating segments and allocate resources to those segments. Adoption of this standard did not have any effect on the Group's results of operations or financial position. The Group has determined that it has only one operating segment of manufacturing and trading of household products, which is the same as the business segments previously identified under HKAS 14.

### 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 period as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income 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 Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

### Property, plant and equipment

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment (Continued)

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 and buildings | Over the unexpired term of lease |
| 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 term of the leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

### Construction in progress

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.

### 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 substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

*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 profit or loss.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (Continued)**

*Impairment of loan and receivables*

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired.

An allowance 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 impairment loss 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 profit or loss.

*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.

**Cash equivalents**

For the purpose of the consolidated statement of cash flows, 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 changes in value, net of bank overdrafts.

**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 transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

Rental income under operating lease is recognised when the properties are let out and on the straight-line basis over the lease terms.

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 dollar, which is the Company's functional and presentation currency.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Foreign currency translation (Continued)

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 profit or loss.

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 statement of financial position presented are translated at the closing rate at the end of the reporting periods;
- Income and expenses for each statement of comprehensive income are translated at average exchange rate; and
- 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. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

### 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. 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.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impairment of other assets (Continued)

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 when 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 the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*As lessee*

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 statement of financial position 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 profit or loss 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 receivable/payable under operating leases are credited/charged to profit or loss on a straight-line basis over the term of relevant lease.

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

### Employee benefits

*Defined contribution plans*

The Group operates a defined contribution retirement scheme for the Hong Kong employees based on local laws and regulations. The scheme covers all eligible employees. The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss 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.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Taxation

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, any deferred tax arising from initial recognition of goodwill; or other 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 is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

### Related parties

A party is related to the Group if

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

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

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

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

(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.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Critical accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made by the management in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

*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 the collectability of the accounts 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.

*Allowance for inventories*

The Group's management reviews the condition of inventories, as stated in note 15 to the financial statements, at the end of each reporting period, 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.

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 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.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standard*[1] |
| HKFRS 1 Amendments | *Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2] |
| HKFRS 2 Amendments | *Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2] |
| HKFRS 3 (Revised) | *Business Combinations*[1] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKAS 24 (Revised) | *Related Party Disclosures*[5] |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements*[1] |
| HKAS 32 Amendment | *Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues*[3] |
| HKAS 39 Amendment | *Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1] |
| HKFRIC 14 Amendments | *Amendments to HKFRIC 14 Prepayments of a Minimum Funding Requirement*[5] |
| HKFRIC 17 | *Distributions of Non-cash Assets to Owners*[1] |
| HKFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments*[4] |
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | *Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1] |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2] |
| HKFRS (Amendments – 2009) | *Improvements to HKFRS issued in May 2009*[7] |
| HKFRS (Amendments – 2010) | *Improvements to HKFRS issued in May 2010*[8] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
8 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

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 a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has only one operating segment of manufacturing and trading of household products.

The Group's operations are principally located in Hong Kong and the PRC. The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

| | Group | | | |
|---|---|---|---|---|
| | Revenue | | Non-current assets | |
| | 2010<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2009<br>HK$'000 |
| United States of America | 231,035 | 187,377 | – | – |
| Canada | 6,671 | 6,519 | – | – |
| Hong Kong | 20,468 | 28,212 | 551 | 621 |
| PRC | 318 | 245 | 231,662 | 237,098 |
| Europe | 8,256 | 9,494 | – | – |
| Others | 20,476 | 19,758 | – | – |
| | 287,224 | 251,605 | 232,213 | 237,719 |

For the year ended 31 March 2010, there was one *(2009: one)* customer which accounted for over 10% of total revenue of the Group with revenue of HK$207,278,000 *(2009: HK$159,719,000)*.

## 5. TURNOVER AND REVENUE

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

| | Group | |
|---|---|---|
| | 2010<br>HK$'000 | 2009<br>HK$'000 |
| **Turnover** | | |
| Sale of goods | 287,224 | 251,605 |
| **Other revenue** | | |
| Rental income | 1,466 | 1,219 |
| Interest income | 162 | 513 |
| Others | 157 | 258 |
| | 1,785 | 1,990 |
| **Total revenue** | 289,009 | 253,595 |

## 6. OTHER INCOME

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 2,379 | 831 |
| Reversal of impairment loss on property, plant and equipment, net | – | 4,814 |
| Write-back of allowance for bad and doubtful debts | – | 935 |
| Write-back of other payables | 403 | – |
| | 2,782 | 6,580 |

## 7. PROFIT (LOSS) BEFORE TAXATION

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| This is stated after charging: | | |
| **Finance costs** | | |
| Amortised costs on zero-coupon convertible bonds | – | 1,311 |
| Interest on bank borrowings wholly repayable within five years | 6,939 | 9,969 |
| Interest on loans from a shareholder wholly repayable within five years | 603 | 503 |
| Interest on loan and advance from related companies wholly repayable within five years | 548 | 447 |
| Finance charges on obligations under finance leases | 85 | 363 |
| Other interest expenses | 40 | – |
| | 8,215 | 12,593 |
| **Other items** | | |
| Staff costs (excluding directors' emoluments): | | |
| Wages and salaries | 46,958 | 40,501 |
| Termination benefits | 182 | 1,017 |
| Contributions to retirement schemes | 1,080 | 1,159 |
| | 48,220 | 42,677 |
| Auditor's remuneration | 550 | 550 |
| Allowance for inventory obsolescence | 456 | 477 |
| Cost of inventories | 223,724 | 203,618 |
| Depreciation of property, plant and equipment | 13,397 | 15,188 |
| Exchange losses, net | 444 | 4,521 |
| Impairment loss of property, plant and equipment | 5,173 | – |
| Operating lease charges on premises | 997 | 972 |

## 8. DIRECTORS' EMOLUMENTS

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

| | 2010 | | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to retirement schemes HK$'000 | Total HK$'000 |
| **Executive director** | | | | |
| Cheng Jian He | – | – | – | – |
| **Non-executive directors** | | | | |
| Li Li Xin | – | – | – | – |
| Xu Jin | – | – | – | – |
| Lau Kin Hon | – | – | – | – |
| **Independent non-executive directors** | | | | |
| Chan Man Sum Ivan | 144 | – | – | 144 |
| Cheung Kiu Cho Vincent | 120 | – | – | 120 |
| He Chengying | 120 | – | – | 120 |
| | 384 | – | – | 384 |

| | 2009 | | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to retirement schemes HK$'000 | Total HK$'000 |
| **Executive director** | | | | |
| Cheng Jian He | – | – | – | – |
| **Non-executive directors** | | | | |
| Li Li Xin | – | – | – | – |
| Xu Jin | – | – | – | – |
| Lau Kin Hon | – | 175 | 3 | 178 |
| **Independent non-executive directors** | | | | |
| Chan Man Sum Ivan | 144 | – | – | 144 |
| Cheung Kiu Cho Vincent | 120 | – | – | 120 |
| He Chengying | 120 | – | – | 120 |
| | 384 | 175 | 3 | 562 |

There was no arrangement under which a director waived or agreed to waive any remuneration for the year *(2009: Nil)*. In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year *(2009: Nil)*.

## 9. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The emoluments of the five *(2009: five)* highest paid individuals of the Group during the year are as follows:

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Salaries and other benefits | 3,470 | 3,917 |
| Contributions to retirement scheme | 48 | 51 |
| | 3,518 | 3,968 |

The emoluments fell within the following bands:

| | Group Number of individuals | |
|---|---|---|
| | 2010 | 2009 |
| Nil to HK$1,000,000 | 4 | 3 |
| HK$1,000,001 – HK$2,000,000 | 1 | 2 |
| | 5 | 5 |

The above highest paid individuals do not include any director of the Company.

No emoluments were paid by the Group to 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 for the year as the Group incurred a loss for taxation purposes.

PRC enterprise income tax has not been provided as the PRC subsidiaries' estimated assessable profit for the year are wholly absorbed by unrelieved tax losses brought forward from previous years.

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| PRC Enterprise Income Tax | | |
| Overprovision in prior years | 188 | – |

## 10. TAXATION (CONTINUED)

**Reconciliation of effective tax rate**

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | % | % |
| Applicable tax rate | 17 | (17) |
| Non-deductible expenses | 9 | 10 |
| Unrecognised temporary differences | 9 | 1 |
| Unrecognised tax losses | 35 | 20 |
| Utilisation of previously unrecognised tax loss | (73) | – |
| Recognition of previously unrecognised deferred tax assets | (10) | (15) |
| Differences in overseas tax rates | 13 | 1 |
| Overprovision in prior years | (2) | – |
| Effective tax rate for the year | (2) | – |

The applicable tax rate is the Hong Kong Profits Tax rate of 16.5% *(2009: 16.5%)*.

## 11. PROFIT (LOSS) FOR THE YEAR

Of the Group's profit for the year of HK$8,666,000 *(2009: loss of HK$10,861,000)*, a loss of HK$17,047,000 *(2009: HK$11,086,000)* has been dealt with in the financial statements of the Company.

## 12. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the net profit for the year of HK$8,666,000 *(2009: net loss of HK$10,861,000)* and on the weighted average number of 1,539,464,000 *(2009:1,410,323,000)* shares in issue during the year.

The Company had no dilutive potential ordinary shares for 2010 and 2009. Accordingly, the diluted earnings per share *(2009: diluted loss per share)* was same as the basic earnings (loss) per share.

## 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 2009 | | | | | | | | |
| At beginning of year | 200,421 | 1,839 | 6,586 | 423 | 236 | 21,438 | 752 | 231,695 |
| Additions | 5,142 | – | 3,504 | 462 | 92 | 5,705 | 2,081 | 16,986 |
| Disposals and write-off | – | – | (505) | (69) | – | (14) | – | (588) |
| Depreciation | (6,552) | (528) | (2,950) | (338) | (75) | (4,745) | – | (15,188) |
| Impairment loss | – | – | – | – | – | (1,521) | – | (1,521) |
| Reversal of impairment loss | 6,335 | – | – | – | – | – | – | 6,335 |
| Transferred from construction in progress | 422 | 1,122 | 698 | 80 | 59 | – | (2,381) | – |
| At end of reporting period | 205,768 | 2,433 | 7,333 | 558 | 312 | 20,863 | 452 | 237,719 |
| Reconciliation of carrying amount – year ended 31 March 2010 | | | | | | | | |
| At beginning of year | 205,768 | 2,433 | 7,333 | 558 | 312 | 20,863 | 452 | 237,719 |
| Additions | 2,911 | 53 | 1,579 | 214 | 6 | 5,397 | 2,904 | 13,064 |
| Depreciation | (6,837) | (633) | (1,724) | (303) | (95) | (3,805) | – | (13,397) |
| Impairment loss | – | – | – | – | – | (5,173) | – | (5,173) |
| Transferred from construction in progress | – | 1,925 | 284 | – | – | – | (2,209) | – |
| **At end of reporting period** | **201,842** | **3,778** | **7,472** | **469** | **223** | **17,282** | **1,147** | **232,213** |
| At 1 April 2009 | | | | | | | | |
| Cost | 268,386 | 17,175 | 74,694 | 32,857 | 6,030 | 203,823 | 452 | 603,417 |
| Accumulated depreciation and impairment losses | (62,618) | (14,742) | (67,361) | (32,299) | (5,718) | (182,960) | – | (365,698) |
| | 205,768 | 2,433 | 7,333 | 558 | 312 | 20,863 | 452 | 237,719 |
| At 31 March 2010 | | | | | | | | |
| Cost | 271,297 | 19,153 | 70,465 | 32,982 | 5,997 | 209,204 | 1,147 | 610,245 |
| Accumulated depreciation and impairment losses | (69,455) | (15,375) | (62,993) | (32,513) | (5,774) | (191,922) | – | (378,032) |
| | **201,842** | **3,778** | **7,472** | **469** | **223** | **17,282** | **1,147** | **232,213** |

## 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Management considered that a provision for impairment loss on certain idle moulds of HK$5,173,000 *(2009: HK$1,521,000)*, by reference to their utilisation analysis, should be made.

The net book value of the Group's property, plant and equipment includes an amount of HK$141,000 *(2009: HK$1,773,000)* in respect of assets held under finance leases.

## 14. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 |
| Unlisted shares, at cost | 158,598 | 158,598 |
| Provision for impairment loss | (158,598) | (158,598) |
| | – | – |
| Due from subsidiaries | 461,908 | 454,636 |
| Allowance for bad and doubtful debts | (370,088) | (353,536) |
| | 91,820 | 101,100 |
| | 91,820 | 101,100 |

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 end of the reporting period are as follows:

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/registered capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Magician Investments (BVI) Limited | British Virgin Islands | US$6 ordinary | 100% | – | Investment holding |
| Treasure Trend Development Limited | British Virgin Islands | US$1 ordinary | 100% | – | Investment holding |
| Magician Strategic Limited | British Virgin Islands | US$1 ordinary | 100% | – | Investment holding |

## 14. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/registered capital | Percentage of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| 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 |
| Magicgrand Development Limited | British Virgin Islands | US$1 ordinary | – | 100% | Manufacturing and trading of plastic and metal products |
| Jinda Plastic Metal Products (Shenzhen) Co., Limited* 金達塑膠五金製品(深圳)有限公司 | 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 |

* *English translation of company name is for identification purpose only.*

All of the above subsidiaries operate principally in Hong Kong except for Jinda Plastic Metal Products (Shenzhen) Co., Limited which operate 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 2010 HK$'000 | Group 2009 HK$'000 |
|---|---|---|
| Raw materials | 20,507 | 6,862 |
| Work-in-progress | 14,384 | 8,690 |
| Finished goods | 4,975 | 2,681 |
| | 39,866 | 18,233 |

## 16. TRADE AND BILLS RECEIVABLES

| | Note | Group 2010 HK$'000 | Group 2009 HK$'000 |
|---|---|---|---|
| Trade and bills receivables from third parties | | 96,702 | 67,485 |
| Allowance for bad and doubtful debts | (i) | (40,034) | (41,928) |
| | | 56,668 | 25,557 |

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$8,298,000 *(2009: HK$5,062,000)*, which were past due at the end of the reporting period but not impaired as there has not been a significant change in credit quality and were subsequently settled. 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 end of the reporting period, the ageing analysis of the trade and bills receivables (net of allowance for bad and doubtful debts) by overdue date is as follows:

| | Group | |
|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 |
| Current | 48,370 | 20,495 |
| Less than 1 month past due | 8,173 | 4,717 |
| 1 month to 2 months past due | 4 | 24 |
| Over 2 months past due | 121 | 321 |
| | 8,298 | 5,062 |
| | 56,668 | 25,557 |

Note:

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

As at 31 March 2010, trade receivables of HK$40,034,000 *(2009: HK$41,928,000)* were impaired. The individual impaired receivables mainly related to unsuccessful collection of receivables from the customers of the Group's sales division in the PRC, which were impaired in 2005 and were not expected to be recovered.

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

| | Group | |
|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 |
| At beginning of year | (41,928) | (41,401) |
| Amounts provided | – | (500) |
| Amount written-off | 1,894 | 857 |
| Amount recovered | – | 30 |
| Exchange difference | – | (914) |
| At end of year | (40,034) | (41,928) |

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

## 17. DUE FROM A DIRECTOR

The amount due from a director was unsecured, interest-free and settled during the year.

| Name of director | Maximum amount outstanding during the year | 31 March 2010 | 1 April 2009 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Mr. Xu Jin | 170 | – | 170 |

## 18. TRADE AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Trade payables | | |
| To a related company | 10,404 | 1,073 |
| To third parties | 47,655 | 37,465 |
| | 58,059 | 38,538 |
| Other payables and accruals | 43,782 | 45,898 |
| | 101,841 | 84,436 |

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

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Less than 3 months | 36,171 | 15,157 |
| 3 months to 6 months | 10,918 | 7,468 |
| 6 months to 1 year | 1,788 | 10,712 |
| More than 1 year | 9,182 | 5,201 |
| | 58,059 | 38,538 |

The trade payable to a related company is unsecured, interest-free and has no fixed repayment term. The Company's director Mr. Li Li Xin has beneficial interest in the related company as at 31 March 2010 and 2009.

Included in the other payables and accruals is an advance from a third party of approximately HK$9,700,000 *(2009: HK$9,700,000)* which is unsecured, interest-free and has no fixed repayment term.

## 19. ADVANCE FROM RELATED COMPANIES

The advance from related companies, in which the Company's director and beneficial owner, Mr. Li Li Xin, has beneficial interest, is unsecured, interest-bearing at 6% p.a. and repayable in December 2010.

## 20. LOAN FROM A RELATED COMPANY

The loan from a related company, in which the Company's director and shareholder, Mr. Xu Jin has beneficial interest, is unsecured, interest-bearing at 7% per annum and repayable in May 2010. Subsequent to the end of the reporting period, the related company transferred the title of the loan of US$820,000 to a third party upon the maturity of the loan and the third party has agreed to extend its loan with the same terms as the previous loan to August 2010.

## 21. LOANS FROM A SHAREHOLDER

The shareholder granted an additional loan facility of HK$30,000,000 to the Company, for which HK$8,000,000 was drawdown during the year. The loans from the shareholder are unsecured, interest-bearing at HIBOR plus 2 to 3% per annum at the date of drawdown and repayable in May 2010. Upon the maturity of the loan, the shareholder has agreed to extend its loan with the same terms as the previous loan to August 2010.

## 22. BANK BORROWINGS

### (a) Short-term bank borrowings, secured

(i) As at 31 March 2009, the short-term bank borrowing represented a 1-year term loan of RMB4,900,000 (equivalent to HK$5,568,000). It was interest-bearing at 95% of the base lending rate published by the People's Bank of China and fully repaid in November 2009.

(ii) Included in short-term bank borrowings as at 31 March 2010 is a 1-year term loan of RMB10,450,000 (equivalent to HK$11,875,000) obtained during the year. It is interest-bearing at the 3-month base lending rate published by the People's Bank of China, secured by the Group's certain leasehold land and repayable in December 2010.

(iii) During the year, a PRC bank granted a trade finance facility of US$4,560,000 to the Group, which is interest-bearing at prevailing market rate, secured by the export credit insurance of US$5,000,000 issued by China Export & Credit Insurance Corporation and repayable in July 2010. The Group utilised the trade finance facilities of US$3,437,000 (equivalent to HK$26,638,000) as at 31 March 2010.

## 22. BANK BORROWINGS (CONTINUED)

(b) Long-term bank borrowing, secured

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Within one year | 102,273 | 17,045 |
| In the second to fifth years inclusive | – | 102,273 |
| | 102,273 | 119,318 |

The long-term bank borrowing represents a 3-year term loan of RMB120,000,000 (equivalent to HK$136,364,000), which was interest-bearing at 105% of the base lending rate published by the People's Bank of China, secured by the Group's certain leasehold land and buildings and repayable in various quarterly installments up to October 2010. The term loan facilities was renewed in April 2010, details of which is set out in note 34(a) to the financial statements.

## 23. OBLIGATIONS UNDER FINANCE LEASES

| | Group | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | 2010 | 2009 | 2010 | 2009 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Amounts payable: | | | | |
| Within one year | 42 | 1,943 | 34 | 1,830 |
| In the second to fifth years inclusive | 116 | 158 | 106 | 140 |
| | 158 | 2,101 | 140 | 1,970 |
| Future finance charges | (18) | (131) | – | – |
| Present value of lease obligations | 140 | 1,970 | 140 | 1,970 |

The lease term is five years. All lease agreements are on a fixed repayment basis.

## 24. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | No. of shares | HK$'000 |
| Authorised: | | |
| **At 31 March 2009 and 2010, ordinary shares of HK$0.01 each** | **10,000,000,000** | **100,000** |
| Issued and fully paid: | | |
| At 1 April 2008 | 1,384,918,340 | 13,849 |
| Conversion of zero-coupon convertible bonds | 154,545,454 | 1,546 |
| **At 31 March 2009 and 2010, ordinary shares of HK$0.01 each** | **1,539,463,794** | **15,395** |

## 25. RESERVES

| | Share premium HK$'000 | Zero-coupon convertible bonds HK$'000 | Capital redemption reserve HK$'000 | Translation reserve HK$'000 | Contributed surplus HK$'000 | Accumulated (losses) profit HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Group | | | | | | | |
| At 1 April 2008 | 7,982 | 216 | 1,265 | 139 | 54,477 | (16,293) | 47,786 |
| Conversion of zero-coupon convertible bonds | 17,370 | (216) | – | – | – | – | 17,154 |
| Total comprehensive loss for the year | – | – | – | – | – | (10,861) | (10,861) |
| At 31 March 2009 | 25,352 | – | 1,265 | 139 | 54,477 | (27,154) | 54,079 |
| At 1 April 2009 | 25,352 | – | 1,265 | 139 | 54,477 | (27,154) | 54,079 |
| Total comprehensive income for the year | – | – | – | – | – | 8,666 | 8,666 |
| **At 31 March 2010** | **25,352** | **–** | **1,265** | **139** | **54,477** | **(18,488)** | **62,745** |

## 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 2008 | 7,982 | 216 | 1,265 | 77,753 | (22,508) | 64,708 |
| Conversion of zero-coupon convertible bonds | 17,370 | (216) | – | – | – | 17,154 |
| Total comprehensive loss for the year | – | – | – | – | (11,086) | (11,086) |
| At 31 March 2009 | 25,352 | – | 1,265 | 77,753 | (33,594) | 70,776 |
| At 1 April 2009 | 25,352 | – | 1,265 | 77,753 | (33,594) | 70,776 |
| Total comprehensive loss for the year | – | – | – | – | (17,047) | (17,047) |
| **At 31 March 2010** | **25,352** | **–** | **1,265** | **77,753** | **(50,641)** | **53,729** |

Note:

(i) 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.

No appropriation of the profit of a subsidiary in the PRC has been made as the PRC subsidiary's profit for the year was wholly absorbed by the accumulated losses brought forward from the previous years. For the year ended 31 March 2009, the subsidiaries in the PRC had not generated any profits for appropriations to these statutory reserves.

## 25. RESERVES (CONTINUED)

Note: (Continued)

(ii) 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 2010, 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$27,112,000 *(2009: HK$44,159,000)*.

## 26. DEFERRED TAXATION

Recognised deferred tax assets and liabilities at the end of the reporting period represent the following:

| | Group | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | 2010<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2009<br>HK$'000 |
| Depreciation allowances | – | – | (2,394) | (2,863) |
| Tax losses | 2,394 | 2,863 | – | – |
| Deferred tax assets (liabilities) | 2,394 | 2,863 | (2,394) | (2,863) |
| Offsetting | (2,394) | (2,863) | 2,394 | 2,863 |
| **Net deferred tax assets (liabilities) at end of reporting period** | – | – | – | – |

## 26. DEFERRED TAXATION (CONTINUED)

Unrecognised deferred tax assets arising from

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Deductible temporary differences | 916 | 825 |
| Tax losses | 319,283 | 340,141 |
| At end of reporting period | 320,199 | 340,966 |

The tax losses of HK$135,283,000 *(2009: HK$117,344,000)* and deductible temporary differences of HK$916,000 *(2009: HK$825,000)* arising in Hong Kong have no expiry date under current tax legislation. The tax losses of HK$184,000,000 *(2009: HK$222,797,000)* 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 these 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 end of the reporting period will expire as follows:

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Within one year | – | 30,089 |
| In the second to third years | 126,398 | 135,106 |
| In the third to fourth years | 33,769 | 33,769 |
| In the fourth to fifth years | 17,926 | 17,926 |
| In the fifth years inclusive | 5,907 | 5,907 |
| At end of reporting period | 184,000 | 222,797 |

## 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.

In September 2009, the Company refreshed its share option scheme (the "Refreshed Scheme") with the same terms as the previous share option scheme. Under the Refreshed Scheme, the maximum number of shares issued and to be issued upon the exercise of the share options granted under the share option scheme and any other share option schemes shall not in aggregate exceed 10% of the shares in issue as of the date of approval of the Refreshed Scheme.

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 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$1,080,000 *(2009: HK$1,162,000)*.

## 29. RELATED PARTY TRANSACTIONS

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

| | | Group | |
|---|---|---|---|
| | | 2010 | 2009 |
| Related party relationship | Nature of transaction | HK$'000 | HK$'000 |
| Key management personnel, including directors *(Note (i))* | Salaries, allowances and benefits in kind | 2,623 | 2,701 |
| | Contribution to defined contribution retirement scheme | 49 | 55 |
| | Total compensation | 2,672 | 2,756 |
| A company owned by Mr. Xu Jin, a director and shareholder of the Company | Interest expenses on loans granted | 446 | 447 |
| A company owned by Mr. Li Li Xin, a director of the Company and beneficial owner of the Company's shareholder | Guarantee for long-term bank borrowing granted to the Group | 136,364 | 136,364 |
| Companies owned by Mr. Li Li Xin, a director of the Company and beneficial owner of the Company's shareholder | Interest expenses on advance to the Group | 102 | – |
| A shareholder | Interest expenses on loans granted | 603 | 503 |
| A firm in which Mr. Lau Kin Hon, a director of the Company, is a partner | Company secretarial service fee | 330 | 248 |

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 Mr. Li Li Xin, a director and beneficial owner of the Company, respectively for providing trade finance assistance in relation to the procurement of the Group's raw materials. The related companies would recover the charges and expenses incurred for the provision of such services from the Group.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, 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, market risk (including interest rate risk and 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.

### 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 collectability of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not hold any collateral over these assets.

At the end of the reporting period, the Group had a concentration of credit risk as 83% *(2009: 66%)* and 95% *(2009: 90%)* of the total trade and bills receivables were made up by the Group's largest customer's and the five largest customers' outstanding balances respectively.

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

### Market risk

(a) 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 floating interest rates at the end of the reporting period. The interest rates and terms of repayment of these borrowings have been disclosed in notes 21 and 22 to the financial statements. Management does not expect any significant interest rate risk as at the end of the reporting period.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Market risk (Continued)

(a) Interest rate risk (Continued)

*Sensitivity analysis*

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

At the end of the reporting period, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's net profit would be decreased/increased by HK$1,548,000 *(2009: net loss would be increased/decreased by HK$1,253,000)*, 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 end of the reporting period 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 end of next reporting period. The analysis is performed on the same basis for 2009.

(b) Foreign currency risk

Most of the Group business transactions were conducted in Hong Kong dollar, Renminbi and United States dollar. As at 31 March 2010, the Group's 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 United States 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 United States dollar 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*

At the end of the reporting period, if Renminbi had weakened/strengthened by 10% with all other variables held constant, the Group's net profit for the year would be increased/decreased by HK$16,708,000 *(2009: net loss for the year would be decreased/increased by HK$17,676,000)*, but there would be no impact on the other equity reserves.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Market risk (Continued)

(b) Foreign currency risk (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period 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.

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.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2009.

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.

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 end of the reporting period are used to convert the cash flows into Hong Kong dollar.

Group

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 | 1-2 years HK$'000 | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 | 1-2 years HK$'000 |
| Trade and other payables | 101,841 | 101,841 | 78,114 | 23,727 | – | 84,436 | 84,436 | 71,470 | 12,966 | – |
| Advance from related companies | 6,818 | 7,229 | – | 7,229 | – | 3,409 | 3,409 | 3,409 | – | – |
| Loan from a related company | 6,355 | 6,400 | – | 6,400 | – | 6,396 | 6,592 | – | 6,592 | – |
| Loans from a shareholder | 14,000 | 14,108 | – | 14,108 | – | 6,000 | 6,211 | – | 6,211 | – |
| Short-term bank borrowings | 38,513 | 39,395 | – | 39,395 | – | 5,568 | 5,833 | – | 5,833 | – |
| Long-term bank borrowing | 102,273 | 105,307 | – | 105,307 | – | 119,318 | 128,629 | – | 23,530 | 105,099 |
| Obligations under finance leases | 140 | 158 | – | 42 | 116 | 1,970 | 2,101 | – | 1,943 | 158 |
| | 269,940 | 274,438 | 78,114 | 196,208 | 116 | 227,097 | 237,211 | 74,879 | 57,075 | 105,257 |

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 |
| Other payables and accruals | 4,838 | 4,838 | 4,838 | – | 3,140 | 3,140 | 3,140 | – |
| Loan from a related company | 6,355 | 6,400 | – | 6,400 | 6,396 | 6,592 | – | 6,592 |
| Loans from a shareholder | 14,000 | 14,108 | – | 14,108 | 6,000 | 6,211 | – | 6,211 |
| | 25,193 | 25,346 | 4,838 | 20,508 | 15,536 | 15,943 | 3,140 | 12,803 |

Fair value

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

## 31. 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 2010 and 2009.

## 32. COMMITMENTS

(a) Capital commitments

As at the end of the reporting period, the Group has capital commitment of HK$1,545,000 *(2009: HK$334,000)* in respect of acquisition of machinery and moulds for production.

(b) Commitments under operating leases

*As lessee*

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Within one year | 268 | 1,057 |
| In the second to fifth years inclusive | – | 268 |
| | 268 | 1,325 |

*As lessor*

The Group leases out a portion of its leasehold land and buildings under operating leases with average terms of 2 years. At the end of the reporting period, the future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | HK$'000 | HK$'000 |
| Within one year | 1,100 | 1,466 |
| In the second to fifth years inclusive | – | 244 |
| | 1,100 | 1,710 |

## 33. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group with the following carrying values were pledged to secure general banking facilities granted to the Group:

| | Group | |
|---|---|---|
| | 2010<br>HK$'000 | 2009<br>HK$'000 |
| Leasehold land and buildings | 164,944 | 168,163 |

## 34. EVENTS AFTER THE REPORTING PERIOD

Other than disclosed elsewhere in these financial statements, the Group had the following events after the reporting period:

(a) In April 2010, the bank renewed the term loan facilities as disclosed in note 22(b) to the financial statements to a 3-year term loan facility in the amount of RMB135,000,000 which was interest-bearing at 107% of the base lending rate published by the People's Bank of China and repayable in various quarterly installments up to April 2013. In addition, the Group's trade finance facility of RMB31,000,000 was renewed. These banking facilities are secured by the Group's leasehold land and buildings, the export credit insurance issued by China Export & Credit Insurance Corporation and corporate guarantee from a company, in which the Company's director and beneficial owner, Mr. Li Li Xin, has beneficial interest.

(b) In October 2009, Magician Strategic Limited, a fellow subsidiary of the Company entered into an agreement with a shareholder of the Company, Big-Max, to acquire entire issued and outstanding shares of Wealthy Glory Holdings Limited ("Wealthy Glory"), a limited company incorporated in the British Virgin Islands, at a consideration of HK$90,000,000, details of which have been set out in the circular of the Company dated 31 March 2010. The acquisition was completed in April 2010.

(c) In October 2009, the Company entered into a share subscription agreement with a shareholder of the Company, Big-Max, to issue and allot 937,500,000 ordinary shares of HK$0.1 each at a subscription price of HK$0.16 each for a total consideration of HK$150,000,000 in cash. The net proceeds from the share subscription would be used to finance the acquisition of Wealthy Glory at an aggregate consideration of HK$90,000,000 as mentioned above and for general working capital of the Company and the Group. The share subscription was completed in April 2010.

# 5-year Financial Summary

Year ended 31 March 2010

## 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:

| | 2010<br>HK$'000 | 2009<br>HK$'000 | 2008<br>HK$'000 | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|---|---|
| Turnover | 287,224 | 251,605 | 215,997 | 219,508 | 233,865 |
| Profit (Loss) before taxation | 8,478 | (10,861) | (16,303) | (22,766) | (52,509) |
| Income tax credit (charge) | 188 | – | 10 | (56) | 5,537 |
| Net profit (loss) for the year | 8,666 | (10,861) | (16,293) | (22,822) | (46,972) |
| **Assets and liabilities** | | | | | |
| Total assets | 348,080 | 296,571 | 298,205 | 296,165 | 309,503 |
| Total liabilities | (269,940) | (227,097) | (236,570) | (268,529) | (259,045) |
| Net assets | 78,140 | 69,474 | 61,635 | 27,636 | 50,458 |

MAGICIAN
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通達工業(集團)有限公司

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