1. GENERAL

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").

2. BASIS OF PREPARATION

The financial statements have been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon the continued availability of adequate finance in view of the excess of current liabilities over current assets.

In preparing the financial statements for the year ended 31 March 2005, the directors adopted a going concern basis for the following reasons:

(a) The Group will seek for additional and sufficient fundings to meet its due liabilities.

(b) The Group has adopted measures to improve its liquidity, including obtaining continuing support from its creditors and banks. Certain creditors of the Group have taken legal actions to recover overdue balances which totalling approximately HK$34,000,000. Some of the creditors have also applied to the court in the PRC to freeze certain plant and machinery and bank balances of the Group. The amounts of claims, overdue interest and related legal costs have already been provided in the accounts. Management will discuss respectively with each creditor to reach a mutually acceptable repayment schedule and negotiate for the release of the court foreclosure orders on the Group's assets.

(c) Included in the short-term bank borrowings are two secured bank loans of HK$50,000,000 and HK$15,000,000 which were originally due for settlement in November and October 2004 respectively. Subsequent to the balance sheet date, the Group has renewed the loan facilities and extend the repayment date to June 2006.

(d) Included in the long-term bank borrowings are bank loans repayable by installments. An installment repayment of HK$4,855,000, which was due in March 2005, was fully settled subsequent to the balance sheet date. Management will negotiate with the bank for an extension of the repayment schedule for the remaining balance.

(e) Management will negotiate with the banks for additional credit facilities.

(f) Subsequent to the balance sheet date, the Group has obtained a new short-term loan of HK$15,000,000 secured on the Group's leasehold land and buildings located in Hong Kong.

(g) In order to improve the cash flows of the Group, management will implement an incentive bonus scheme to reward successful debts collection from the domestic sales customers. Besides, excessive inventories will be sold at discounted price and idle assets will be disposed of. Management will also negotiate with the suppliers for extension of credit period. On the other hand, credit period granted to customers will be tightened up.

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

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

3. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group is in the process of making an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair value at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The consolidated income statement includes the Group's share of the results of the associates for the year, and the consolidated balance sheet includes the Group's share of net assets of the associates.

Property, plant and equipment

Property, plant and equipment 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. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvement are capitalised and depreciated over their expected useful lives.

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.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

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 from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	2% or the terms of the leases, if shorter
Leasehold improvements	14.3% – 20%
Plant and machinery	20%
Furniture, fixtures, office and computer equipment	20%
Motor vehicles	20% – 25%
Moulds	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties with an unexpired lease term of over 20 years are not depreciated and are stated at their open market values on the basis of professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be credited to the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, direct labour and an appropriate proportion of all production overhead expenditure 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 cost of completion and the estimated costs necessary to make the sale.

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 and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

Leasing

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

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rental payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible assets 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 net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses 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 losses is recognised as income immediately.

Taxation

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

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the approximate rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the translation reserve.

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Contributions to defined contribution plans

The Group operates a defined contribution plan for the Hong Kong employees based on local laws and regulations. The plan covers all eligible employees. The Group's contributions to the defined contribution plan are expensed as incurred.

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

4. TURNOVER AND REVENUE

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing and trading of household products.

Turnover and revenue recognised by category are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sale of goods	**445,830**	470,812
Other revenue		
Interest income	**599**	760
Rental income	**359**	439
Others	**1,154**	1,106
	2,112	2,305
Turnover and revenue	**447,942**	473,117

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format and no business segment information is presented as over 90% of the turnover and contribution to the Group's results are attributable to the manufacturing and trading of household products.

An analysis of the group's turnover and results for the year by location of customers is as follows:

	Group			
	Turnover		Segment results	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
United States of America	287,095	242,825	3,974	30,911
Canada	24,120	35,061	(225)	3,508
Hong Kong	43,710	55,137	5,142	13,347
PRC	46,311	81,170	(49,703)	(8,373)
Europe	28,406	33,326	3,199	3,764
Others	16,188	23,293	1,868	3,170
	445,830	470,812	(35,745)	46,327
Unallocated corporate expenses			(41,530)	(37,934)
(Loss) Profit from operations			(77,275)	8,393
Impairment loss on property, plant and equipment			(91,733)	–
Finance costs			(6,945)	(6,971)
Share of loss of an associate			–	(233)
Taxation			–	116
(Loss) Profit attributable to shareholders			(175,953)	1,305

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as over 80% (2004: 90%) of the Group's assets are located in the PRC.

6. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	4,651	3,958
Convertible bonds	–	1,377
Finance lease obligations	1,094	1,636
Trade payables overdue	1,200	–
	6,945	6,971

7. (LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	Group	
	2005	2004
	HK$'000	HK$'000
This is stated after charging (crediting):		
Auditors' remuneration	795	590
Depreciation of property, plant and equipment	34,487	35,049
Loss on disposal of property, plant and equipment	153	765
Operating lease rentals of land and buildings	5,044	6,526
Provision for bad and doubtful debts	35,316	258
Provision for inventory obsolescence	8,907	2,024
Provision for (Write-back of) impairment in interests in associates	1,049	(464)
Staff costs (excluding directors' emoluments):		
Wages and salaries	59,547	67,297
Termination benefits	1,212	919
Contributions to retirement schemes	1,533	1,170
	62,292	69,386

8. DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:		
Non-executive directors	**214**	140
Independent non-executive directors	**618**	577
	832	717
Other emoluments:		
Executive directors:		
Salaries and other benefits	**2,578**	3,250
Compensation for loss of office	**600**	–
Contributions to retirement scheme	**25**	24
	3,203	3,274
Non-executive directors:		
Salaries and other benefits	**97**	–
Contributions to retirement scheme	**5**	–
	102	–
	4,137	3,991

Emoluments of the directors were within the following bands:

	Group Number of directors	
	2005	2004
Nil to HK$1,000,000	**19**	5
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	21	7

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals of the Group during the year included two (2004: two) directors of the Company, details of whose emoluments are set out in note 8 above. The emoluments of the remaining three (2004: three) individuals are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Salaries and other benefits	2,101	3,583
Compensation for loss of office	95	–
Contributions to retirement scheme	31	32
	2,227	3,615

The emoluments fell with in the following bands:

	Group Number of individuals	
	2005	2004
Nil to HK$1,000,000	3	2
HK$1,500,001 to HK$2,000,000	–	1
	3	3

Except as disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10. TAXATION

Hong Kong profits tax has not been provided as the Group incurred a loss for taxation purposes for the year.

In previous years, the Hong Kong Inland Revenue Department had issued notices of assessments or additional assessments to a number of the companies within the Group and challenged certain intercompany charges and profit allocations within the Group for Hong Kong profits tax purposes. The Group has filed objections to these assessments. Depending on the outcome of the final assessments, the Group may be subject to additional tax. In this connection, management believes that the Group has made adequate provision for the potential additional tax liabilities.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Reconciliation of effective tax rate	**%**	%
Applicable tax rate	**15**	18
Non-deductible expenses	**(1)**	114
Utilisation of previously unrecognised tax losses	**(1)**	(56)
Unrecognised temporary differences	**(11)**	(104)
Unrecognised tax losses	**(5)**	–
Others	**3**	18
Effective tax rate for the year	**–**	(10)

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

11. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss for the year of HK$175,953,000 (2004: profit of HK$1,305,000), a loss of HK$141,912,000 (2004: profit of HK$18,030,000) has been dealt with in the financial statements of the Company.

12. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net loss for the year of HK$175,953,000 (2004: profit of HK$1,305,000), and on the weighted average number of 868,733,440 shares (2004: 868,733,440 shares) in issue during the year.

Diluted loss per share for the year of 2005 is not shown as there are no potential ordinary shares in issue in current year. The diluted earnings per share for the year of 2004 has not been presented as the conversion price of the Company's outstanding convertible bonds was higher than the average market price of the Company's shares.

13. INVESTMENT PROPERTIES

	Group 2005 HK$'000	Group 2004 HK$'000
Valuation		
At beginning of year	**1,600**	1,600
Surplus on revaluation	**1,480**	–
At balance sheet date	**3,080**	1,600

The investment properties are situated in Hong Kong and are held on medium-term leases. They were valued at their open market value at 31 March 2005 by Messrs. Vigers Appraisal & Consulting Limited, an independent qualified valuer. The surplus of HK$1,480,000 arising on revaluation has been credited to the consolidated income statement, as it represents a reversal of previous revaluation deficit.

14. 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								
Cost								
At beginning of year	330,172	23,940	113,715	33,143	11,796	171,264	12,685	696,715
Additions	–	–	4,853	462	5	17,456	2,734	25,510
Disposals	–	–	(1,283)	(49)	(700)	(260)	–	(2,292)
Reclassification	–	239	3,110	42	–	–	(3,391)	–
At balance sheet date	**330,172**	**24,179**	**120,395**	**33,598**	**11,101**	**188,460**	**12,028**	**719,933**
Accumulated depreciation								
At beginning of year	41,918	19,048	89,614	28,512	10,650	122,403	–	312,145
Charge for the year	6,846	1,829	8,040	1,879	345	15,548	–	34,487
Disposals	–	–	(1,087)	(45)	(700)	(144)	–	(1,976)
Impairment loss	71,312	–	5,915	–	–	14,506	–	91,733
At balance sheet date	**120,076**	**20,877**	**102,482**	**30,346**	**10,295**	**152,313**	**–**	**436,389**
Net book value								
At balance sheet date	**210,096**	**3,302**	**17,913**	**3,252**	**806**	**36,147**	**12,028**	**283,544**
At beginning of year	288,254	4,892	24,101	4,631	1,146	48,861	12,685	384,570

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings are held on medium-term leases and their net book value is analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong	22,516	24,440
The PRC	187,580	263,814
	210,096	288,254

The Group's construction-in-progress is situated in the PRC under medium-term leases.

The net book value of the Group's property, plant and equipment includes an amount of HK$7,726,000 (2004: HK$18,039,000) in respect of assets held under finance leases.

At balance sheet date, certain plant and machinery with a net book value of approximately HK$14,353,000 held by the Group were frozen by the court in the PRC as a result of the legal actions taken by certain creditors and employees in the PRC.

In light of the operating loss experienced by the Group during the year, the management has reviewed the carrying value of its property, plant and equipment to assess their recoverable amount. Based on this assessment, an impairment loss of HK$91,733,000 has been recognised on the Group's property, plant and equipment located in the PRC as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
By reference to independent professional valuation on the open market value of the assets	15,740	–
Based on value in use as estimated by the management	75,993	–
	91,733	–

15. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Non-current		
Interests in subsidiaries		
Unlisted shares, at cost	158,598	158,598
Less: Provision for impairment in value	(157,877)	(157,877)
	721	721
Due from subsidiaries	520,784	521,250
Provision for doubtful debts	(259,954)	(118,031)
	260,830	403,219
	261,551	403,940
Due to subsidiaries	(151,900)	(150,984)
Current		
Due from subsidiaries	9,621	17,225
Due to subsidiaries	(2,266)	(10,298)

Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Magician Investments (BVI) Limited	British Virgin Islands	US$6 ordinary	100%	–	Investment holding
Treasure Trend Development Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Diyon Development Limited	Hong Kong	HK$3 ordinary	–	100%	Purchasing of paper, plastic and metal materials and products

15. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Magicgrand Development Limited	British Virgin Islands	US$1 ordinary	–	100%	Manufacturing and trading of plastic and metal products
Magician Industrial Company Limited	Hong Kong	HK$5 ordinary	–	100%	Marketing and trading of plastic and metal products
Jinda Plastic Metal Products (Shenzhen) Co., Ltd.	the PRC	HK$180,000,000 registered capital	–	100%	Manufacturing and trading of plastic and metal products
More Concept Limited	Hong Kong	HK$3 ordinary	–	100%	Marketing and trading of plastic and metal products
Nicole (China) Company Limited	Hong Kong	HK$2 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
Hopeward Holdings Limited	British Virgin Islands	US$1 ordinary	–	100%	Property holding
Falton Investment Limited	Hong Kong	HK$2 ordinary	–	100%	Property holding

All of the above subsidiaries operate principally in Hong Kong except for Magicgrand Development Limited and Jinda Plastic Metal Products (Shenzhen) Co., Ltd. which operate principally in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayments, except for the amounts due from/to subsidiaries arising from general working capital transactions, which are classified as current assets and current liabilities.

16. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	873	873
Impairment loss	(873)	–
	–	873
Due from an associate	–	471
	–	1,344

Details of the Group's associates at the balance sheet date are as follows:

Name of associate	Place of incorporation and operation	Percentage of equity interest attributable to the Group	Principal activities
Techable Industrial Limited	Hong Kong	40%	Manufacturing and trading of metal products
Magician Dreamwares Limited	Hong Kong	50%	Trading of household products

17. INVENTORIES

	Group 2005 HK$'000	Group 2004 HK$'000
Raw materials	14,205	23,621
Work-in-progress	24,511	21,283
Finished goods	18,299	37,623
	57,015	82,527

The amount of inventories, included in above and excluding those fully provided for with nil carrying value, carried at net realisable value is HK$14,154,000 (2004: HK$5,240,000).

18. TRADE AND BILLS RECEIVABLES

The Group in general allows a credit period of 30 to 60 days to its trade customers. An ageing analysis of the Group's trade and bills receivables (net of provision for bad and doubtful debts) is set out below:

	Group	
	2005 HK$'000	2004 HK$'000
Less than 1 month	25,282	39,565
1 month to 2 months	2,071	23,096
2 months to 3 months	8,517	9,546
3 months to 6 months	4,899	15,787
6 months to 1 year	–	4,971
	40,769	92,965

19. TRADE PAYABLES

An ageing analysis of trade payables is set out below:

	Group	
	2005 HK$'000	2004 HK$'000
Less than 3 months	34,482	50,212
3 months to 6 months	16,854	22,084
6 months to 1 year	29,285	12,005
More than 1 year	4,975	560
	85,596	84,861

20. BANK BORROWINGS

(a) Short-term bank borrowings

Included in short-term bank borrowings are bank loans of HK$65,000,000 which were overdue for settlement before the year end date. As detailed in note 2 to these financial statements, the Group has renewed the loan facilities and extend the repayment date to June 2006 subsequent to the balance sheet date.

(b) Long-term bank borrowings

	Group	
	2005 HK$'000	2004 HK$'000
Secured	82,355	–
Unsecured	–	92,500
	82,355	92,500

The above bank loans are repayable within a period as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Within one year	19,855	15,000
After one year but within two years	62,500	15,000
After two years but within five years	–	62,500
	82,355	92,500
Portion classified as current liabilities	(19,855)	(15,000)
Long-term portion	62,500	77,500

21. OBLIGATIONS UNDER FINANCE LEASES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Minimum lease payments				
Within one year	6,665	7,558	2,325	3,869
In the second to fifth years inclusive	3,200	7,609	–	831
	9,865	15,167	2,325	4,700
Future finance charges	(908)	(1,771)	(55)	(202)
Present value of lease obligations	8,957	13,396	2,270	4,498

Present value of minimum lease payments

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within one year	5,931	6,478	2,270	3,686
In the second to fifth years inclusive	3,026	6,918	–	812
	8,957	13,396	2,270	4,498

The lease terms are ranged from two to four years. All lease agreements are on a fixed repayment basis and there is no arrangement for contingent rental payments.

22. DEFERRED TAXATION

Recognized deferred tax assets

At the balance sheet date, the Group has recognised deferred tax assets of HK$285,000 (2004: HK$285,000) in respect of the accelerated depreciation allowances.

Unrecognised deferred tax assets

	2005 HK$	2004 HK$
Deductible temporary differences	21,868,000	–
Tax losses	10,180,000	5,076,000
At balance sheet date	32,048,000	5,076,000

The tax losses of HK$22,586,000 (2004: HK$29,011,000) arising in Hong Kong do not expire under current tax legislation. The tax losses of HK$41,543,000 (2004: Nil) and deductible temporary differences of HK$145,786,000 (2004: Nil) arising in the PRC can be used to offset against future taxable profits of the respective subsidiaries for a maximum of 5 years.

23. ISSUED CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
4,000,000,000 (2004: 4,000,000,000) ordinary shares of HK$0.10 each	400,000	400,000
Issued and fully paid:		
868,733,440 (2004: 868,733,440) ordinary shares of HK$0.10 each	86,873	86,873

24. SHARE OPTION SCHEME

On 8 August 2002, a share option scheme was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, invite any full-time employee or directors of the Company or its subsidiaries to take up options at a nominal consideration of HK$1 for each option allotment to subscribe for ordinary shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time. Each option is entitled to subscribe for one ordinary share of the Company and the subscription price is determined by the Board of Directors and shall be:

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

(2) the average of closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer,

whichever is higher provided that it shall not be lower than the nominal value of the Company's shares. Options are exercisable in stages as determined by the Board of Directors from time to time at the date of grant.

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

25. RESERVES

Group	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2003	282,049	1,265	139	51	(98,299)	185,205
Net profit for the year	–	–	–	–	1,305	1,305
At 31 March 2004	282,049	1,265	139	51	(96,994)	186,510
The Company and subsidiaries	282,049	1,265	139	51	(97,502)	186,002
An associate	–	–	–	–	508	508
At 31 March 2004	282,049	1,265	139	51	(96,994)	186,510
At 1 April 2004	282,049	1,265	139	51	(96,994)	186,510
Net loss for the year	–	–	–	–	(175,953)	(175,953)
At 31 March 2005	**282,049**	**1,265**	**139**	**51**	**(272,947)**	**10,557**

Company	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2003	282,049	1,265	158,398	(291,565)	150,147
Net profit for the year	–	–	–	18,030	18,030
At 31 March 2004	282,049	1,265	158,398	(273,535)	168,177
Net loss for the year	–	–	–	(141,912)	(141,912)
At 31 March 2005	**282,049**	**1,265**	**158,398**	**(415,447)**	**26,265**

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 subsidiary in the PRC, which is a WFOE, is required to allocate at least 10% of its 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 subsidiary 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 subsidiary in the PRC.

25. RESERVES (Continued)

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 as 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:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

26. CASH GENERATED FROM OPERATIONS

	Group	
	2005	2004
	HK$'000	HK$'000
(Loss) Profit from ordinary activities before taxation	**(175,953)**	1,189
Depreciation	**34,487**	35,049
Impairment loss on property, plant and equipment	**91,733**	–
Surplus on revaluation of investment properties	**(1,480)**	–
Interest income	**(599)**	(760)
Interest expense	**6,945**	6,971
Loss on disposal of plant and equipment	**153**	765
Provision for bad and doubtful debts	**35,316**	258
Provision for inventory obsolescence	**8,907**	2,024
Provision for (Write-back of) impairment in value of an associate	**873**	(464)
Share of loss of an associate	**–**	233
Changes in working capital:		
Trade and bills receivables, prepayments, deposits and other receivables	**17,658**	4,682
Inventories	**16,605**	1,373
Due from an associate	**471**	53
Trade payables, other payables and accruals	**13,248**	10,622
Cash generated from operations	**48,364**	61,995

27. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately of HK$3,582,000 (2004: HK$6,388,000).

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 subsidiary in the PRC also participated in defined contribution retirement schemes covering its fully-time the 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$1,563,000 (2004: HK$1,194,000).

29. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values were pledged to secure general banking facilities granted to the Group:

	Group	
	2005	2004
	HK$'000	HK$'000
Leasehold land and buildings	**187,580**	236,224
Investment properties	**–**	1,600
Bank deposits	**984**	7,525
	188,564	245,349

30. RESTRICTED BANK BALANCES

At the balance sheet date, certain bank accounts totaling HK$2,644,000 (2004: Nil) held by the Group's subsidiary in the PRC have been frozen by the court in the PRC following the legal actions taken by several creditors and employees.

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK$119,500,000 (2004: HK$135,000,000) for banking facilities granted to subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$156,201,000 (2004: HK$119,031,000).

32. COMMITMENTS

(a) Capital expenditure commitments

	Group	
	2005 HK$'000	2004 HK$'000
Contracted but not provided for, net of deposits paid	3,032	13,047

(b) Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Within one year	1,172	3,251
In the second to fifth years inclusive	530	1,156
	1,702	4,407