

Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

To the members of

Magician Industries (Holdings) Limited

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

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

- 1) We were not able to form a view in the previous year on the appropriateness of the impairment loss on property, plant and equipment of HK\$75,993,000 and whether the property, plant and equipment of HK\$247,473,000 were fairly stated at the balance sheet date. We had qualified our audit report accordingly and details of our qualification were fully explained in the 2005 annual report. Any adjustments to the opening carrying amount of the property, plant and equipment which we have previously qualified would have consequential effects on the results for the year ended 31 March 2006.

As stated in note 17 to the financial statements, in light of the continuing operating loss experienced by the Group, management has carried out an impairment review of its property, plant and equipment. However, we have not been able to obtain adequate supporting information from management in respect of its assessment on the value in use of property, plant and equipment with carrying amount of HK\$210,489,000 as of 31 March 2006 and therefore unable to satisfy ourselves whether the recognition of the impairment loss of HK\$3,515,000 and the reversal of impairment loss of HK\$12,196,000 are appropriate. Consequently, we have been unable to satisfy ourselves whether the property, plant and equipment of HK\$210,489,000 were fairly stated at the balance sheet date and whether the loss for the year ended 31 March 2006 was fairly stated.

- 2) We had not been able to form a view in the previous year on the Group's domestic sales in the People's Republic of China, the provision for doubtful debts and the carrying amount of the trade receivables in relation to the domestic sales. Consequently, we had qualified our audit report and details of our qualification were fully explained in the 2005 annual report. Any adjustments to the amounts that have been previously qualified would have consequential effects on the results for the year ended 31 March 2006.

As further explained in note 3(b) to the financial statements, the Group suffered a decline in the operation of its domestic sales division in the People's Republic of China during the year. Because of the high turnover of members of management and accounting personnel, the present management is unable to give an unqualified representation that all transactions in relation to the domestic sales division for the year have been properly included in the Group's financial statements and whether the financial statements present a true and fair view of the Group's financial position as at 31 March 2006 and of the Group's results for the year then ended in respect of its domestic sales division.

Accordingly, we have been unable to carry out audit procedures that we considered necessary to obtain adequate assurance regarding the completeness and accuracy of the assets, liabilities, income and expenses, cash flows, commitments, contingent liabilities, related party transactions and other disclosures in the financial statements in connection with the domestic sales division.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (1) and (2) above. Any adjustments to the above figures may have a consequential significant effect on the Company's interests in subsidiaries as recorded in the Company's balance sheet, the Group's loss for the year and the Group's net assets as at 31 March 2006.

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 3(a) to the financial statements which explains the measures that the directors are currently undertaking and intend to take to generate sufficient liquid funds to finance its operations and, accordingly, that it is appropriate to prepare the financial statements on a going concern basis.

As detailed in note 3(a) to the financial statements, the Group is dependent upon the continued support of its creditors, banks and shareholders. Provided that the measures as detailed in note 3(a) to the financial statements can accomplish successful outcome, the directors are satisfied that the Group will be able to finance its operations and to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the measures. The financial statements do not include any adjustments that may result from the failure of these measures to accomplish successful outcome. We consider that appropriate disclosures have been made. However, if the outcome turns out to be adverse, it may have significant potential adverse effect on the financial position of the Group and may in turn affect the going concern basis of the preparation of the financial statements.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effect of:

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

we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong

26 July 2006