

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Magician Industries (Holdings) Limited (the "Company"), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or the transferee or to the licensed securities dealer, or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is addressed to the shareholders of the Company in connection with a special general meeting of the Company to be held on Wednesday, 28 November 2007. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.

The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 526)

- (1) **Proposed Open Offer of 434,366,720 Offer Shares of HK\$0.10 each at HK\$0.10 per Offer Share payable in full on acceptance (in the proportion of one Offer Share for every two existing Shares held on the Record Date),**
- (2) **Application for Whitewash Waiver, and**
- (3) **Special deal in connection with the payment of Subscription Monies for Untaken Shares by partial set-off of the Big-Max Shareholder Loans**

Financial Adviser to the Company

 **Baron Capital Limited**

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders

VEDA CAPITAL
智略資本

Underwriter

Big-Max Manufacturing Co., Limited

Terms used in this cover page have the same meanings as defined in this circular.

The letter from Veda Capital (as defined herein) is set out on pages 34 to 56 of this circular. The letter from the Independent Board Committee (as defined herein) are set out on pages 32 to 33 of this circular.

To qualify for the Open Offer (as defined herein), a Shareholder (as defined herein) must be registered as a member of the Company on the Record Date (as defined herein), which is currently expected to be Wednesday, 28 November 2007. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfer of Shares (as defined herein) (with the relevant Share certificate(s)) with the Registrar (as defined herein) by 4:00 p.m. on Wednesday, 21 November 2007. The last day of dealings in Shares on a cum-entitlement basis is therefore expected to be Monday, 19 November 2007. The Shares will be dealt with on an ex-entitlement basis from Tuesday, 20 November 2007.

A notice convening the SGM (as defined herein) to be held at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong at 10 a.m. on Wednesday, 28 November 2007 is set out on pages N-1 to N-3 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

The Underwriting Agreement (as defined herein) contains provisions granting the Underwriter (as defined herein), by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination (as defined herein) if prior to the Latest Time for Termination:

- (a) in the sole and reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group (as defined herein) as a whole or is materially adverse in the context of the Open Offer; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof), of a political, military, financial, economic or other nature or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (iii) any outbreak of epidemic including but not limited to SARS, H5N1 or other types of avian flu, natural disasters such as earthquake, tsunami, flooding, typhoon, fire; or
 - (iv) any material adverse change in the business or in the financial or trading position or prospectus of the Group as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (c) this circular or the prospectus in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules (as defined herein) or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares (as defined herein) provisionally allotted to it.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Open Offer will not proceed.

Pursuant to the Underwriting Agreement, the Underwriter is entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered the warranties or representations contained in the Underwriting Agreement untrue or incorrect in any material aspect comes to the knowledge of the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

The Shares will be dealt in on an ex-entitlement basis from Tuesday, 20 November 2007. If the conditions of the Open Offer are not fulfilled and/or waived by the relevant date(s) or, if no such date is specified, the Latest Time for Termination (or such later time and/or dates as the Underwriter may agree with the Company in writing), or the Underwriting Agreement is terminated by the Underwriter, the Open Offer will not proceed and will lapse. Any persons contemplating buying or selling Shares from the date of the Announcement (as defined herein) up to the date on which all the conditions of the Open Offer are fulfilled or waived bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares are recommended to consult their own professional advisers.

* for identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Expected timetable	6
Letter from the Board	8
Letter from the Independent Board Committee	32
Letter from Veda Capital	34
Appendix I – Financial information on the Group	I-1
Appendix II – Pro forma financial information	II-1
Appendix III – Valuation report	III-1
Appendix IV – General information	IV-1
Notice of SGM	N-1

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 21 October 2007 relating to, among other things, the Open Offer, the Whitewash Waiver and the Special Deal
“Application Form(s)”	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Big-Max Shareholder Loans”	an aggregate principal amount of HK\$38 million owing by the Group to Big-Max as at the Latest Practicable Date, brief details of which are set out in this circular
“Board”	the board of the Directors
“Business Day”	a day (other than a Saturday or a day on which a tropical cyclone warning signal No.8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks generally are open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Magician Industries (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“concert parties” or “parties acting in concert”	in respect of a person, means parties acting in concert (within the meaning of the Takeovers Code) with such person in relation to the voting rights of the Shares (including the Offer Shares)
“Convertible Bonds”	HK\$26,000,000 zero-coupon convertible bonds due upon the expiry of eighteen months from 1 August 2007 in registered form created by the instrument dated 1 August 2007 and for the time being outstanding (as defined therein) or, as the context may require, any part of the principal amount thereof
“Director(s)”	the director(s) of the Company, including the independent non-executive director(s) of the Company

DEFINITIONS

“EA Absence”	the absence of excess application arrangement under the Open Offer
“Excluded Shareholder(s)”	those persons whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register as at that date are in jurisdictions outside Hong Kong and who are to be excluded from the Open Offer as may be determined by the Board, based on legal opinions provided by legal advisers, on the ground that the Board considers it necessary or expedient not to offer the Offer Shares to such Shareholders on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegates
“Group”	the Company and its subsidiaries from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board, comprising Mr. HE Chengying, Mr. CHAN Man Sum Ivan and Mr. CHEUNG Kiu Cho Vincent, all being independent non-executive Directors, constituted to advise the Independent Shareholders on the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal
“Independent Shareholders”	shareholders of the Company, other than (1) the Underwriter and parties acting in concert with it; (2) Mr. Xu Jin, the executive Director; and (3) those who are involved in or interested in the Underwriting Agreement, the Open Offer, the Whitewash Waiver and the Special Deal
“Last Trading Date”	8 October 2007, being the last trading day of the Shares prior to the release of the Announcement
“Latest Acceptance Time”	4:00 p.m. on Monday, 17 December 2007 or such other time and date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of Offer Shares
“Latest Practicable Date”	9 November 2007, being the latest practicable date for ascertaining certain information for inclusion in this circular

DEFINITIONS

“Latest time for Termination”	4:00 p.m. on the second Business Day after the Latest Acceptance Time or such other time and date as may be agreed between the Company and the Underwriter
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer Share(s)”	434,366,720 new Shares to be issued by the Company pursuant to the Open Offer
“Open Offer”	the proposed issue of Offer Shares by the Company on the basis of one Offer Share for every two existing Shares to the Qualifying Shareholders at the Subscription Price, pursuant to the terms and conditions of the issue
“Open Offer Documents”	the Prospectus and the Application Form
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose registered address(es) on that date is/are in (a) place(s) outside Hong Kong
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Posting Date”	Monday, 3 December 2007 or such later date as the Underwriter may agree with the Company in writing for the despatch of the Open Offer Documents
“Qualifying Shareholder(s)”	Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date
“Record Date”	Wednesday, 28 November 2007, being the date by reference to which entitlements to the Open Offer will be determined (or such other date as the Underwriter may agree with the Company)
“Registrar”	Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the branch share registrar of the Company in Hong Kong

DEFINITIONS

“Relevant Period”	the period commencing on 21 April 2007 (being the date falling six months immediately before the date of the Announcement) and ending on the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at 10 a.m. on Wednesday, 28 November 2007 at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong for the purposes of considering and approving, among other things, the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Special Deal”	the special deal in connection with the proposed settlement of the Subscription Monies for the Untaken Shares by partial set-off of the Big-Max Shareholder Loans
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.10 per Offer Share pursuant to the Open Offer
“Subscription Monies”	the subscription monies payable by the Underwriter to the Company in respect of the Offer Shares underwritten by the Underwriter and/or its own entitlement as a Qualifying Shareholder under the Open Offer
“Supplemental Underwriting Agreement”	the supplemental agreement to the Underwriting Agreement dated 20 October 2007 entered into between the Company and the Underwriter in relation to the Open Offer
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Underwriter” or “Big-Max”	Big-Max Manufacturing Co., Limited, a company incorporated in Hong Kong and a substantial shareholder of the Company as at the Latest Practicable Date, and its ultimate beneficial owners are Mr. Li Li Xin and his spouse

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 8 October 2007 entered into between the Company and the Underwriter in relation to the Open Offer as supplemented by the Supplemental Underwriting Agreement
“Underwriter Cash Portion”	a sum of HK\$7,174,600 being the total cash amount the Underwriter has agreed to inject into the Company to cover the entire Subscription Monies in respect of the 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement
“Underwritten Shares”	the aggregate of 362,620,720 Offer Shares agreed to be underwritten by the Underwriter under the Underwriting Agreement
“Untaken Shares”	those (if any) of the Underwritten Shares for which duly completed Application Forms in respect of the Offer Shares (accompanied by cheques or banker’s cashier orders for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before the Latest Acceptance Time
“Veda Capital”	Veda Capital Limited, a licensed corporation for Type 6 (advising on corporate finance regulated activity under the SFO), and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal
“Whitewash Waiver”	a waiver from the obligation on the part of the Underwriter and parties acting in concert with it to make a mandatory offer for the Shares and securities issued by the Company not already held by the Underwriter or its concert parties under Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code as a result of the performance of its underwriting obligation of the Offer Shares pursuant to the Underwriting Agreement
“HK\$” (or “\$”) or “cents”	Hong Kong dollars or cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

EXPECTED TIMETABLE

2007
(Note 1)

Despatch of the Company's circular with notice of SGM	Monday, 12 November
Last day of dealings in Shares on a cum-entitlement basis	Monday, 19 November
First day of dealings in Shares on an ex-entitlement basis	Tuesday, 20 November
Latest time for lodging transfer of Shares accompanied by the relevant share certificates in order to qualify for the Open Offer	4:00 p.m. on Wednesday, 21 November
Register of members of the Company closes	Thursday, 22 November to Wednesday, 28 November (both dates inclusive)
Latest time and date for lodging forms of proxy for the purpose of the SGM (not less than 48 hours before the SGM) (Note 2)	10:00 a.m. on Monday, 26 November
Date of SGM	10:00 a.m. on Wednesday, 28 November
Record Date	Wednesday, 28 November
Announcement of results of SGM	by 11:00 p.m. on Wednesday, 28 November
Register of members re-opens	Thursday, 29 November
Despatch of the Open Offer Documents	Monday, 3 December
Latest time for payment and acceptance of Offer Shares (Note 3) ..	4:00 p.m. on Monday, 17 December
Latest time for the Offer Shares to become unconditional	4:00 p.m. on Wednesday, 19 December
Announcement of results of acceptance of the Open Offer	Thursday, 20 December
Despatch of certificates for Offer Shares on or before	Monday, 24 December
Commencement of dealings in Offer Shares	Friday, 28 December

Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced by the Company as appropriate.

EXPECTED TIMETABLE

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. Completion and return of the form of proxy will not preclude a Shareholder or, as the case may be, an Independent Shareholder from attending and voting in person at the meeting convened or any adjournment thereof.

3. EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE TIME AND PAYMENT FOR OFFER SHARES

The Latest Acceptance Time and the latest time for any payment for the Offer Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above; or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 17 December 2007. Instead, the Latest Acceptance Time and the latest time for payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day;
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 17 December 2007. Instead, the Latest Acceptance Time and the latest time for payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Acceptance Time and the latest time for payment for the Offer Shares do not take place on Monday, 17 December 2007, the dates mentioned in this section headed “Expected timetable” in this circular may be affected. An announcement will be made by the Company in such event.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed “Termination of the Underwriting Agreement” on pages 16 and 17 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

LETTER FROM THE BOARD



MAGICIAN INDUSTRIES (HOLDINGS) LIMITED

通達工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

Executive Director:

Mr. Xu Jin (Chairman)

Non-executive Director:

Mr. Lau Kin Hon

Independent non-executive Directors:

Mr. He Chengying

Mr. Chan Man Sum Ivan

Mr. Cheung Kiu Cho Vincent

Registered Office:

Clarendon House

Church Street

Hamilton HM11

Bermuda

Principal place of business

in Hong Kong:

Flat A, 2nd Floor

Yeung Yiu Chung (No.6)

Industrial Building

19 Cheung Shun Street,

Cheung Sha Wan

Kowloon, Hong Kong

12 November 2007

- (1) **Proposed Open Offer of 434,366,720 Offer Shares of HK\$0.10 each at HK\$0.10 per Offer Share payable in full on acceptance (in the proportion of one Offer Share for every two existing Shares held on the Record Date),**
- (2) **Application for Whitewash Waiver, and**
- (3) **Special deal in connection with the payment of Subscription Monies for Untaken Shares by partial set-off of the Big-Max Shareholder Loans**

To the Shareholders and (for information only) holders of Convertible Bonds

Dear Sir or Madam,

INTRODUCTION

By an announcement dated 21 October 2007, the Board announced that the Company proposed to implement the Open Offer by issuing 434,366,720 Offer Shares at the Subscription Price on the basis of one Offer Share for every two existing Shares held on the Record Date.

* for identification purpose only

LETTER FROM THE BOARD

The Open Offer will be fully underwritten by the Underwriter, on the terms and subject to the conditions set out in the Underwriting Agreement. As at the Latest Practicable Date, the Underwriter and its concert parties were beneficially interested in 143,492,000 Shares, representing approximately 16.52% of the existing issued share capital of the Company. Under the Underwriting Agreement, the Underwriter has given undertakings to, among others, apply and pay for, prior to the Latest Acceptance Time, 71,746,000 Offer Shares in respect of its or its nominee's assured allotment of Offer Shares pursuant to the Open Offer in respect of its or its nominee's holding of 143,492,000 Shares. The Underwriting Agreement contains provisions granting the Underwriter the ability to terminate its obligations thereunder on the occurrence of certain events as set out under the section headed "Termination of the Underwriting Agreement" on or before the Latest Time for Termination.

As stated in the Announcement, the Underwriter would apply to the Executive for (i) the Whitewash Waiver in connection with its underwriting commitment under the Open Offer and (ii) its consent to the Special Deal.

The Independent Shareholders will be advised by the Independent Board Committee (comprising Mr. He Chengying, Mr. Chan Man Sum Ivan and Mr. Cheung Kiu Cho Vincent, all being the independent non-executive Directors) regarding the Underwriting Agreement, the Open Offer, the Whitewash Waiver, the Special Deal and the EA Absence. Mr. Lau Kin Hon, who is a non-executive Director, is also the company secretary of the Company and takes up some administrative role in the Company. Mr. Lau is therefore considered not appropriate to be a member of the Independent Board Committee in order to avoid conflict of role as the company secretary. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on (i) whether the terms of the Underwriting Agreement, the Open Offer, the Whitewash Waiver, the Special Deal and the EA Absence are fair and reasonable and (ii) whether the Underwriting Agreement, the Open Offer, the Whitewash Waiver, the Special Deal and the EA Absence are in the interests of the Company and the Shareholders as a whole. The appointment of Veda Capital as the independent financial adviser has been approved by the Independent Board Committee.

The purpose of this circular is to give you further information on, among other things, details of the Underwriting Agreement, the Open Offer, the Whitewash Waiver, the Special Deal and the EA Absence. This circular also contains the recommendation of the Independent Board Committee, the advice of Veda Capital in respect of the Underwriting Agreement, the Open Offer, the Whitewash Waiver, the Special Deal and the EA Absence, and the notice of the SGM.

PROPOSED OPEN OFFER

On 8 October 2007, the Company entered into the Underwriting Agreement with the Underwriter in respect of the Open Offer, which was supplemented by the Supplemental Underwriting Agreement. Further details of the Open Offer are set out below:

Issue statistics

Basis of the Open Offer	:	One (1) Offer Share for every two (2) existing Shares held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	868,733,440 Shares
Subscription Price	:	HK\$0.10 per Offer Share payable in full on application

LETTER FROM THE BOARD

Number of Offer Shares to be issued	:	434,366,720 Offer Shares
Number of Offer Shares that the Underwriter has undertaken, and has undertaken to procure parties acting in concert with it to undertake, to take up		The Underwriter has undertaken, and has undertaken to procure parties acting in concert with it to undertake, that they will accept on or before the Latest Acceptance Time, and pay for, 71,746,000 Offer Shares to be provisionally allotted to them or their respective nominees pursuant to the Open Offer in respect of their or their respective nominees' existing holdings of 143,492,000 Shares
Number of Offer Shares underwritten by the Underwriter pursuant to the Underwriting Agreement	:	362,620,720 Offer Shares
Number of Shares in issue upon completion of the Open Offer	:	1,303,100,160 Shares (without taking into account any Share which may be issued upon exercise of the conversion rights attaching to the Convertible Bonds)

Share options and convertible securities

No share option has been granted by the Company under the share option scheme since its adoption.

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds in the principal amount of HK\$26,000,000. If the conversion rights attached to Convertible Bonds are exercised in full at the initial exercise price of HK\$0.15 per Share in accordance with the terms and conditions of the instrument dated 1 August 2007 and executed by the Company by way of a deed poll constituting the Convertible Bonds, 173,333,333 new Shares may be allotted and issued. The conversion rights attached to the Convertible Bonds are not exercisable for the period commencing on the date of issue of the Convertible Bonds (i.e. 1 August 2007) and expiring on the date falling six months thereafter (i.e. 31 January 2008). Accordingly, the Open Offer will not be available to the holders of the Convertible Bonds. Save as aforesaid, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Adjustments (if any) to the conversion price of the Convertible Bonds will be made in accordance with the above instrument dated 1 August 2007 and executed by the Company, which constitutes the Convertible Bonds. Under such instrument, the conversion price at which each Share shall be issued upon exercise of such conversion right is initially HK\$0.15 and is subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, capital reduction, rights issue and other events which have diluting effects on the issued share capital of the Company. The Company is required under the instrument to instruct an approved merchant bank to consider whether any adjustment should be made to the conversion price in order to fairly and appropriately reflect the relative interests of the Company and holders of the Convertible Bonds. Particulars of the adjustments regarding the Convertible Bonds will be set out in the announcement of the results of the Open Offer to be made by the Company.

LETTER FROM THE BOARD

Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding convertible note, share option, warrant, derivative or other securities convertible into or exchangeable for any Share.

TERMS OF THE OPEN OFFER

Subscription Price of the Offer Shares

The Subscription Price of HK\$0.10 per Offer Share will be payable in full upon acceptance. The Subscription Price represents:

- (i) a discount of approximately 79.8% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 79.5% to the average closing price of approximately HK\$0.487 per Share for the five (5) consecutive trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 79.8% to the average closing price of approximately HK\$0.495 per Share for the ten (10) consecutive trading days up to and including the Last Trading Date;
- (iv) a discount of approximately 72.5% to the theoretical ex-entitlement price of approximately HK\$0.363 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Date;
- (v) a premium of approximately 214.3% over the audited consolidated net tangible assets value per Share of approximately HK\$0.032 (calculated by dividing the latest published audited net tangible assets value of the Group as at 31 March 2007 by the 868,733,440 Shares in issue as at the Latest Practicable Date);
- (vi) a discount of approximately 90.8% to the closing price of HK\$1.090 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a discount of approximately 86.8% to the theoretical ex-entitlement price of approximately HK\$0.760 per Share based on the closing price as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the then market environment, prevailing Share prices and the recent financial conditions of the Group. The Directors consider these factors are important for the Shareholders to take into account before subscribing for the Offer Shares. Having regard to the aforesaid and the theoretical ex-entitlement price per Share (which takes into account the allotment ratio of the Open Offer), and the discounts of the Subscription Price to the closing prices of the Shares in the recent trading days may encourage the Shareholders to participate in the Open Offer without exerting excessive financial burden on the part of the Shareholders, the Directors consider that the discount on the Subscription Price

LETTER FROM THE BOARD

to the current market price of the Shares as proposed is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid, whose record dates for determining such entitlement fall on or after the date of allotment and issue of the Offer Shares.

The allotment and issue of the Offer Shares are subject to the specific approval of the Independent Shareholders at the SGM.

Qualifying Shareholders

The Company will send the Open Offer Documents to the Qualifying Shareholders only on or about Monday, 3 December 2007. To qualify for the Open Offer, Shareholders must be registered as members of the Company as at the close of business on the Record Date and must not be Excluded Shareholders.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (with the relevant Share certificates) for registration with the Registrar by 4:00 p.m. on Wednesday, 21 November 2007. The last day of dealings in Shares on a cum-entitlement basis is therefore expected to be Monday, 19 November 2007. The Shares will be dealt with on an ex-entitlement basis from Tuesday, 20 November 2007.

The Registrar is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The invitation to apply for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation. There will not be any trading in nil-paid entitlements of the Offer Shares on the Stock Exchange.

As at the Latest Practicable Date, the Board had not received any information from any substantial shareholder (as defined in the Listing Rules) of the Company (other than the Underwriter) of their intention to take up the Offer Shares under the Open Offer.

Closure of register of members

The register of members of the Company will be closed from Thursday, 22 November 2007 to Wednesday, 28 November 2007, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

LETTER FROM THE BOARD

Rights of Overseas Shareholders

The Open Offer Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda (where necessary). If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside Hong Kong, that Shareholder may or may not be eligible to take part in the Open Offer. According to the register of members of the Company as at 9 November 2007, there were two Shareholders who were Overseas Shareholders holding in aggregate 40,250,000 Shares, representing approximately 4.6% of the issued share capital of the Company as at the Latest Practicable Date. Such Shareholders' registered address were situated in Monaco and the PRC respectively.

In such connection, the Directors have pursuant to Rule 13.36(2) of the Listing Rules made enquiries as to whether the offer of Offer Shares to such Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. The Company has been advised by its legal advisers on the laws of Monaco and of the PRC that the Company would be exempt from obtaining approval from, and/or registration of the Open Offer Documents with, the relevant regulatory authorities under the respective applicable laws and regulations of Monaco and of the PRC since the Company would meet the relevant requirements for exemption under Monaco and of the PRC. Based on the advice of the Company's legal advisers on the laws of Monaco and of the PRC, the Directors believe that the Open Offer Documents would not be required to be registered under the relevant laws and regulations of Monaco and of the PRC and may be despatched to the Overseas Shareholders with registered addresses in Monaco and the PRC respectively without any restrictions. In view of the above, the Directors have decided to extend the Open Offer to the Overseas Shareholders with registered addresses in Monaco and the PRC respectively, and such Overseas Shareholders are Qualifying Shareholders. The Company will send the Open Offer Documents to such Qualifying Shareholders.

In addition, the Directors have been advised by its legal advisers on the laws of the PRC that while Overseas Shareholder with registered address in the PRC may be lawfully offered the Offer Shares, they need to comply with the relevant exchange control regulations in the PRC if he/she/it wishes to take up the Offer Shares. Therefore, although the Overseas Shareholder of the PRC will not be excluded from the Open Offer, such Overseas Shareholder is advised to consult his/her/its own professional advisers whether it would be beneficial or expedient for him/her/it to participate in the Open Offers and if so, to ensure that he/she/it has complied with all the applicable exchange control regulation in the PRC before taking up the Offer Shares.

On the basis that none of the Shareholders will change their respective registered addresses to other addresses from the Latest Practicable Date up to and including the Record Date, there will not be any Excluded Shareholder for the purposes of the Open Offer.

The Company will send the Prospectus, for information only, to the Excluded Shareholders (if any).

LETTER FROM THE BOARD

No application for excess Offer Shares

In view of the discount of the Subscription Price per Offer Share to the market price per Share in connection with the Open Offer, the Board believes that there will be a high level of acceptance of Offer Shares by the Qualifying Shareholders and, accordingly, there will not be a significant number of Offer Shares which are not taken up by the Qualifying Shareholders and available for excess application. Together with the fact that additional administrative costs and time will be involved, the Company decided that no Qualifying Shareholder is entitled to apply for any Offer Shares which are in excess of his/her/its assured entitlements. Any Offer Shares not taken up by the Qualifying Shareholders will form part of the Offer Shares to be underwritten by the Underwriter.

Such absence of excess application arrangement under the Open Offer is subject to the specific approval of the Independent Shareholders at the SGM.

Fractions of Offer Shares

The Company will not provisionally allot fractions of Offer Shares in nil-paid form. No fractional entitlements to the Offer Shares will be allotted to individual Shareholder. All such fractional entitlements will be aggregated and form part of the Offer Shares to be underwritten by the Underwriter.

Share certificates

Subject to fulfillment of the conditions of the Open Offer set out in the section headed "Conditions of the Open Offer" below, certificates for all fully paid Offer Shares are expected to be sent by post on or before Monday, 24 December 2007 to those who have validly applied and paid for the Offer Shares at their own risks.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Date: 8 October 2007 (as supplemented by the Supplemental Underwriting Agreement dated 20 October 2007 entered into by the same parties to the Underwriting Agreement)

Supplemental Underwriting Agreement

Date: 20 October 2007

Underwriter: Big-Max, a substantial shareholder of the Company, whose ordinary business does not include underwriting.

LETTER FROM THE BOARD

Major terms of the Underwriting Agreement and the Supplemental Underwriting Agreement

Number of Offer Shares underwritten: 362,620,720 Offer Shares, which is equal to the 434,366,720 Offer Shares to be issued under the Open Offer less 71,746,000 Offer Shares which Big-Max has undertaken to accept or procure acceptance according to its and its nominee's entitlement under the Open Offer.

Commission: 3% of the total Subscription Price of the Offer Shares underwritten by the Underwriter. The commission to be received by the Underwriter will be approximately HK\$1.09 million. The commission payable to the Underwriter was determined after arm's length negotiations between the Company and the Underwriter. The Directors (including the independent non-executive Directors) consider that such amount is fair and reasonable and on normal commercial terms and is comparable with market rate taking into account the underwriting commission charged under other recent open offer and/or rights issue cases.

Payment arrangement: Under the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Offer Shares that are not subscribed for under the Open Offer. The Underwriter has agreed to take up 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement, payment for which will be made from the Underwriter Cash Portion less (i) the commission payable to the Underwriter pursuant to the Underwriting Agreement and (ii) the escrow fees (in the sum of HK\$100,000) payable by the Underwriter to the escrow agent.

In respect of the Untaken Shares (if any), the aggregate Subscription Monies therefor shall be paid by way of setting off on a dollar-to-dollar basis of the outstanding principal amount of the Big-Max Shareholder Loans to the extent (and only to the extent) of the total principal amount owing under Big-Max Shareholder Loans (exclusive of any interest accrued thereon).

If by the Latest Acceptance Time, any of the Underwritten Shares have not been accepted in accordance with the terms of the Open Offer Documents, the Company shall on or before 6:00 p.m. on the first Business Day after the Latest Acceptance Time notify or procure the Registrar on behalf of the Company to notify the Underwriter in writing of the number of the Untaken Shares and the Underwriter shall subscribe for the Untaken Shares and pay the relevant Subscription Monies not later than 5:00 p.m. on the third Business Day after (but not including) the Latest Acceptance Time.

Special Deal

The proposed settlement of the Subscription Monies for the Untaken Shares by partial set-off of the Big-Max Shareholder Loans amounts to repayment of the Big-Max Shareholder Loans by the Company. Such arrangement constitutes a special deal under Rule 25 of the Takeovers Code. The Directors consider that the terms of such special deal in connection with such partial set-off arrangement is fair and reasonable and arrived at after arm's length negotiations.

The Underwriter has made an application to the Executive for the Executive's consent to the Special Deal. For further details, please refer to the paragraph headed "Takeovers Code implication and Whitewash Waiver and Special Deal" in this section headed "Letter from the Board".

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination:

- (a) in the sole and reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof), of a political, military, financial, economic or other nature or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (iii) any outbreak of epidemic including but not limited to SARS, H5N1 or other types of avian flu, natural disasters such as earthquake, tsunami, flooding, typhoon, fire; or
 - (iv) any material adverse change in the business or in the financial or trading position or prospectus of the Group as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (c) this circular or the prospectus in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it.

LETTER FROM THE BOARD

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Open Offer will not proceed.

Pursuant to the Underwriting Agreement, the Underwriter is entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or**
- (b) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered the warranties or representations contained in the Underwriting Agreement untrue or incorrect in any material aspect comes to the knowledge of the Underwriter.**

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

Background of the Underwriter and Big-Max Shareholder Loans

The Underwriter is an investment holding company incorporated in Hong Kong on 20 September 2002 with limited liability, and is currently beneficially owned as to 90% by Mr. Li Li Xin and as to 10% by Ms. Jin Ya Er, his wife. Its directors are Mr. Li Li Xin and Ms. Jin Ya Er. Mr. Li Li Xin is the founder and chairman of the board of directors of the Lisi Group (a private group which is not listed on any stock exchange) established in the PRC whose principal businesses include the manufacturing and sale of plastic and hardware products, the operation of large-scale shopping malls and chain supermarkets, and real-estate investments in the PRC. The ordinary course of business of Big-Max does not include underwriting. As the Subscription Monies for any Untaken Shares will be settled by setting-off against the Big-Max Shareholder Loans (or part of them), Big-Max is considered to be able to fulfill and accomplish fully its duties and obligations of being the underwriter as stipulated by the Underwriting Agreement.

The Underwriter acquired 143,492,000 Shares of the Company from City Team Industrial Limited in accordance with an agreement for sale and purchase of shares in the Company entered into on 22 September 2005. Since then, the shareholding of Big-Max in the Company has remained unchanged. The Directors confirm that the Company did not make any acquisition of assets from Big-Max or its concert parties within the past 24 months prior to the date of this circular and up to the Latest Practicable Date.

As confirmed by the Underwriter, neither it nor any party acting in concert with it has undertaken or will undertake any disqualifying transaction (as referred to in paragraph 3 of Schedule VI to the Takeovers Code) during the period from the date six months prior to the date of the Announcement and up to the Latest Practicable Date and the Underwriter undertakes that there will be no disqualifying transactions (as referred to in paragraph 3 of Schedule VI to the Takeovers Code) by the Underwriter and its concert parties in the period from the date of the Announcement up to and including the completion of the subscription and issue of the Offer Shares.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company was indebted to Big-Max in the principal amount of approximately HK\$38 million, particulars of which are set out as follows:

- (a) on 16 June 2006, a bridging loan agreement was entered into between the Underwriter and the Company, pursuant to which the Underwriter agreed to provide an unsecured loan facility to the Company up to HK\$10 million at an interest rate of 3% above Hong Kong Interbank Offered Rate (“HIBOR”) per annum for the purpose of repaying the indebtedness owed by the Company’s subsidiary to the petitioners of the winding-up proceedings against such subsidiary. The full amount of HK\$10 million was drawn by the Company on 16 June 2006. The repayment date of the loan was extended to 16 December 2007 by a supplemental agreement entered into between the Underwriter and the Company on 12 September 2007;
- (b) on 18 July 2006, the Underwriter and the Company entered into another bridging loan agreement pursuant to which Big-Max agreed to provide further unsecured loan facility to the Company up to HK\$10 million at an interest rate of 3% above HIBOR per annum for the general working capital of the Company, out of which an aggregate of HK\$5 million was drawn by the Company in two draw-downs of HK\$2 million and HK\$3 million on 19 July and 25 July 2006 respectively. The repayment date of the loan was extended to 18 December 2007 by a supplemental agreement entered into between Big-Max and the Company on 12 September 2007;
- (c) on 18 January 2007, the Underwriter and the Company entered into another bridging loan agreement pursuant to which Big-Max agreed to provide further unsecured loan facility to the Company up to HK\$13 million at an interest rate of 3% above HIBOR per annum for the purposes of repaying the indebtedness owed by the subsidiaries of the Company, to its creditors and of fulfilling the working capital requirement of the Group. The full amount of HK\$13 million was drawn by the Company on 19 January 2007. The repayment date of the loan was extended to 18 December 2007 by a supplemental agreement entered into between Big-Max and the Company on 12 September 2007; and
- (d) on 22 August 2007, the Underwriter and the Company entered into another bridging loan agreement pursuant to which Big-Max agreed to provide further unsecured loan facility to the Company up to HK\$10 million at an interest rate of 3% above HIBOR per annum for the purposes of repayment of trade payables (HK\$2 million) and bank loan and interest (HK\$8 million). The full amount of HK\$10 million was drawn by the Company on 18 October 2007 which will be repayable on the date falling four months thereafter.

No security was provided by the Company and its subsidiaries in connection with the Big-Max Shareholder Loans advanced by the Underwriter.

The Directors are of the view that as the provision of the Big-Max Shareholder Loans by Big-Max to the Company was to the benefit of the Company and on normal commercial terms. No security was given to Big-Max over the assets of the Company in respect of the Big-Max Shareholder Loans. Such provision of loans by Big-Max to the Company would therefore constitute connected transactions exempted from reporting, announcement and independent shareholders’ approval under Rule 14A.65(4) of the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Underwriter is not represented in the Board. The Underwriter is entitled to nominate two Directors to the Board in case all the Offer Shares are taken up by Big-Max after completion of the Open Offer. In case only a portion of the Underwritten Shares are taken up by Big-Max and the total number of Shares then held by Big-Max represent 20% or more of the total issued share capital of the Company, Big-Max is entitled to nominate one Director to the Board after completion of the Open Offer.

Mr. Li Li Xin (if one person will be nominated by the Underwriter as new Director to the Board) and Mr. Cheng Jian He (if two persons will be nominated by the Underwriter as new Directors to the Board) will be the candidates to the Board in case the Underwriter is entitled to nominate Director(s) to the Board. Their biographies are set out below:-

Mr. Li Li Xin (李立新), aged 39. 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 chain-operated supermarkets. The group also has investments in real property development in the PRC. Mr. Li has 18 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 All-China Youth Federation (全國青聯委員), the vice chairman of the China Plastics Processing Industry Association (中國塑膠加工協會副會長), the vice chairman of Ningbo City Industrial and Commercial Union (寧波市工商聯合會副會長), a member of Chinese People's Political Consultative Conference of Ningbo City (寧波市政協委員), a representative of the People's Congress of Yinzhou District of Ningbo City (寧波市鄞州區人大代表), a standing committee member of the Political Consultative Conference of Yinzhou District (鄞州區政協常委), and the chairman of the Yinzhou District Federation of Industry and Commerce (鄞州區工商聯合會會長).

Mr. Li is a model worker (勞動模範) in Ningbo City. He was awarded the titles of "Outstanding Builder of Socialist Undertakings" (優秀社會主義事業建設者) and "Outstanding Entrepreneur of Honourable Undertakings" (光彩事業優秀企業家) by the People's Government of Ningbo City.

Mr. Cheng Jian He (程建和), aged 41. He holds an Executive Master of Business Administration degree from Tsinghua University, and is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Mr. Cheng has over 20 years of experience in the financial management, tax planning, cost control, and investment and financing management fields in various industries, including manufacturing, business and logistics, and real estate. 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.

If either or both of the above persons are appointed to the Board, the Company will make further announcement in compliance with the Listing Rules.

LETTER FROM THE BOARD

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon the following conditions being fulfilled (“Conditions Precedent”):

- (a) the Company despatching a circular to the Shareholders containing, among other matters, details of the Open Offer and the Whitewash Waiver together with proxy form and notice of the SGM;
- (b) the passing by the Independent Shareholders (or, where appropriate, Shareholders) at the SGM by way of poll of ordinary resolutions to approve the Open Offer (including but not limited to the EA Absence), the Special Deal and the Whitewash Waiver by no later than the date on which the Prospectus is despatched;
- (c) the filing and registration of one copy of each of the Open Offer Documents certified by two Directors (or their agents duly authorized in writing) after having been approved by resolutions of the Board, which are required to be filed or registered with the Registrar of Companies in Hong Kong, together with all documents required to be annexed thereto in accordance with Section 342C of the Companies Ordinance by no later than 4:00 p.m. on the Business Day before the date on which the Prospectus is despatched and delivery of a letter to the solicitors of the Underwriter from the Registrar of Companies in Hong Kong confirming such registration;
- (d) the delivery to and filing with the Stock Exchange of one copy of each of the Open Offer Documents certified by two Directors (or their agents duly authorized in writing) after having been approved by resolutions of the Board, and the issue by the Stock Exchange of a certificate of authorization for registration of the Open Offer Documents pursuant to Section 342C of the Companies Ordinance by no later than 2:00 p.m. on the Business Day before the date on which the Prospectus is despatched;
- (e) the posting of the Open Offer documents to Qualifying Shareholders on the date on which Prospectus is despatched;
- (f) the Executive granting (i) the Whitewash Waiver to Big-Max and parties acting in concert with it and (ii) consenting to the Special Deal, and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and to the Special Deal;
- (g) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the approval for the listing of, and permission to deal in, all the Offer Shares (in their fully-paid form) by no later than 9:00 a.m. on the expected date of commencement of dealings in the Offer Shares on the Stock Exchange;
- (h) the Bermuda Monetary Authority granting consent to (if required) the issue of the Offer Shares by no later than the date on which Prospectus is despatched;

LETTER FROM THE BOARD

- (i) compliance with and performance by the Company of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement (other than those obligations and undertakings of the Company to be performed or carried out after the fulfilment of the Conditions Precedent);
- (j) the delivery and filing with the Registrar of Companies in Bermuda one copy of each of the Open Offer Documents after having been approved by the resolutions of the Board together with all the documents required by the Companies Act 1981 of Bermuda to be annexed thereto prior to or as soon as reasonably practicable after the publication of the Prospectus;
- (k) compliance with and performance by Big-Max and the relevant persons (if any) named in the Underwriting Agreement of all of its obligations and undertakings under the terms of the Underwriting Agreement (other than those obligations and undertakings of the Underwriter to be performed or carried out after the fulfilment of the Conditions Precedent);
- (l) the Underwriting Agreement has not been rescinded or terminated in accordance with the provision thereof on or before the Latest Time for Termination; and
- (m) all requirements and conditions imposed by the Stock Exchange or under the Listing Rules or otherwise in connection with the transactions contemplated by the Underwriting Agreement having been fulfilled or complied with by not later than the Latest Time for Termination (or such other date as may be agreed between the Company and the Underwriter).

If any of the conditions of the Open Offer are not fulfilled or waived (in respect of only conditions (i), (k) and/or (l)) by the dates specified therein or if not so specified, by the Latest Time for Termination (or such other time and/or date as the Company and the Underwriter may determine in writing), the Underwriting Agreement shall terminate (save in respect of the clauses stipulated therein and any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Open Offer will not proceed.

Given that Big-Max, as underwriter, is materially interested in the Open Offer, (it and its concert parties and associates held 143,492,000 Shares (representing about 16.52% of the existing issued share capital of the Company) at the Latest Practicable Date), Big-Max together with Mr. Xu Jin, the executive Director and those who are interested in, or involved in, the Underwriting Agreement, the Open Offer, the Special Deal and the Whitewash Waiver, will abstain from voting on the resolutions approving the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal at the SGM.

LETTER FROM THE BOARD

Shareholding structure of the Company

The following is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately following completion of the Open Offer assuming that no Qualifying Shareholder (except for the Underwriter) takes up his/her/its entitlement under the Open Offer; (iii) immediately following completion of the Open Offer assuming all Qualifying Shareholders have taken up their respective entitlements in full (assuming that no Shares will be issued from the Latest Practicable Date to the Record Date and that there are no Excluded Shareholders):

	As at the Latest Practicable Date		Immediately following completion of the Open Offer assuming that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer (except for the Underwriter and its concert parties)		Immediately following completion of the Open Offer assuming that all Qualifying Shareholders take up his/her/its entitlement under the Open Offer	
	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%
The Underwriter and its concert parties (<i>Note 1</i>)	143,492,000	16.52	577,858,720	44.34	215,238,000	16.52
Mr. Xu Jin (<i>Note 2</i>)	253,837,198	29.22	253,837,198	19.48	380,755,797	29.22
Public	471,404,242	54.26	471,404,242	36.18	707,106,363	54.26
Total	<u>868,733,440</u>	<u>100</u>	<u>1,303,100,160</u>	<u>100</u>	<u>1,303,100,160</u>	<u>100</u>

Notes:

- Mr. Li Li Xin is deemed to have a beneficial interest in 143,492,000 Shares through Big-Max, whose issued share capital is beneficially owned as to 90% by Mr. Li and as to 10% by Mr. Li's spouse.
- Mr. Xu Jin is an executive Director. As at the Latest Practicable Date, Mr. Xu has not indicated to the Company as to whether he would take up his entitlement of the Offer Shares pursuant to the Open Offer.

TAKEOVERS CODE IMPLICATION AND WHITEWASH WAIVER AND SPECIAL DEAL

The Underwriter and parties acting in concert with it are beneficially interested in 143,492,000 Shares, representing approximately 16.52% of the issued share capital of the Company as at the Latest Practicable Date. The Underwriter has agreed to subscribe for and/or procure subscribers to subscribe for and take up Untaken Shares up to 362,620,720 Offer Shares. As shown in the table above in the paragraph headed "Shareholding structure of the Company", assuming (i) as at the Latest Practicable Date, (ii) that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up his/her/its entitlement under the Open Offer and (iii) that there are no Excluded Shareholders, the aggregate holdings of voting rights in the Company of the Underwriter and parties acting in concert with it will increase from approximately 16.52% (of the existing issued share capital of the Company) to approximately 44.34% (of the enlarged issued share capital of the Company upon completion of the Open Offer). Accordingly, the subscription for and underwriting of the Offer Shares under the Open Offer by the

LETTER FROM THE BOARD

Underwriter and parties acting in concert with it may result in and will trigger an obligation for the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares and securities issued by the Company not already held by the Underwriter and parties acting in concert with it.

In addition, as mentioned in the paragraph headed “Underwriting arrangements” in this section headed “Letter from the Board”, the Subscription Monies for the Untaken Shares is proposed to be settled by partial set-off of the Big-Max Shareholder Loans, which amounts to repayment of the Big-Max Shareholder Loans by the Company to Big-Max. Such arrangement constitutes a special deal under Rule 25 of the Takeovers Code.

In order to fulfill certain conditions precedent to the Open Offer, the Underwriter has made an application to the Executive for (i) the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code and (ii) his consent to the Special Deal under Note 5 to Rule 25 of the Takeovers Code. The Executive agreed to grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll, which the Underwriter and its concert parties and Mr. Xu Jin, the executive Director, will abstain from voting on the relevant resolution. The grant of the Executive’s consent to the Special Deal will be subject to (i) Veda Capital’s opinion as to the fairness and reasonableness of the terms of the Special Deal and that the Special Deal is an arm’s length transaction on normal commercial terms and (ii) the approval by the Independent Shareholders by way of poll at the SGM, which the Underwriter and its concert parties and Mr. Xu Jin, the executive Director, will abstain from voting on the relevant resolution.

It is a condition precedent to the completion of the Open Offer that the Whitewash Waiver and the Special Deal are granted by the Executive. **If the Whitewash Waiver and/or the Executive’s consent to the Special Deal are not granted by the Executive or if the condition imposed thereon is not fulfilled, or if either or both of the Whitewash Waiver and the Special Deal is not approved by the Independent Shareholders, the Open Offer will not proceed.**

The Underwriter and its concert parties, Mr. Xu Jin, the executive Director and those who are interested in, or involved in, the Underwriting Agreement, the Open Offer, the Whitewash Waiver and the Special Deal will abstain from voting on the resolutions approving the Underwriting Agreement, the Open Offer (including the EA Absence), the Special Deal and the Whitewash Waiver at the SGM.

Save for the obligation arising from the subscription of and underwriting of the Offer Shares under the Open Offer by the Underwriter and the Special Deal, there is no other arrangement (whether by way of option, indemnity or otherwise) between the Company and the Underwriter in relation to the Shares and which might be material to the Open Offer and the Whitewash Waiver at the SGM.

Dealings in Shares by the Underwriter and its Concert Parties

The Underwriter and its concert parties and those who are interested in, or involved in, the Underwriting Agreement and the Whitewash Waiver have not dealt in any securities of the Company carrying voting rights during the Relevant Period.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP

Business of the Group

The Group is principally engaged in the manufacture and trading of plastic and metal household products.

Financial position of the Group

The Group is currently in tight cashflow position. In particular, as at 31 March 2007, being the date to which the latest published audited accounts of the Group were made up, the Group had net current liabilities of over HK\$190 million, among which the total outstanding amount of the Big-Max Shareholder Loans was HK\$28 million and trade and other payables were over HK\$86 million. Moreover, as at 31 August 2007, the Group had short-term bank loans of over HK\$110 million (unaudited).

The majority of the net current liabilities comprise bank loan of HK\$110 million which arose from the renewal of bank loans borrowed in 2003 (HK\$165 million). Since 2003, the performance of the Company has slowed down drastically. The major factors attributable to such slow-down included continuous increase in production costs, sluggish demands for household goods and fierce competition in the industry. Further, frequent changes of management in 2004 and 2005, as disclosed in the Company's announcements made between October 2004 and September 2005, also affected the Group's performance slightly during such period, because it took time for new management personnel to comprehend the structure and business of the Group and adapt to the management culture.

The ageing of external debts and payables falling due in the coming three months, six months, nine months and one (1) year (including over 1 year) of the Group as at 30 September 2007 (unaudited) are set out as follows:

	3 months	6 months	9 months	1 year and over	Sub-total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Bank Loan	108.75	–	–	–	108.75
Payables of the Group	86.55	0.59	0.64	31.85	119.63
	<i>(Note)</i>				
Total	195.30	0.59	0.64	31.85	228.38

Note: including HK\$28 million being part of the Big-Max Shareholder Loans.

For further details of the Big-Max Shareholder Loans, please refer to the paragraph headed "Background of the Underwriter" above.

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries has received any written claims from its creditors or banks nor was engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries with any creditors or banks.

LETTER FROM THE BOARD

In order to improve the financial position and the performance of the Group, the following actions have been taken by the Group:

1. the Group negotiated with some banks for the refinancing of the existing bank loan. On 15 October 2007, the Group obtained a 3-year term loan facility in the amount of RMB120 million (equivalent to approximately HK\$123 million) at the interest rate of 105% of the base lending rate published by the People Bank of China from a PRC bank for the purpose of refinancing the entire existing bank loan of around HK\$110 million (outstanding as at 31 August 2007, unaudited). The said loan would be released to the Group by instalments. As at the Latest Practicable Date, RMB100 million has been drawn by the Group and it is expected that the remaining amount of the said loan in the sum of RMB20 million will be released to the Group in mid-November 2007. The assets pledged for the said loan had a value of approximately HK\$178 million (as at 31 March 2007) which are fixed assets located in the PRC, which accommodate certain production facilities of the Group. As the existing bank loans to be refinanced by this new loan were also provided in the PRC, the loans would not be transferred outside of the PRC;
2. the Group settled the existing external bank loans in the principal amount of around HK\$110 million (outstanding as at 31 August 2007, unaudited) and it was refinanced by the above mentioned loan obtained from a PRC bank. With respect to the trade and other payables (in the sum of around HK\$96 million, including HK\$28 million being part of the Big-Max Shareholder Loans (as at 31 August 2007, unaudited), the Group would settle the same by funds generated from daily operation (see Note (a) below). The Directors would consider obtaining further equity and/or debt financing from the market in case further funds are needed (see Note (b) below); and
3. since the change of management in March 2006, the Group has been committing substantial effort in improving production efficiency, cost effectiveness and sales. It is noted from the audited financial report of the Company for the year ended 31 March 2007 that the losses were narrowed down to HK\$22.8 million in 2007 from HK\$47.0 million in 2006. Recently, sales effort has been stepped up by hiring new sales management staff and by further exploring the non-US markets.

Notes:

- (a) For the year ended 31 March 2007, the Group incurred expenses in relation to litigation and staff redundancies amounted to HK\$7.1 million and HK\$1.6 million (audited) respectively. The Company believes that expenses of similar natures and magnitude would not recur in the current year. Moreover, with the increased effort in sales and product development, the Company expects there would be some increases in sales turnover. Coupled with the additional US\$1 million of trade finance facilities granted to the Group during the current year, the Company considers it feasible to have the trade and other payables settled by funds generated from daily operations.
- (b) Taking into account the fact that (1) the existing bank loan of HK\$110 million would be refinanced as set out above and (2) (i) a majority part of the Big-Max Shareholder Loans would be settled pursuant to the underwriting arrangement as disclosed in this circular should no Qualifying Shareholders take up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it); or (2) (ii) trade payables of HK\$20 million and outstanding borrowings of HK\$5 million would be settled should all Qualifying Shareholders take up their respective entitlements in full under the Open Offer; or (2) (iii) part of the Big-Max Shareholder Loans, certain trade payables and certain outstanding borrowings would be settled should certain (but not all) Qualifying Shareholders take up their entitlements under the Open Offer, the Directors are of the view that the financial position of the Group would be improved. It would therefore be feasible for the Group to consider further equity and/or debt financing in case additional funds are needed.

LETTER FROM THE BOARD

Reasons for the Open Offer

Having regard to the current financial situation of the Group, the Directors are of the view that the Group is in urgent need of financial support from its Shareholders and the Open Offer is proposed accordingly.

In the cases that all or part of the Qualifying Shareholders take up their full or partial entitlements under the Open Offer, the Board considers that the Open Offer represents an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position. Upon completion of the Open Offer, the Company will be in a position to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. Moreover, the Board is of the view that it is in the interests of the Company and its Shareholders as a whole to raise the capital through the Open Offer since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group. Although the Directors confirmed that the Company had not identified any specific investment plans as at the Latest Practicable Date, in view of the discount of the Subscription Price per Offer Share to the market price per Share in connection with the Open Offer, the Board believes that there will be a high level of acceptance of Offer Shares by the Qualifying Shareholders.

In the case that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it), the Board considers that the Open Offer would still strengthen capital base and financial position of the Group.

The Underwriter has indicated that, upon completion of the Open Offer and assuming that the Underwriter together with its concert parties is interested in 30% or more of the Company's enlarged issued share capital immediately after such completion, it does not have any intention to introduce any material change to the existing businesses, operations or assets of the Company (including any deployment of the fixed assets of the Group); nor does it intend to terminate the continued employment of the employees of the Group.

Use of the proceeds from the Open Offer

The net proceeds under the Open Offer are expected to amount to approximately HK\$40.6 million. The Company intends to use the proceeds for the following purposes:

Assuming all Qualifying Shareholders taking up their respective entitlement in full

On the assumption that all Qualifying Shareholders will take up their respective entitlement in full under the Open Offer:

- (1) as to HK\$20 million for repaying trade payables due to the Group's suppliers;
- (2) as to HK\$5 million for paying principal and interests arising from the outstanding bank borrowings; and
- (3) as to the remaining balance of HK\$15.6 million for general working capital.

LETTER FROM THE BOARD

Assuming no Qualifying Shareholders taking up his/her/its entitlement

On the assumption that no Qualifying Shareholders will take up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it), the Underwriter shall subscribe for all the Offer Shares (including the 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement) by way of the Underwriter Cash Portion in the sum of HK\$7,174,600, the net proceeds after deduction of expenses amounts to approximately HK\$4.4 million and is intended to be used for repaying trade payables due to the Group's suppliers. As at the Latest Practicable Date, the Company was indebted to Big-Max in the total amount of approximately HK\$39.9 million (i.e. the principal amount of the Big-Max Shareholder Loans and interest accrued thereon up to 31 August 2007, unaudited), amongst which HK\$36.3 million would be set-off by the remaining balance of the Subscription Monies for the Untaken Shares (on the assumption that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it)). After the partial set-off pursuant to the terms of the Underwriting Agreement as disclosed in this circular, the outstanding amount of the Big-Max Shareholder Loans together with interest accrued thereon as at 31 December 2007 is estimated to be approximately HK\$4.4 million.

The Directors are of the view that the set-off (or partial set-off) of the Big-Max Shareholder Loans is fair and reasonable on the grounds that by capitalizing the loans owing to Big-Max (by way of its taking up of the Offer Shares pursuant to the Underwriting Agreement), the Company's financial position will be strengthened, as its liabilities will decrease while its equity capital will increase.

Further, in case the Big-Max Shareholder Loans (or any part thereof) will be set-off, in terms of the amounts of loans being set-off, the capacity of Big-Max will change from a creditor to a shareholder of the Company. The position of a creditor is generally more favourable than a shareholder, in terms of the relative certainty of the creditor's right to payment of interest (as opposed to shareholder's right to dividend payment) and right to assets of the Company upon winding up (as opposed to shareholder's right to surplus assets (if any) upon liquidation). In view of the above, the Directors are of the view that the position of Big-Max is not better off under the current underwriting arrangement and, as a matter of fact, Big-Max is assisting the Company to undergo the fund-raising activity by way of the Open Offer.

Fund raising activities of the Company within 12 months prior to the Latest Practicable Date

Save as disclosed in the immediately succeeding paragraph below, the Company did not carry out any other equity fund raising activities within the past 12 months prior to the date of the Announcement and up to the Latest Practicable Date.

Date of announcement	28 June 2007
Event	Issue and placing of up to HK\$26 million zero-coupon Convertible Bonds due 2009
Net proceeds raised	HK\$25.4 million

LETTER FROM THE BOARD

Proposed use of the net proceeds	HK\$5 million for repayment of bank loan and HK\$20.4 million for repayment of the overdue trade payables to suppliers
Actual use of the net proceeds	HK\$5 million as to repayment of bank loan and HK\$15.3 million as to repayment of overdue trade payables to suppliers. The balance was unutilized.

WARNING OF THE RISK OF DEALING IN THE SHARES

If the Underwriter terminates the Underwriting Agreement, or if the conditions of the Underwriting Agreement have not been fulfilled in accordance with the terms thereof, the Open Offer will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares and are advised to consult their professional advisers if they are in any doubt about their positions.

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Tuesday, 20 November 2007 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.

Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Open Offer are fulfilled bear the risk that the Open Offer may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating dealings in the Shares are recommended to consult their own professional advisers.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares up to the date when the conditions of the Open Offer are fulfilled.

LISTING AND DEALINGS

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Offer Shares in their fully-paid form.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the grant of listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any

LETTER FROM THE BOARD

trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Offer Shares in their fully-paid form to be admitted into CCASS.

Offer Shares, together with the Shares, will be traded in board lots of 2,000 (same as the current board lot size of the Shares as traded on the Stock Exchange). Dealings in Offer Shares will be subject to the payment of the applicable stamp duty and any other applicable fees and charges in Hong Kong.

The first day of dealings in the Offer Shares is expected to commence on Friday, 28 December 2007.

BUSINESS REVIEW AND PROSPECTS

The principal activities of the Group is the manufacture and trading of plastic and metal household products.

For the year ended 31 March 2007, the Group recorded a turnover of HK\$219.5 million. Loss for the year attributable to equity holders of the Company was HK\$22.8 million. The Group's basic loss per share was 2.63 cents. The loss was mainly due to stagnant sales and the persisting high levels of production costs as a result of surging price level of raw materials. Rise in labour costs and shortage of labour in Guangdong Province also further eroded the Group's bottom line. During the year ended 31 March 2007, the Group continued to experience some severe challenges. The Group's major markets remained sluggish. Demand for household products slackened while competition was intense, which adversely impacted on profit margins. In response, the Group took steps to reduce low margin sales orders while focused on higher margin products such as metal silicone over-mould bakeware, silicone bakeware and OEM products. If the production costs continue to rise, the Company would consider adopting appropriate cost control measures, such as structural changes in procurement and manufacturing planning and/or relocation of its production facilities (or part of them) to lower cost areas.

The Directors do not intend to change its principal line of business. In the near future, the Group will continue to focus its effort and resources in maintaining and, where practicable, increasing its turnover and improving its financial position.

SGM

There is set out on pages N-1 to N-3 of this circular a notice convening the SGM to be held at 10:00 a.m. on Wednesday, 28 November 2007 at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong, at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal by the Independent Shareholders.

At the SGM, the Underwriter, Mr. Xu Jin, the executive Director, and his respective associates and parties acting in concert with any of him, and those who are interested in, or involved in, the Underwriting

LETTER FROM THE BOARD

Agreement the Open Offer, the Special Deal and the Whitewash Waiver who, in aggregate, held 397,329,198 (representing 45.74% of the issued share capital of the Company) as at the Latest Practicable Date, shall abstain from voting on the resolutions to approve the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal at the SGM.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

POLL PROCEDURE

As set out in the paragraph headed "Takeovers Code implication and Whitewash Waiver and Special Deal", the Underwriter and its concert parties and those who are intended in, or involved in, the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the resolutions approving the Open Offer and the Whitewash Waiver in accordance with the relevant requirements of the Takeovers Code. Pursuant to Rule 13.39(4)(b) of the Listing Rules, the votes to be taken at the SGM in relation to the Underwriting Agreement, the Open Offer (including the EA Absence), the Special Deal and the Whitewash Waiver will be taken on a poll, the results of which will be announced after the SGM.

Bye-law 66 provides that a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of poll is required by the Listing Rules on (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (e) if required by the rules of the Designated Stock Exchange, by the chairman of the meeting and/or the Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent or more of the total voting rights of all the members having the right to vote at the meeting.

LETTER FROM THE BOARD

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

Bye-law 67 provides that unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

For purpose of complying with Rule 13.39(4)(b) of the Listing Rules and the Takeovers Code, the Chairman of the SGM will demand a poll in relation to the ordinary resolutions approving the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal at the SGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 in this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal.

Your attention is also drawn to the letter from Veda Capital set out on pages 34 to 56 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal and the principal factors and reasons considered by it in arriving thereat.

As the book value of the Group's property assets in the PRC exceeds 15% of the book value of the total Group assets, a valuation report of the relevant PRC property assets is required under the Takeovers Code to be included in this circular, the text of which is set out on pages III-1 to III-9 in this circular.

The Independent Board Committee has considered the terms of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal and the advice given by Veda Capital, and recommends the Independent Shareholders to vote in favour of the resolutions in relation to the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal at the SGM.

The executive Director and the non-executive Directors consider that the terms of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. They recommend Shareholders to vote in favour of all resolutions proposed at the SGM.

Yours faithfully,
For and on behalf of the Board of
Magician Industries (Holdings) Limited
XU Jin
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MAGICIAN INDUSTRIES (HOLDINGS) LIMITED

通達工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

12 November 2007

To the Independent Shareholders

Dear Sir or Madam,

- (1) **Proposed Open Offer of 434,366,720 Offer Shares of HK\$0.10 each at HK\$0.10 per Offer Share payable in full on acceptance (in the proportion of one Offer Share for every two existing Shares held on the Record Date),**
- (2) **Application for Whitewash Waiver, and**
- (3) **Special deal in connection with the payment of Subscription Monies for Untaken Shares by partial set-off of the Big-Max Shareholder Loans**

We refer to the Letter from the Board set out in the circular of the Company dated 12 November 2007 (“Circular”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal and whether or not the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal are in the interest of the Company and the Shareholders as a whole. Veda Capital has been appointed to advise the Independent Board Committee in relation to the terms of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal.

We wish to draw your attention to the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal as set out in the Circular. We also draw your attention to the Letter from the Board.

* for identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account principal factors and reasons considered by and the opinion of Veda Capital as stated in its letter of advice, we consider the terms of the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal to be proposed at the SGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

He Chengying

Chan Man Sum Ivan

Cheung Kiu Cho Vincent

Independent non-executive Directors

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL 智略資本

Veda Capital Limited

Suite 809, 8th Floor, Shui On Centre
8 Harbour Road, Wanchai, Hong Kong

12 November 2007

*To the Independent Board Committee and the Independent Shareholders of
Magician Industries (Holdings) Limited*

Dear Sirs,

- (1) **Proposed Open Offer of 434,366,720 Offer Shares of HK\$0.1 each at HK\$0.10 per Offer Share payable in full on acceptance (in the proportion of one Offer Share for every two existing Shares held on the Record Date);**
- (2) **Application of Whitewash Waiver; and**
- (3) **Special deal in connection with the payment of Subscription Monies for Untaken Shares by partial set-off of the Big-Max Shareholder Loans**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal, details of which are set out in the letter from the Board (the “Board Letter”) contained in this circular (the “Circular”) dated 12 November 2007 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

By an announcement dated 21 October 2007, the Board announced that the Company proposed to raise approximately HK\$43,436,672 before expenses by issuing 434,366,720 Offer Shares at the Subscription Price of HK\$0.10 per Offer Share on the basis of one Offer Share for every two existing Shares in issue on the Record Date. The Open Offer is fully underwritten by Big-Max, a substantial shareholder of the Company. Under the Open Offer, it is proposed that no Qualifying Shareholder is entitled to apply for any Offer Shares which are in excess to its entitlements. Under Rule 7.26A(2) of the Listing Rules, the absence of the excess application for the Open Offer will be subject to approval by Independent Shareholders. As Big-Max is a connected person of the Company (being a substantial

LETTER FROM VEDA CAPITAL

shareholder of the Company) who is the underwriter for the Offer Shares and (subject to approval by Independent Shareholders of the absence of the excess application for the Open Offer pursuant to Rule 7.26A(2) of the Listing Rules) Rule 7.26A(2) of the Listing Rules will be complied with, the transactions entered into between the Company and Big-Max under the Underwriting Agreement and the Supplemental Underwriting Agreement constitute exempted connected transactions pursuant to Rule 14A.31(3) of the Listing Rules.

Under the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Offer Shares that are not subscribed for under the Open Offer. The Underwriter has agreed to take up 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement, payment for which will be made from the Underwriter Cash Portion less the commission payable to the Underwriter pursuant to the Underwriting Agreement and the escrow fees (in the sum of HK\$100,000) payable by Big-Max to the escrow agent. In respect of the Untaken Shares (if any), the aggregate Subscription Monies therefor, shall be paid by way of setting off on a dollar-to-dollar basis of the outstanding principal amount of the Big-Max Shareholder Loans to the extent (and only to the extent) of the total principal amount owing thereunder (exclusive of any interest accrued thereon). The proposed settlement of the Subscription Monies for the Untaken Shares by partial set-off of the Big-Max Shareholder Loans amounts to repayment of shareholder's loan owing by the Company to Big-Max. Such arrangement constitutes a special deal under Rule 25 of the Takeovers Code. An application has been made by Big-Max to the Executive for granting the consent to the Special Deal in connection with the proposed settlement of the Subscription Monies for the Untaken Shares by partial set-off of the Big-Max Shareholder Loans. The grant of the Executive's consent to such Special Deal will be subject to (i) Veda Capital's opinion as to the fairness and reasonableness of the terms of such Special Deal and that the Special Deal is an arm's length transaction on normal commercial terms; and (ii) the approval by Independent Shareholders by way of poll at the SGM.

In the event that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up any Offer Shares under the Open Offer, the Underwriter has agreed to subscribe for and take up 362,620,720 Offer Shares that are not subscribed for under the Open Offer pursuant to the Underwriting Agreement. Accordingly, the subscription for and underwriting of the Offer Shares under the Open Offer by the Underwriter and parties acting in concert with it may result in their aggregate shareholding in the Company being increased from approximately 16.52% (of the existing issued share capital of the Company) to approximately 44.34% (of the enlarged issued share capital of the Company upon completion of the Open Offer) and will trigger an obligation for the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares and securities issued by the Company not already held by the Underwriter and parties acting in concert with it. A formal application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to the approval of the Independent Shareholders at the SGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not proceed.

LETTER FROM VEDA CAPITAL

The SGM will be convened to approve the Open Offer, the EA Absence, the Underwriting Agreement, the Whitewash Waiver and the Special Deal by way of poll. The Underwriter, parties acting in concert with it and Mr. Xu Jin, an executive Director, and those who are interested in, or involved in, the Underwriting Agreement, the Whitewash Waiver and the Special Deal will abstain from voting on the resolutions to approve the Open Offer, the EA Absence, the Underwriting Agreement, the Whitewash Waiver and the Special Deal at the SGM.

The Independent Board Committee (comprising the independent non-executive Directors namely Mr. He Chengying, Mr. Chan Man Sum Ivan and Mr. Cheung Kiu Cho Vincent whereas Mr. Lau Kin Hon, a non-executive Director, who takes up administrative role as the company secretary of the Company will not be a member of the Independent Board Committee) which is not involved in or has no interest in the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal and thus being independent, has been established to advise the Independent Shareholders in respect of the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and whether the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal are in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true at the date of the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have performed all steps as required under Rule 13.80 including the notes thereon. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

LETTER FROM VEDA CAPITAL

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Open Offer (including the EA Absence), the Underwriting Agreement, the Whitewash Waiver and the Special Deal and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

A. THE OPEN OFFER (INCLUDING THE EA ABSENCE)

Financial and business highlights of the Group

The Group is principally engaged in the manufacture and trading of plastic and metal household products.

Year ended 31 March 2006 versus year ended 31 March 2005

Turnover of the Group was approximately HK\$233.9 million for the year ended 31 March 2006, representing a decrease of approximately 47.5% from the turnover for the year ended 31 March 2005 of approximately HK\$445.8 million. As stated in the annual report (the “2006 Annual Report”) of the Company for the year ended 31 March 2006, sustained high oil prices had a negative impact on the demand for household products in the international sales market of the Group, i.e. the United States of America, Canada and Europe. To enhance the quality of earnings, the Group focused its efforts on orders with higher profit margins and favourable payment terms, which also contributed to the reduction in sales. Performance of the Group for the year ended 31 March 2006 was adversely affected by the ever-escalating raw material prices for plastic and steel, rise in labour costs and shortage of labour in Guangdong. The Group recorded a net loss attributable to the Shareholders of approximately HK\$47.0 million. The Group has adopted a series of measures to cut cost. Instead of running direct sales offices, the Group concentrated on playing the role of a manufacturer. Also, the Group has imposed tight control on the headcounts of all departments. On the other hand, the Group strived to negotiate better prices with the key raw material suppliers and logistic services providers. The Group continued to source better quality raw materials and trading products with lower cost from new vendors. Besides, the Group monitored the trends of raw material prices to ensure prompt adoption of corresponding measures. With such cost control measures, the net loss attributable to the Shareholders for the year ended 31 March 2006 of approximately HK\$47.0 million represented an improvement of approximately 73.3% from the loss of approximately HK\$176 million for the year ended 31 March 2005.

LETTER FROM VEDA CAPITAL

Year ended 31 March 2007 versus year ended 31 March 2006

For the year ended 31 March 2007, the Group recorded a turnover of approximately HK\$219.5 million, representing a drop of approximately 6.2% compared to approximately HK\$233.9 million recorded for the previous year. Loss for the year ended 31 March 2007 attributable to the Shareholders narrowed to approximately HK\$22.8 million, compared to approximately HK\$47.0 million for the previous year. As stated in the annual report (the “2007 Annual Report”) of the Company for the year ended 31 March 2007, the Group adopted a series of measures to cut cost. The Group continued to impose tight control on the headcounts of all departments. To enhance cost-effectiveness, the Group had realigned its product line management through several measures such as roster rearrangement, wages basis rationalization and tightened quality controls. The Group had also invested in machinery maintenance and replacement to raise production efficiency. Despite high costs of raw materials, the Group had made use of bulk procurement and futures delivery to hedge against the cost fluctuation in raw materials. Besides, the Group continued to strive to negotiate better prices with key raw material suppliers and logistic service providers. The Group monitored closely the trends of raw material prices and took actions to manage the risk.

Fundamental uncertainty relating to the going concern basis

The auditors of the Company for the three years ended 31 March 2005, 2006 and 2007 stated in the annual report of the Company for the year ended 31 March 2005 (the “2005 Annual Report”), 2006 Annual Report and 2007 Annual Report respectively that in forming their opinions, they have considered the adequacy of the disclosures made in the financial statements which explains the measures that the Group was then undertaking and intended to take to generate sufficient liquid funds to finance its operations and, accordingly, that it was appropriate to prepare the financial statements on a going concern basis. As detailed in the 2005 Annual Report, 2006 Annual Report and 2007 Annual Report, the Group was dependent upon the continued support of its creditors, banks and Shareholders. Provided that the measures as detailed in the 2005 Annual Report, 2006 Annual Report and 2007 Annual could accomplish successful outcome, the Directors were satisfied that the Group would be able to finance its operations and to meet in full its financial obligations as they fell due for the foreseeable future. The financial statements had been prepared on a going concern basis, the validity of which depended upon the outcome of the measures. The financial statements did not include any adjustments that might result from the failure of those measures to accomplish successful outcome. The auditors considered that appropriate disclosures had been made. However, if the outcome turned out to be adverse, it might have significant potential adverse effect on the financial position of the Group and might in turn affect the going concern basis of the preparation of the financial statements.

Latest financial position of the Group

As stated in the Board Letter, the Group is currently in tight cashflow position. As at 31 March 2007, the Group had net current liabilities of over HK\$190 million, among which the total outstanding amount of the Big-Max Shareholder Loans was HK\$28 million and trade and other payables were over HK\$86 million.

LETTER FROM VEDA CAPITAL

As stated in the Board Letter, as at 31 August 2007, the amount of external debts and payables was approximately HK\$238.77 million. The Group intends to settle the existing external bank loans in the principal amount of around HK\$110 million (outstanding as at 31 August 2007, unaudited) by a loan to be obtained from a PRC bank for refinancing purposes as details mentioned in the Board Letter. With respect to the trade and other payables (in the sum of around HK\$96 million, including HK\$28 million being part of the Big-Max Shareholder Loans as at 31 August 2007, unaudited), the Group would settle the same by fund generated from daily operations and the proceeds from the Open Offer.

Taking into account the fact that (1) the existing bank loan of HK\$110 million would be refinanced as by a loan to be obtained from a PRC bank; and (2) (i) a majority part of the Big-Max Shareholder Loans would be settled pursuant to the Underwriting Agreement should no Qualifying Shareholders take up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it); or (2) (ii) trade payables of HK\$20 million and outstanding borrowings of HK\$5 million would be settled should all Qualifying Shareholders take up their respective entitlements in full under the Open Offer; or (2) (iii) part of the Big-Max Shareholder Loans, certain trade payables and certain outstanding borrowings would be settled should certain (but not all) Qualifying Shareholders take up their entitlements under the Open Offer, the Directors are of the view that the financial position of the Group would be improved.

Reasons for the Open Offer and the use of proceeds

Having regarded to the current dire financial situation of the Group, the Directors are of the view that the Group is in urgent need of financial support from its Shareholders and the Open Offer is proposed accordingly. In the cases that all or part of the Qualifying Shareholders take up their full or partial entitlements under the Open Offer, the Board considers that the Open Offer represents an opportunity for the Company to enhance the working capital and strengthen the capital base and financial position of the Group. Upon completion of the Open Offer under such circumstances, the Company will be in a position to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. Moreover, the Board is of the view that it is in the interests of the Company and its Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company. Although the Directors confirmed that the Company had not identified any specific investment plans as at the Latest Practicable Date, in view of the discount of the Subscription Price per Offer Share to the market price per Share in connection with the Open Offer, the Board believes that there will be a high level of acceptance of Offer Shares by the Qualifying Shareholders.

In the case that no Qualifying Shareholders take up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it), the Board considers that the Open Offer would still strengthen capital base and financial position of the Group.

LETTER FROM VEDA CAPITAL

The net proceeds under the Open Offer are expected to amount to approximately HK\$40.6 million. On the assumption that all Qualifying Shareholders take up their respective entitlements in full under the Open Offer, the net proceed from the Open Offer will be used:

- (1) as to HK\$20 million for repaying trade payables due to the Group's suppliers;
- (2) as to HK\$5 million for paying principal and interests arising from the outstanding bank borrowings; and
- (3) as to the remaining balance of HK\$15.6 million for general working capital.

On the assumption that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it), the Underwriter shall subscribe for all the Offer Shares (including the 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement) by way of the Underwriter Cash Portion in the sum of HK\$7,174,600, the net proceeds after deduction of expenses amount to approximately HK\$4.4 million and is intended to be used for repaying trade payables due to the Group's suppliers. The Subscription Monies for the Untaken Shares (on the assumption that no Qualifying Shareholders take up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it)) in the amount of approximately HK\$36.3 million will be used to set-off partially the outstanding principal amount of the Big-Max Shareholder Loans which, together with interest accrued thereon up to 31 August 2007, amounted to approximately HK\$39.9 million (unaudited). After the partial set-off pursuant to the terms of the Underwriting Agreement, the outstanding amount of the Big-Max Shareholder Loans together with interest accrued thereon as at 31 December 2007 is estimated to be approximately HK\$4.4 million.

Terms of the Open Offer

The Open Offer is on the basis of one Offer Share for every two existing Shares held on the Record Date at the Subscription Price of HK\$0.1 per Offer Share, payable in full on application, represents:

- (i) a discount of approximately 79.8% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 79.5% to the average closing price of approximately HK\$0.487 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 79.8% to the average closing price of approximately HK\$0.495 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date;
- (iv) a discount of approximately 72.5% to the theoretical ex-entitlement price of approximately HK\$0.363 per Share based on the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Date;

LETTER FROM VEDA CAPITAL

- (v) a discount of approximately 90.8% to the closing price of HK\$1.09 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vi) a premium of approximately 214.3% over the audited consolidated net tangible assets value per Share of approximately HK\$0.032 (calculated by dividing the latest published audited net tangible assets value of the Group as at 31 March 2007 by the 868,733,440 Shares in issue as at the Latest Practicable Date).

As stated in the Board Letter, the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to the then market environment, prevailing Share prices and the recent financial conditions of the Group. The Directors consider that the discounts represented by the Subscription Price to the closing prices of the Shares in the recent trading days and theoretical ex-entitlement price per Share (which take into account the allotment ratio of the Open Offer) may encourage the Shareholders to participate in the Open Offer without exerting excessive financial burden on the part of the Shareholders.

(a) Review on share prices and historical closing prices

The average daily closing price, the highest closing price, the lowest closing price and the average daily trading volume of the Shares as quoted on the Stock Exchange in each of the months during the period commencing from 9 October 2006 (being the commencement of the one-year period preceding the Last Trading Date, as we consider a one-year period provides a broad and sufficient time basis for

LETTER FROM VEDA CAPITAL

assessing price performance of the Shares) up to and including the Latest Practicable Date (the “Review Period”) are shown as follows:

Month	Average daily closing price (HK\$)	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily trading volume of the month ¹ (Shares)	Percentage of average daily trading volume of the month to the Shares in issue ² (%)	Percentage of average daily trading volume of the month to the Shares held by the Independent Shareholders ³ (%)
2006						
October (from 9 October onwards)	0.083	0.100	0.080	47,500	0.0055	0.0101
November	0.107	0.128	0.093	160,455	0.0185	0.0340
December	0.115	0.125	0.107	226,445	0.0261	0.0480
2007						
January	0.142	0.166	0.119	689,818	0.0794	0.1463
February	0.147	0.170	0.130	3,013,889	0.3469	0.6393
March	0.199	0.345	0.143	4,677,852	0.5385	0.9923
April	0.308	0.350	0.270	2,110,111	0.2429	0.4476
May	0.297	0.320	0.275	2,748,190	0.3163	0.5830
June	0.303	0.340	0.280	8,707,400	0.9290	1.7120
July	0.261	0.290	0.246	4,964,000	0.5714	1.0530
August	0.274	0.440	0.210	10,619,913	1.2225	2.2528
September	0.486	0.560	0.430	13,821,579	1.5910	2.9320
October (up to and including the Last Trading Date)	0.487	0.520	0.455	5,239,200	0.6031	1.1114
October (since the day that the Shares resumed trading)	0.679	0.900	0.570	23,084,148	2.6572	4.8969
November (up to the Latest Practicable Date)	0.990	1.090	0.820	22,777,143	2.6219	4.8318

Source: the Stock Exchange web-site (www.hkex.com.hk)

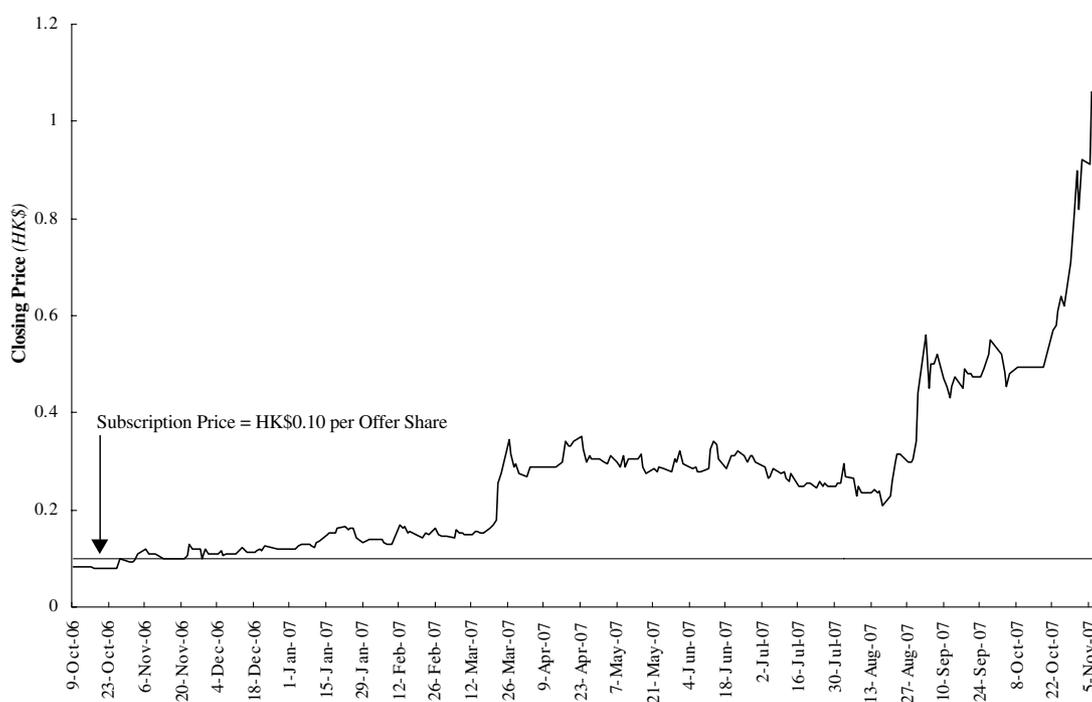
Notes:

1. The trading of the Shares was suspended on 28 June 2007 and from 9 October to 18 October 2007 during the Review Period.
2. The Company has 868,733,440 Shares in issue as at the Latest Practicable Date.
3. 471,404,242 Shares were held by the Independent Shareholders as at the Latest Practicable Date.

LETTER FROM VEDA CAPITAL

The Subscription Price has been lower than the monthly highest closing price and the average daily closing price respectively since November 2006 until the Latest Practicable Date. The Subscription Price has been lower than the monthly lowest closing price of the Shares since December 2006 until the Latest Practicable Date.

We also reviewed the historical closing price of the Shares versus the Subscription Price during the Review Period. The following chart illustrates the historical closing price of the Shares versus the Subscription Price during the Review Period:



Note: The trading of the Shares was suspended on 28 June 2007 and from 9 October to 18 October 2007 during the Review Period.

As shown in the above chart, the closing price of the Shares ranged from HK\$0.08 per Share to HK\$1.09 per Share during the Review Period. The Shares were traded in majority above the Subscription Price during the Review Period, i.e. since 3 November 2007 until the Latest Practicable Date (except during the period from 13 to 21 November 2006, the closing price of the Shares was equivalent to the Subscription Price).

Since the beginning of the Review Period until 21 March 2007, the closing price of the Shares was below HK\$0.18 per Share. On 26 March 2007, the closing price of the Shares surged to HK\$0.345 per Share. The Company made an announcement on 22 March 2007 that it had been and was still in the process of negotiating a fund raising exercise which may involve issuing new securities and such negotiation remained at a preliminary stage and no binding agreement had been executed. From that onwards until 30 August 2007, trading of the Shares closed at between the range of HK\$0.21 and HK\$0.35 per Share. The closing price of the Shares hiked to HK\$0.56 on 3 September 2007 and fluctuated within the range of HK\$0.43 to HK\$0.56 and was at HK\$0.495 on the Last Trading Date. Upon resumption

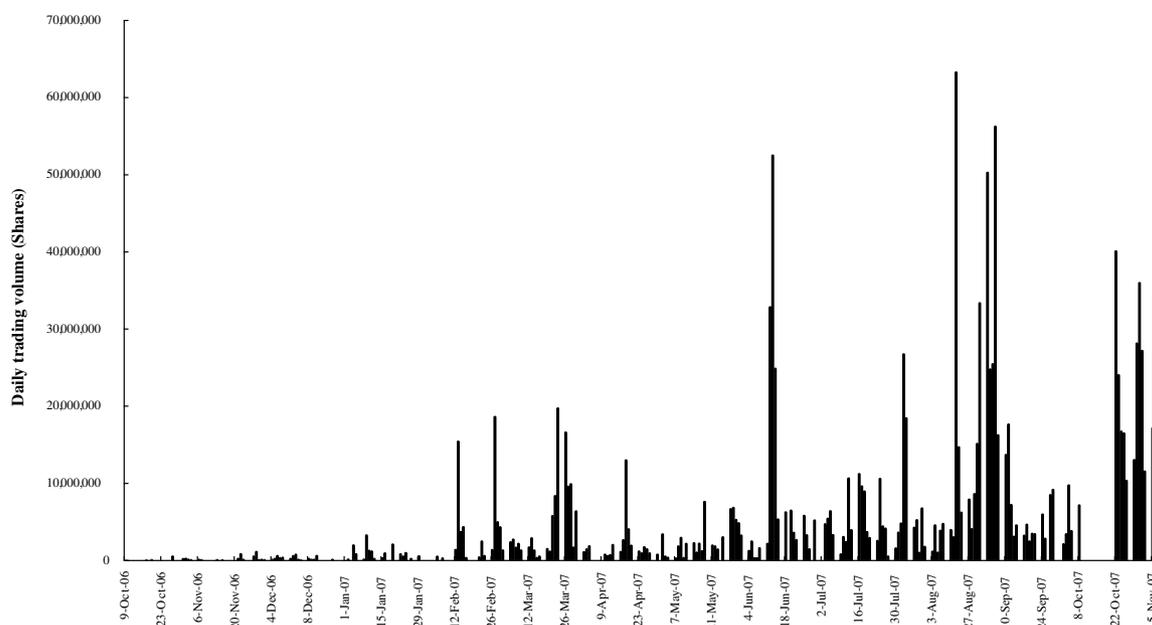
LETTER FROM VEDA CAPITAL

of trading the Shares on 22 October 2007 after the publication of the Announcement, the closing price of the Shares rose to HK\$0.57 and further increased to HK\$1.09 as at the Latest Practicable Date. The Subscription Price of HK\$0.10 per Offer Share represents a discount of approximately 63.47% to the average closing price of approximately HK\$0.274 per Share during the Review Period.

We note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with general practice and is acceptable. We will further analysed the fairness and reasonableness of the discounts represented by the Subscription Price by making comparisons with other listed comparables which made open offers recently under the section headed “Comparison with other open offers” below in this letter.

(b) Review on the trading volume of the Shares

The following chart illustrates the historical trading volume of the Shares as quoted on the Stock Exchange during the Review Period:



Note: The trading of the Shares was suspended on 28 June 2007 and from 9 October to 18 October 2007 during the Review Period.

As shown in the “Percentage of average daily trading volume of the month to the Shares in issue” of the table in the subsection (a) headed “Review on share prices and historical closing prices” above, we noted that the liquidity of the Shares has been on an increasing trend throughout the Review Period. The monthly average daily trading volume of the Shares between October 2006 and January 2007 was less than 0.0795% of the issued share capital of the Company as at the Latest Practicable Date and 0.1464% of the Shares held by the Independent Shareholders as at the Latest Practicable Date, or representing less than 690,000 Shares. Between February and May 2007 and in July 2007, the monthly average daily

LETTER FROM VEDA CAPITAL

trading volume of the Shares increased but was less than 0.58% of the issued share capital of the Company as at the Latest Practicable Date and 1.054% of the Shares held by the Independent Shareholders as at the Latest Practicable Date. In June 2007, the monthly average daily trading volume of the Shares increased to approximately 0.929% of the issued share capital of the Company as at the Latest Practicable Date or approximately 1.712% of the Shares held by the Independent Shareholders as at the Latest Practicable Date. Such sharp increase in average daily trading of the Shares was due to acute increases in trading of Shares during the three trading days on 12, 13 and 14 June 2007 with average daily trading of approximately 36.72 million Shares. We noticed that the Company published two announcements on 12 and 13 June 2007 respectively confirming that the Company was not aware of any reasons for such increases and confirming that, save as disclosed in the Company's announcement dated 22 March 2007, there were no negotiations or agreements relating to intended acquisitions or realizations which were discloseable under the Listing Rules. In August and September 2007, the monthly average daily trading volume of the Shares increased to approximately 1.2225% and approximately 1.5910% of the issued share capital of the Company as at the Latest Practicable Date respectively or approximately 2.2528% and approximately 2.9320% of the Shares held by the Independent Shareholders as at the Latest Practicable Date respectively. Upon resumption of trading of the Shares on 22 October 2007 after the publication of the Announcement, average daily trading volume of the Shares surged to approximately 2.6407% of the Company's Shares in issue or approximately 4.8665% of the Shares held by the Independent Shareholders as at the Latest Practicable Date. Given the increase in closing price and trading volume of the Shares after the release of the Announcement, we consider the market reacts positively to the Open Offer.

Comparison with other open offers

In assessing the fairness of the Subscription Price, we consider a broader comparison of open offers of ordinary shares of other listed companies to provide a more general reference for the pricing of the Open Offer. To the best of our knowledge, we have identified and reviewed all, i.e. a total of 33 open offers (the "Comparables") of the companies that are listed on the Growth Enterprise Market and the Main Board of the Stock Exchange, which announced the respective open offers during the Review Period. Details of the Comparables are summarized in the following table:

Company name (Stock code)	Date of announcement	Offer ratio	Subscription price (HK\$)	Closing price as at the last trading day before the date of announcement (HK\$)	Discount I (Note 1)	Discount II (Note 2)	Dilution (Note 3)	Underwriting commission	Application for excess open offer shares
Long Success International (Holdings) Limited (8017)	7 Nov 07	1 for 1	0.11	0.305	63.9%	20.3%	50%	3%	Yes
Kanhan Technologies Group Limited (8175)	2 Nov 07	1 for 2	0.08	0.235	65.96%	56.28%	33%	2.5%	Yes
Riche Multi-Media Holdings Limited (764)	18 Oct 07	1 for 2	0.3	0.375	20.00%	14.29%	33%	2.5%	Yes
Tian An China Investments Company Limited (28)	2 Oct 07	1 for 5	6	9.5	36.84%	32.71%	17%	2%	No

LETTER FROM VEDA CAPITAL

Company name (Stock code)	Date of announcement	Offer ratio	Subscription price (HK\$)	Closing price as at the last trading day before the date of announcement (HK\$)	Discount I (Note 1)	Discount II (Note 2)	Dilution (Note 3)	Underwriting commission	Application for excess open offer shares
Everest International Investments Limited (204)	28 Sep 07	2 for 1	1	1.2	16.67%	6.25%	67%	0%	Yes
Paliburg Holdings Limited (617)	28 Sep 07	7 for 20	0.21	0.31	32.30%	26.08%	26%	Not Applicable	Yes
Sun Innovation Holdings Limited (547)	21 Sep 07	1 for 3	1.56	1.85	15.68%	12.24%	25%	In the form of share options	No
Intelli-Media Group (Holdings) Limited (8173)	20 Sep 07	1 for 2	0.05	0.125	60.00%	50.00%	33%	1.5%	Yes
Prime Investment Holdings Limited (721)	5 Sep 07	5 for 1	0.101	0.75	86.53%	51.71%	83%	0%	No
Brilliant Arts multi-Media Holdings Limited (8130)	31 Aug 07	1 for 2	0.15	0.23	34.78%	26.23%	33%	2.5%	Yes
eCyber China Holdings Limited (254)	23 Aug 07	30 for 1	0.12	1.4	91.43%	25.60%	97%	2%	No
Thiz Technology Group Limited (8119)	15 Aug 07	1 for 2	0.1	0.23	56.52%	46.43%	33%	2.5%	Yes
Northern International Holdings Limited (736)	24 Jul 07	3 for 1	0.17	0.71	76.10%	44.26%	75%	2.5%	No
Mandarin Entertainment (Holdings) Limited (009)	20 Jul 07	1 for 2	0.5	1.01	50.50%	40.48%	33%	2.5%	No
Theme International Holdings Limited (990)	20 Jul 07	1 for 2	0.06	0.134	55.20%	45.12%	33%	2%	Yes
Asia Commercial Holdings Limited (104)	17 Jul 07	4 for 5	0.4	0.87	54.00%	39.50%	44%	2%	No
GZI Transport Limited (1052)	29 Jun 07	1 for 2	3.93	5.7	31.05%	23.09%	33%	1.75%	Yes

LETTER FROM VEDA CAPITAL

Company name (Stock code)	Date of announcement	Offer ratio	Subscription price (HK\$)	Closing price as at the last trading day before the date of announcement (HK\$)	Discount I (Note 1)	Discount II (Note 2)	Dilution (Note 3)	Underwriting commission	Application for excess open offer shares
Kenfair International (Holdings) Limited (223)	27 Jun 07	1 for 2	0.1	0.92	89.13%	84.54%	33%	2.5%	No
China Investment Fund Company Limited (612)	13 Jun 07	1 for 2	0.05	0.435	88.51%	83.70%	33%	1%	No
China Aerospace International Holdings Limited (031)	6 Jun 07	1 for 5	0.9	1.84	51.08%	46.53%	17%	2.25%	Yes
Shun Cheong Holdings Limited (650)	5 Jun 2007	1 for 2	0.4	0.82	51.22%	41.18%	33%	1%	Yes
Prosticks International Holdings Limited (8055)	4 Jun 07	2 for 5	0.2	0.44	54.55%	46.15%	29%	2.5%	No
Prosperity Investment Holdings Limited (310)	14 May 07	1 for 2	0.135	0.305	55.74%	45.64%	33%	1.5%	No
Fortuna International Holdings Limited (530)	9 May 07	2 for 1	0.18	0.65	72.31%	46.53%	67%	2%	Yes
Grandtop International Holdings Limited (2309)	23 Apr 07	1 for 2	0.20	0.28	28.57%	20.95%	33%	2%	No
Casil Telecommunications Holdings Limited (1185)	2 Apr 07	4 for 10	0.35	0.78	55.13%	46.97%	29%	3%	Yes
Massive Resources International Corporation Limited (70)	9 February 07	1 for 2	0.2	0.22	9.09%	6.10%	33%	2.5%	No
Union Bridge Holdings Limited (8047)	16 Jan 07	1 for 2	0.06	0.25	76%	67.86%	33%	2.5%	Yes
Climax International Company Limited (439)	9 Jan 07	5 for 6	0.10	0.13	23.08%	16.67%	45%	2.5%	No

LETTER FROM VEDA CAPITAL

Company name (Stock code)	Date of announcement	Offer ratio	Subscription price (HK\$)	Closing price as at the last trading day before the date of announcement (HK\$)	Discount I (Note 1)	Discount II (Note 2)	Dilution (Note 3)	Underwriting commission	Application for excess open offer shares
Hua Xia Healthcare Holdings Limited (8143)	14 Dec 06	1 for 2	0.08	0.2450	67.35%	57.89%	33%	2.5%	Yes
Sunlink International Holdings Limited (2336)	7 Dec 06	1 for 5	0.18	0.1350	85.2%	67.3%	17%	2.5%	Yes
Daqing Petroleum and Chemical Group Limited (362)	23 Nov 06	1 for 2	0.3	0.415	27.71%	20.42%	33%	2.5%	No
Shanghai Donghua Petrochemical Co., Ltd. (8251)	25 Oct 06	3.65 for 10	1.10	1.50	26.67%	21.03%	27%	2.0%	Yes
				Maximum discount	91.43%	84.54%			
				Minimum discount	9.09%	6.10%			
				Average discount	51.78%	38.79%			
							Maximum	97%	3.00%
							Minimum	17%	0%
							Average	39%	2.13%
The Company	21 Oct 07	1 for 2	0.10	0.495	79.8%	72.5%	33%	3%	No

Source: www.hkex.com.hk and the respective announcements containing details of the Comparables

Notes:

- The discount of the subscription price to the closing price per share on the last trading day prior to the announcements in relation to the respective open offers.
- The discount of the subscription price to the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to the announcements in relation to the respective open offers (the theoretical ex-entitlement price per share is calculated as (number of open offer shares x subscription price of the open offer + number of existing shares held x closing price per share on the last trading day prior to the announcement of the open offer)/(number of open offer shares + number of existing shares held), e.g. for the Open Offer, the theoretical ex-entitlement per Share is calculated as $(1 \times \text{HK}\$0.10 + 2 \times \text{HK}\$0.495)/3 = \text{HK}\$0.363$).
- Maximum dilution effect of each open offer and is calculated as $(1 - \text{number of existing shares held} / (\text{number of existing shares held} + \text{number of open offer shares}))$, e.g. for a 1 for 2 open offer, the maximum dilution effect is calculated as $1 - 2/(2+1) = 33\%$.

LETTER FROM VEDA CAPITAL

We are mindful of the fact that pricing of an open offer may vary under different stock market conditions as well as among companies with different financial standings and business performance (including loss making companies and profit making companies). Nevertheless, we consider that a broader comparison of open offers announced recently would provide a more general reference for the reasonableness of the pricing of the Open Offer.

We found that the subscription prices for the Comparables were all set at discounts to their respective closing price of the Shares on the last trading day prior to the release of the relevant announcements and ranged (the “Closing Price Range”) from approximately 9.09% to approximately 91.43% with an average of approximately 51.78%. The discount of approximately 79.80% of the Subscription Price to the closing price per Share on the Last Trading Date falls within the Closing Price Range but is at a deeper discount than the average of the Closing Price Range.

The subscription price of the Comparables were all set at discounts to the theoretical ex-entitlement price on the last trading day prior to the announcement and ranged (the “Theoretical Price Range”) from approximately 6.10% to approximately 84.54% with an average of approximately 38.79%. The discount of approximately 72.50% of the Subscription Price to the theoretical ex-entitlement price per Offer Share based on the closing price per Share on the Last Trading Date also falls within the Theoretical Price Range but is at a deeper discount than the average of the Theoretical Price Range.

We noted that the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, and that the Subscription Price represents deeper discounts than the average of the Closing Price Range and the Theoretical Price Range respectively. We have discussed with the Directors about the reasons for the deeper discount represented by the Subscription Price compared to the average of the Closing Price Range and the Theoretical Price Range. First, as noted from the 2005 Annual Report, 2006 Annual Report and 2007 Annual Report, the auditors expressed that there may have significant potential adverse effect on the financial position of the Group which may in turn affect the going concern basis of the preparation of the financial statements of the Group if the Group was/is not able to obtain continued support from its banks and Shareholders, and despite the improving trend, the Group has experienced losses for three consecutive years. Second, as stated in the Board Letter, the Group is currently in tight cashflow position and external debts and payables falling due in three months amounted to approximately HK\$205.69 million as at 31 August 2007. Any further new borrowings will increase the Group’s interest expenses. After completion of the Open Offer, the Company will apply majority of the net proceeds from the Open Offer for repayment of indebtedness so as to reduce the financial burden of the Group from further external borrowings. Third, in view of the low turnover of the Shares before the release of the Announcement, we believe that it is difficult to attract Qualifying Shareholders to reinvest through the Open Offer at a subscription price without a substantial discount. Fourth, setting the Subscription Price at a substantial discount will improve the attractiveness of the Open Offer so as to encourage more existing Shareholders to participate in the Open Offer without exerting too much financial burden on them. Therefore, in order to attract the Qualifying Shareholders’ interests and participation in the Open Offer so that the Group can secure more funding from the Open Offer and reduce the extent of further debts, the Subscription Price is at a discount which is deeper than the average discount represented by the Comparables. We consider that a substantial discount is inevitable in order to provide incentives to the Qualifying Shareholders to subscribe for the Open Offer.

LETTER FROM VEDA CAPITAL

Taking into account that the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to share future benefits that may be brought about from the expansion of the Group's business through future investments, although the shareholdings interest of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, they have been given a fair chance to participate in the Open Offer and the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, we consider that the Subscription Price is fair and reasonable so far as the Qualifying Shareholders are concerned.

Alternatives to the Open Offer

As advised by the Directors, they have considered alternative means for the Company to raise funds other than the Open Offer, including but not limited to, debt financing, placing of new shares and rights issue. The Directors believe that taking additional borrowings or other debt financing would increase the Group's interest expenses and gearing of the Group. We concur with the Directors that bank borrowing and other debt financing will adversely affect the Group's balance sheet and further increase the gearing ratio.

Apart from debt financing, common means of equity financing include placing of new shares, open offer and rights issue. The Directors consider that placing of new shares by its nature excludes existing Shareholders and dilutes their interests in the Company without providing them with an opportunity to share the future developments of the Company that may be brought about by the expansion of the Group's business. While rights issue and open offer both can raise funds and allow the Qualifying Shareholders to maintain their existing shareholdings in the Company and participate in the future growth and development of the Company, the Company opts for the latter as it does not require time for trading of nil-paid entitlements on the Stock Exchange, and is more time and cost effective. In view of the time and cost efficiency, we concur with the Directors that the Open Offer is a better fund raising method for the Company.

Potential dilution effect on the shareholding interests of the Independent Shareholders

The attributable interest of the Qualifying Shareholders in terms of percentage shareholding in the Company who take up their entitlements in full under the Open Offer will remain unchanged upon completion of the Open Offer. Qualifying Shareholders who do not subscribe for their provisional entitlements under the Open Offer will have their shareholding interests diluted by a maximum of approximately 33%.

In order to assess the fairness and reasonableness of the dilution effect of the Open Offer on the shareholding interests of the Independent Shareholders, we have made comparisons with other open offers of the Comparables. From the Comparables as set out in subsection headed "Comparisons with other open offers" above, we note that the dilutions of the respective open offers of the Comparables ranged from approximately 17% to approximately 97% with an average dilution of approximately 39%. The dilution of the Open Offer is less than the average dilution of the Comparables and falls within the range of the dilutions of the Comparables.

LETTER FROM VEDA CAPITAL

In view of the above and after taking into consideration the reasons and benefits of the Open Offer, together with the opportunity for Qualifying Shareholders to maintain their proportionate interests in the Company and the fact that the dilution of the Open Offers falls within the range of the dilutions of the Comparables, we consider that the potential dilution effect of the Open Offer is acceptable.

Absence of trading arrangement for nil-paid entitlement and the EA Absence

Under the Open Offer, there will be no trading arrangement for nil-paid entitlement. The Independent Shareholders who do not accept the Open Offer will not be able to sell their nil-paid entitlements in the open market. The shareholdings interests in the Company of those Qualifying Shareholders who choose not to elect to subscribe for in full their assured entitlements under the Open Offer will be diluted after the completion of the Open Offer by a maximum of approximately 33%.

Pursuant to the terms of the Underwriting Agreement, with the EA Absence, no provision is stipulated for excess application arrangement of the Offer Shares, and it was in such basis that the Underwriter entered into the Underwriting Agreement. In this regard, the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their assured entitlements.

We are aware of the aforementioned potential dilution to the Independent Shareholders' shareholding interests in the Company, and (i) the absence of trading arrangement for nil-paid entitlements; and (ii) the EA Absence. However, we consider that the foregoing should be balanced against the fact that:

- the Independent Shareholders are offered a chance to express their view on the terms of the Open Offer and the EA Absence through voting by poll at the SGM;
- the Qualifying Shareholders have their choice whether to accept the Open Offer or not;
- the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholdings in the Company at a lower price as compared to the historical and prevailing market price of the Shares; and
- those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer.

Based on the 33 Comparables, 15 of which did not offer a facility for excess application. We are of the view that the EA Absence is not an uncommon market practice. Although the EA Absence will affect the rights of the Qualifying Shareholders by limiting them to further participate in the Open Offer at a low Subscription Price, in view of the substantial discount represented by the Subscription Price to the market price per Share, the Directors believed that there might be a high level of acceptance of the Offer Shares by the Qualifying Shareholders and therefore there might not be any significant number of Offer Shares available for excess application. Also, the Company would also be able to save costs incurred from the administrative procedures for implementing the arrangement for excess application for the Open Offer. As a result, we concur with the Directors that the EA Absence under the Open Offer is fair and reasonable.

LETTER FROM VEDA CAPITAL

Financial effects of the Open Offer

(i) Effect on net tangible assets

A statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group based on the audited consolidated net tangible assets of the Group as at 31 March 2007 adjusted for the effect of the Open Offer on the net tangible assets of the Group is set out in Appendix II to the Circular (the "Statement").

The audited consolidated net tangible assets of the Group were approximately HK\$27.636 million as at 31 March 2007. Based on 868,733,440 Shares in issue, the net tangible asset value of the Group per Share was approximately HK\$0.03. Based on the Statement, upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets of the Group would increase by approximately 46.91% to approximately HK\$68.236 million while the unaudited pro forma adjusted consolidated net tangible assets per share of the Group would also increase by approximately 66.67% to approximately HK\$0.05 (based on 1,303,100,160 Shares in issue immediately following the completion of the Open Offer).

(ii) Effect on gearing ratio

The Group's gearing ratio (being total liabilities/total equity) was approximately 972% as at 31 March 2007. As a result of the increase in the net asset value of the Group immediately after the Open Offer, the Company's gearing ratio will be reduced. We consider the reduced gearing ratio provides the Company with more financial flexibility and hence is in the interests of the Company and the Independent Shareholders as a whole.

(iii) Effect on liquidity

Total current assets and total current liability of the Group as at 31 March 2007 were reported as approximately HK\$74.15 million and approximately HK\$264.86 million respectively. Accordingly, the current ratio (being current assets/ current liabilities) as at 31 March 2007 was about 0.28 times. The net proceeds from the Open Offer are expected to enhance its current asset value by (i) approximately HK\$40.60 million (should all Qualifying Shareholders take up their respective entitlements in full under the Open Offer); or (ii) approximately HK\$4 million (should no Qualifying Shareholders take up his/her/ its entitlement under the Open Offer except for Big-Max and parties acting in concert with it), and thus improve the current ratio. Hence, the financial capability of the Company to look for expanded business opportunities will be enhanced accordingly.

In light of the enhancement on the unaudited pro forma adjusted consolidated net tangible assets, unaudited pro forma adjusted consolidated net tangible assets per Share, working capital position of the Group and the lowering of the gearing level of the Group as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM VEDA CAPITAL

Recommendation

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Open Offer (including the EA Absence) are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer (including the EA Absence), is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the Open Offer and the EA Absence.

B. THE WHITEWASH WAIVER AND THE UNDERWRITING AGREEMENT

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it were beneficially interested in 143,492,000 Shares, representing approximately 16.52% of the issued share capital of the Company as at the Latest Practicable Date. The Underwriter has agreed to subscribe for and/or procure subscribers to subscribe for and take up the Untaken Shares up to 362,620,720 Offer Shares pursuant to the terms of the Underwriting Agreement. Assuming that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up his/her/its entitlement under the Open Offer, the aggregate holdings of voting rights in the Company of the Underwriter and parties acting in concert with it will increase to 362,620,720 Shares, representing approximately 44.34% (of the enlarged issued share capital of the Company upon completion of the Open Offer). There were no dealing in the Shares by the Underwriter and parties acting in concert with it during the Relevant Period.

Under Rule 26 of the Takeovers Code, the fulfillment of the underwriting commitment of the Underwriter, and the taking up by parties acting in concert with it of their entitlements under the Open Offer together with any excess Offer Shares not taken up by Qualifying Shareholders under the Open Offer, may trigger a mandatory general offer by the Underwriter and parties acting in concert with it, for all Shares other than those already owned by the Underwriter and parties acting in concert with it. However, the Underwriter has applied to the Executive for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code and the Executive has indicated that subject to the approval of the Whitewash Waiver by the Independent Shareholders at the SGM by way of a poll, he will waive the obligation of the Underwriter and parties acting in concert with it to make a general offer which might result from the Open Offer. As stated in the Board Letter, the Open Offer is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter and parties acting in concert with it.

From the Comparables as set out in subsection headed “Comparisons with other open offers” above, we note that the commissions of the respective underwriters ranged from 0% to 3.0% (except for Sun Innovation Holdings Limited, of which the underwriting commission is in the form of grant of share options). The commission charged by the Underwriter of 3.0% in the Open Offer falls within the range of underwriting commissions of the Comparables and is comparable with market rate taking into account the underwriting commission charged under the Comparables and thus is reasonable to the Company. We also consider that the commission payable to the Underwriter was determined after arm’s length negotiations between the Company and the Underwriter and was on normal commercial terms.

LETTER FROM VEDA CAPITAL

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not proceed if the Underwriter exercise its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Board Letter. We consider such provisions are in normal commercial terms and in line with the normal market practice.

Based on our analysis of the terms and conditions of the Open Offer as set out above, we consider that the Open Offer is in the interests of the Company and the Independent Shareholders taken as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer.

Recommendation

We are in the opinion that for the purpose of implementing the Open Offer as discussed above, the approvals of the Whitewash Waiver and the Underwriting Agreement by the Independent Shareholders at the SGM are in the interests of Company and the Independent Shareholders as a whole and are fair and reasonable. We consider that the terms of the Whitewash Waiver and the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the Whitewash Waiver and the Underwriting Agreement.

C. SPECIAL DEAL

In arriving at our opinion regarding the terms of the Special Deal, we have considered the following principal factors and reasons:

Background of the Underwriter and Big-Max Shareholder Loans

Big-Max is an investment holding company incorporated in Hong Kong with limited liability. The ordinary course of business of Big-Max does not include underwriting. As the Subscription Monies for any Untaken Shares will be settled by setting-off against the Big-Max Shareholder Loans (or part of them), Big-Max is considered to be able to fulfill and accomplish fully its duties and obligations of being the Underwriter as stipulated by the Underwriting Agreement. The Underwriter is beneficially owned as to 90% by Mr. Li Li Xin and as to 10% by his wife, Ms. Jin Ya Er. Directors of Big-Max are Mr. Li Li Xin and Ms. Jin Ya Er.

As at the Latest Practicable Date, the Company was indebted to Big-Max in the principal amount of approximately HK\$38 million. Details of the breakdown of the Big-Max Shareholder Loans are set out in the section headed "Background of the Underwriter and Big-Max Shareholder Loans" in the Board Letter. The Company and Big-Max entered into four bridging loan agreements on 16 June 2006, 18 July 2006, 18 January 2007 and 22 August 2007 respectively pursuant to which Big-Max agreed to provide unsecured loan facilities to the Company at interest rates of 3% above HIBOR per annum for the purposes of repaying the indebtedness of the Group and fulfilling the working capital requirement of the Group.

LETTER FROM VEDA CAPITAL

As advised by the Directors, the borrowing rate of the Group ranged from 1.5% to 2.0% above HIBOR for secured borrowings and ranged from 5.7% to 11.8% for hire purchase and thus the interest rate charged on the Big-Max Shareholder Loans by Big-Max is within the borrowing rate of the Group (given the HIBOR was around 3.78% per annum as at the Latest Practicable Date). Moreover, no security was given to Big-Max over the assets of the Company in respect of the Big-Max Shareholder Loans. We share the view of the Directors that the provision of the Big-Max Shareholder Loans by Big-Max to the Company was to the benefit of the Company and on normal commercial terms. Provision of loans by Big-Max to the Company constitutes connected transaction exempted from reporting, announcement and independent shareholders' approval under the Listing Rules.

Set-off arrangement of the Subscription Monies for the Untaken Shares

As noted from the Underwriting Agreement, in respect of the Offer Shares, the aggregate Subscription Price therefore shall be paid in the following order: (1) first, the Underwriter has agreed to take up 71,746,000 Offer Shares to which the Underwriter (or its nominee) is entitled and has undertaken to accept under the Open Offer pursuant to the Underwriting Agreement, payment for which will be made from the Underwriter Cash Portion less (i) the commission payable to the Underwriter pursuant to the Underwriting Agreement; and (ii) the escrow fees (in the sum of HK\$100,000) payable by the Underwriter to the escrow agent; and (2) second, in respect of the Untaken Shares (if any), the aggregate Subscription Monies therefor shall be paid by way of setting off on a dollar-to-dollar basis of the outstanding principal amount of the Big-Max Shareholder Loans to the extent (and only to the extent) of the total principal amount owing under Big-Max Shareholder Loans (exclusive of any interest accrued thereon). In other words, in case that no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer (except for Big-Max and parties acting in concert with it) the Underwriter shall first subscribe for all the Offer Shares by way of the Underwriter Cash Portion and then to set-off of the Big-Max Shareholder Loans. We consider that the arrangement that the Underwriter should pay the Subscription Monies first, no matter whether other Qualifying Shareholders would take up his/her/its entitlement at all or partially under the Open Offer, is in the interests of the Company and the Independent Shareholders given such proceeds (after the payments of commission to the Underwriter and escrow fees) would be used for repaying the trade payables of the Group's suppliers so as to decrease the indebtedness of the Group. The set-off arrangement on a dollar-to-dollar basis is also on arm's length basis and in normal commercial terms.

We concur with the Directors that the Company's financial position will be strengthened by capitalizing the loan owing to Big-Max under the Special Deal, as the liabilities of the Group will decrease while its equity capital will increase. Further, in case that the Big-Max Shareholder Loans will be set-off, in terms of the amounts of loans being set-off, the capacity of Big-Max will change from a creditor to a Shareholder. The position of a creditor is generally more favourable than a shareholder, in terms of the relative certainty of the creditor's right to payment of interest (as opposed to shareholder's right to dividend payment) and right to assets of the Company upon winding up (as opposed to shareholder's right to surplus assets (if any) upon liquidation). In view of the above, we concur with the Directors that the position of Big-Max is not better off under the current underwriting arrangement and, as a matter of fact, Big-Max is assisting the Company to undergo the fund-raising activity by way of the Open Offer.

LETTER FROM VEDA CAPITAL

Recommendation

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Special Deal and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the Special Deal and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolution to be proposed at the SGM to approve the Special Deal and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong

Managing Director

Julisa Fong

Executive Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following financial information (“**Financial Information**”) has been extracted from the audited financial statements of the Group for each of the three years ended 31 March 2007 as set out in the relevant published annual reports of the Company.

The Company’s auditors, Mazars CPA Limited and the Company’s previous auditors, Moores Rowland Mazars, have issued qualified opinions for the year ended 31 March 2007 and for each of the two years ended 31 March 2005 and 31 March 2006 respectively. The reports of the Company’s auditors for each of the three years ended 31 March 2007 have been extracted from the relevant published annual reports of the Company.

During the three years ended 31 March 2007, the Group has no extraordinary, exceptional item and minority interest applicable to the financial statements of the Group and no dividend had been declared or paid.

Consolidated Income Statement

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	219,508	233,865	445,830
Cost of sales	(189,717)	(207,883)	(372,307)
Gross profit	29,791	25,982	73,523
Other revenue	2,538	2,060	2,112
Other income	463	8,641	–
Selling and distribution expenses	(9,076)	(15,384)	(34,962)
Administrative and other operating expenses	(44,287)	(65,020)	(117,948)
Impairment loss on property, plant and equipment	(4,569)	(13,171)	(91,733)
Reversal of impairment loss on property, plant and equipment	14,278	15,849	–
Finance costs	(11,904)	(11,466)	(6,945)
Loss before taxation	(22,766)	(52,509)	(175,953)
Taxation (charge) credit	(56)	5,537	–
Loss for the year attributable to equity holders of the Company	<u>(22,822)</u>	<u>(46,972)</u>	<u>(175,953)</u>
Loss per share – Basic	<u>HK(2.63) cents</u>	<u>HK(5.41) cents</u>	<u>HK(20.25) cents</u>

Consolidated Balance Sheet

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Investment properties	–	–	3,080
Property, plant and equipment	222,011	225,725	283,544
Deferred tax assets	–	–	285
	<u>222,011</u>	<u>225,725</u>	<u>286,909</u>
Current assets			
Inventories	29,534	28,070	57,015
Trade and bills receivables	27,015	28,435	40,769
Prepayments, deposits and other receivables	4,395	7,826	7,923
Tax recoverable	233	–	–
Pledged deposits	5,058	2,130	984
Restricted bank balances	–	–	2,644
Bank balances and cash	7,919	4,629	9,246
	<u>74,154</u>	<u>71,090</u>	<u>118,581</u>
Non-current assets classified as held for sale	–	12,688	–
	<u>74,154</u>	<u>83,778</u>	<u>118,581</u>
Current liabilities			
Trade and other payables	86,992	97,375	135,091
Advance from a related company	7,000	–	–
Loan from a related company, unsecured	7,800	–	–
Loans from a shareholder, unsecured	28,000	–	–
Bank overdraft, unsecured	–	–	804
Short-term bank and other borrowings, secured	133,068	84,210	73,846
Current portion of long-term bank borrowing, secured	–	70,000	19,855
Current portion of obligations under finance leases	2,003	6,213	5,931
Provision for taxation	–	1,173	7,007
	<u>264,863</u>	<u>258,971</u>	<u>242,534</u>
Net current liabilities	<u>(190,709)</u>	<u>(175,193)</u>	<u>(123,953)</u>
Total assets less current liabilities	<u>31,302</u>	<u>50,532</u>	<u>162,956</u>
Non-current liabilities			
Long-term bank borrowing, secured	–	–	62,500
Obligations under finance leases	3,666	74	3,026
	<u>3,666</u>	<u>74</u>	<u>65,526</u>
NET ASSETS	<u><u>27,636</u></u>	<u><u>50,458</u></u>	<u><u>97,430</u></u>
Capital and reserves			
Share capital	86,873	86,873	86,873
Reserves	(59,237)	(36,415)	10,557
TOTAL EQUITY	<u><u>27,636</u></u>	<u><u>50,458</u></u>	<u><u>97,430</u></u>

INDEPENDENT AUDITORS' REPORT**FOR THE YEAR ENDED 31 MARCH 2007**

To the members of
Magician Industries (Holdings) Limited
(incorporated in Bermuda with limited liabilities)

Report on the financial statements

We were engaged to audit the consolidated financial statements of Magician Industries (Holdings) Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 21 to 57, which comprise the consolidated and the Company's balance sheet as at 31 March 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the 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. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion section, we are not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

- 1) We were not able to form a view in the previous year on the appropriateness of the impairment loss of HK\$3,515,000 and the reversal of impairment loss of HK\$12,196,000 on property, plant and equipment and whether the property, plant and equipment of HK\$210,489,000 were fairly stated at 31 March 2006. We had expressed a qualified opinion in our audit

report accordingly and details of our qualification were fully explained in the 2006 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 2007.

As stated in note 13 to the financial statements, in light of the continuing operating loss experienced by the Group, management has carried out an impairment review of its property, plant and equipment. However, we have not been able to obtain 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\$211,155,000 as of 31 March 2007 and therefore unable to satisfy ourselves whether the recognition of the impairment loss of HK\$4,569,000 and the reversal of impairment loss of HK\$12,016,000 are appropriate. Consequently, we have been unable to satisfy ourselves whether the property, plant and equipment of HK\$211,155,000 were fairly stated at the balance sheet date and whether the loss for the year ended 31 March 2007 was fairly stated.

- 2) We were not able to form a view in the previous year on 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 Group's sales division in the People's Republic of China ("PRC"). We had expressed a qualified opinion in our audit report accordingly and details of our qualification were fully explained in the 2006 annual report.

The Group's PRC sales division's operation has substantially been curtailed since 2006 and therefore its transactions for the year under review were minimal. However, because of the high turnover of members of management and accounting personnel, the present management is unable to give an unqualified representation that all liabilities and contingent liabilities in relation to the PRC sales division as at the balance sheet date has been properly included and disclosed in the Group's financial statements.

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 liabilities and contingent liabilities in connection with the PRC 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 2007.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains the measures that the directors are currently undertaking and 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 2 to the financial statements, the Group is dependent upon the continued support of its banks and shareholders. Provided that the measures as detailed in note 2 to the financial statements can accomplish successful outcome, the directors are satisfied that the Group will be able to finance its operations and to meet in full its financial obligations as they fall due in 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. 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 of opinion on view given by financial statements

Because of the significance of the possible effect of:

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

we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Mazars CPA Limited

Certified Public Accountants

Hong Kong
23 July 2007

Kwok Yuen Man

Practicing Certificate number: P04604

FOR THE YEAR ENDED 31 MARCH 2006

To the members of
Magician Industries (Holdings) Limited
(incorporated in Bermuda with limited liabilities)

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

FOR THE YEAR ENDED 31 MARCH 2005

To the members of
Magician Industries (Holdings) Limited
(incorporated in Bermuda with limited liabilities)

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

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

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

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

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

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

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

Fundamental uncertainty relating to the going concern basis

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

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

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

Qualified opinion: disclaimer on view given by financial statements

Because of the significance of the possible effect of:

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

we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong

22 July 2005

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

The following information is extracted from pages 21 to 57 of the annual report of the Company for the year ended 31 March 2007:

Consolidated Income Statement*Year ended 31 March 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	4	219,508	233,865
Cost of sales		(189,717)	(207,883)
Gross profit		29,791	25,982
Other revenue	4	2,538	2,060
Other income	6	463	8,641
Selling and distribution expenses		(9,076)	(15,384)
Administrative and other operating expenses		(44,287)	(65,020)
Impairment loss on property, plant and equipment	13	(4,569)	(13,171)
Reversal of impairment loss on property, plant and equipment	13	14,278	15,849
Finance costs	7	(11,904)	(11,466)
Loss before taxation	7	(22,766)	(52,509)
Taxation (charge) credit	10	(56)	5,537
Loss for the year attributable to equity holders of the Company	11	<u>(22,822)</u>	<u>(46,972)</u>
Loss per share – Basic	12	<u>HK(2.63) cents</u>	<u>HK(5.41) cents</u>

Consolidated Statement of Changes in Equity*Year ended 31 March 2007*

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance – Total equity	50,458	97,430
Loss for the year	(22,822)	(46,972)
	<hr/>	<hr/>
Closing balance – Total equity	<u>27,636</u>	<u>50,458</u>

Consolidated Balance Sheet*At 31 March 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	13	222,011	225,725
Current assets			
Inventories	15	29,534	28,070
Trade and bills receivables	16	27,015	28,435
Prepayments, deposits and other receivables		4,395	7,826
Tax recoverable		233	–
Pledged deposits		5,058	2,130
Bank balances and cash		7,919	4,629
		74,154	71,090
Non-current assets classified as held for sale		–	12,688
		74,154	83,778
Current liabilities			
Trade and other payables	17	86,992	97,375
Advance from a related company	18	7,000	–
Loan from a related company, unsecured	19	7,800	–
Loans from a shareholder, unsecured	20	28,000	–
Short-term bank and other borrowings, secured	21(a)	133,068	84,210
Current portion of long-term bank borrowing, secured	21(b)	–	70,000
Current portion of obligations under finance leases	22	2,003	6,213
Provision for taxation		–	1,173
		264,863	258,971
Net current liabilities		(190,709)	(175,193)
Total assets less current liabilities		31,302	50,532
Non-current liabilities			
Obligations under finance leases	22	3,666	74
NET ASSETS		27,636	50,458
Capital and reserves			
Share capital	23	86,873	86,873
Reserves	24	(59,237)	(36,415)
TOTAL EQUITY		27,636	50,458

Balance Sheet*At 31 March 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	14	88,570	74,386
Current assets			
Prepayments, deposits and other receivables		687	505
Bank balances and cash		47	7
		734	512
Current liabilities			
Other payables and accruals		2,731	2,709
Loan from a related company, unsecured	19	7,800	–
Loans from a shareholder, unsecured	20	28,000	–
Short-term bank and other borrowings, secured		–	5,288
Provision for taxation		–	216
		38,531	8,213
Net current liabilities		(37,797)	(7,701)
NET ASSETS		50,773	66,685
Capital and reserves			
Share capital	23	86,873	86,873
Reserves	24	(36,100)	(20,188)
TOTAL EQUITY		50,773	66,685

Consolidated Cash Flow Statement*Year ended 31 March 2007*

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before taxation	(22,766)	(52,509)
Depreciation	17,563	30,869
Reversal of impairment loss on property, plant and equipment, net	(9,709)	(2,678)
Interest income	(690)	(613)
Interest expense	11,904	11,466
Gain on disposal of property, plant and equipment	(319)	(2,282)
Write-back of provision for doubtful debts	(144)	(6,359)
Provision for inventory obsolescence	–	5,685
Changes in working capital:		
Trade and bills receivables, prepayments, deposits and other receivables	4,995	18,827
Inventories	(1,464)	23,260
Trade and other payables	(10,383)	(40,173)
Cash used in operating activities	(11,013)	(14,507)
Interest paid	(11,632)	(8,900)
Hong Kong profits tax paid	(1,462)	(12)
Net cash used in operating activities	(24,107)	(23,419)

Consolidated Cash Flow Statement (Continued)

Year ended 31 March 2007

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
INVESTING ACTIVITIES		
Increase in pledged deposits	(2,928)	(1,146)
Purchase of property, plant and equipment	(5,985)	(3,603)
Proceeds on disposal of property, plant and equipment	14,852	22,791
Proceeds on disposal of investment properties	–	3,114
Interest received	690	576
	<hr/>	<hr/>
Net cash generated from investing activities	6,629	21,732
	<hr/>	<hr/>
FINANCING ACTIVITIES		
Advance from a related company	7,000	–
Loan from a related company	7,800	–
Loans from a shareholder	28,000	–
New short-term bank borrowings	143,068	93,922
Repayment of short-term bank borrowings	(94,210)	(95,913)
Repayment of long-term bank borrowings	(70,000)	–
Repayment of obligation under finance leases	(618)	(2,670)
Interest paid on obligation under finance leases	(272)	(109)
	<hr/>	<hr/>
Net cash generated from (used in) financing activities	20,768	(4,770)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	3,290	(6,457)
Cash and cash equivalents at beginning of year	4,629	8,442
Decrease in restricted bank balances	–	2,644
	<hr/>	<hr/>
Cash and cash equivalents at end of year, represented by bank balances and cash	7,919	4,629
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements*Year ended 31 March 2007***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.

In preparing the financial statements for the year ended 31 March 2007, the directors adopted a going concern basis for the following reasons:

- (i) The Group has adopted measures to improve its liquidity, including obtaining continuing support from its banks and shareholders.
 - Included in the short-term bank borrowings are secured bank loans of HK\$120,000,000 which were due for settlement in October 2007. The Group is now in the process of negotiation with the bank to extend the loan facilities. The management is optimistic about the outcome of the loan extension as the Group’s relationship with the bank had been improved since previous loan renewal in 2006. Since then, the credit terms and status of the Group have been improved because the repayments of the current bank loan were all made on time.
 - The Group has agreed with a related company and a shareholder to extend their loans of US\$1,000,000 (equivalent to HK\$7,800,000) and HK\$28,000,000 to September 2007. Details of the loans are described in notes 19 and 20 to the financial statements.
 - As mentioned in the announcement dated 8 August 2006, the Group is in the process of negotiation for further equity financing. Moreover, as stated in the announcement dated 28 June 2007 and the circular dated 6 July 2007, a convertible bond of HK\$26,000,000 is being arranged subject to the approval by the shareholders in a special general meeting to be held on 24 July 2007.
- (ii) In order to improve the cash flows of the Group, management will continue to step up the effort in debts collection from the customers of the Group’s sales division in the People’s Republic of China (“PRC”), such as pursuing litigation and appointing external professional parties for collection. Besides, excessive inventories will be sold at discounted prices and idle assets will be disposed of. Management will also negotiate with the suppliers for extension of credit period. On the other hand, credit periods granted to customers will be reviewed in order to determine if any of them are needed to be revised. Moreover, an increased credit limit of export credit insurance has been arranged in order to facilitate the increase in the bank trade finance facilities in the future.
- (iii) Management will continue to focus on higher-margin and creditworthy customers so as to boost up the sales volume and return.
- (iv) Measures in cost-cutting and strengthening of internal controls especially in the procurement and production cycles will continue to be implemented.

3. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and 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 2006 financial statements except for the adoption of Amendments to HKAS 39 Financial instruments: Recognition and measurement and HKFRS 4 Insurance contracts: Financial guarantee contracts. The adoption of these new/amended standards has no significant effects on the financial statements of the Group and the Company. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 March each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balances, transactions, incomes and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. 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 the income statement 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.

Construction-in-progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and ready for their intended use.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, 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	10% – 14.3%

It is the Group's policy to periodically review the depreciation methods and estimated useful lives of its property, plant and equipment to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment. This review during the year indicated that the useful lives of the mould for metal and plastic products, which are to be operated at their optimum capacity with obsolescence and impairment being factors in, could reach 7 years and 10 years respectively. As a result, the depreciable period of moulds for metal and plastic products is extended from 5 years to 7 years and 10 years respectively, retroactive from 1 April 2006. The effect of this change in estimate was to reduce depreciation charge and decrease net loss for the year by approximately HK\$9,600,000. Because of the change of the estimated useful lives of the mould retroactive from 1 April 2006, the financial position of the Group as at 30 September 2006 and the net loss for the period then ended as reported in its interim report dated 15 December 2006 would be increased and decreased respectively by approximately HK\$4,800,000.

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

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Loans and receivables

Loans and receivables including trade and bills receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within other payables and accruals at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Cash equivalents

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following bases.

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title is passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The results and financial position of entities within the Group that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet date;
- Income and expenses for each income statement are translated at the average rate during the period;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity and recognised in the consolidated income statement on disposal of the foreign operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the property, plant and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

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

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Leases

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

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

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

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

Employee benefits*Defined contribution plans*

The Group operates a defined contribution plan for the Hong Kong employees based on local laws and regulations. The plan covers all eligible employees. The Group's contributions to the defined contribution plan are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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

Taxation

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

A party is related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements*Allowance for bad and doubtful debts*

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of collectability of the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the balance sheet date, the carrying amount of trade receivables after provision for impairment amounted to HK\$27,015,000 (2006: HK\$28,435,000).

Allowance for inventories

The Group's management reviews the condition of inventories and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. Management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

Future changes in HKFRS

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

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.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HKFRS 8	Operating segments
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements

4. TURNOVER AND REVENUE

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

	Group	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover		
Sale of goods	219,508	233,865
Other revenue		
Rental income	–	185
Interest income	690	613
Others	1,848	1,262
	2,538	2,060
Revenue	222,046	235,925

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	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
United States of America	167,462	181,787	3,365	3,159
Canada	10,463	7,640	(1,120)	(1,143)
Hong Kong	16,533	15,926	1,737	6,722
PRC	493	3,944	124	(15,780)
Europe	10,396	12,750	439	2,191
Others	14,161	11,818	893	1,698
	219,508	233,865	5,438	(3,153)
Unallocated corporate expenses			(26,009)	(40,568)
Impairment loss on property, plant and equipment			(4,569)	(13,171)
Reversal of impairment loss on property, plant and equipment			14,278	15,849
Finance costs			(11,904)	(11,466)
Taxation (charge) credit			(56)	5,537
Loss attributable to equity holders of the Company			(22,822)	(46,972)

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as approximately 90% (2006: 90%) of the Group's assets are located in the PRC.

6. OTHER INCOME

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	319	2,282
Net write-back of provision for doubtful debts	144	6,359
	<u>463</u>	<u>8,641</u>

7. LOSS BEFORE TAXATION

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is stated after charging:		
Finance costs		
Interest on bank borrowings wholly repayable within five years	9,495	8,030
Interest on mortgage loan wholly repayable within five years	87	993
Interest on loans from a shareholder wholly repayable within five years	1,026	–
Interest on loan from a related company wholly repayable within five years	330	–
Finance charges on obligations under finance leases	272	1,279
Interest on trade payables overdue	528	1,164
Other interest expenses	166	–
	<u>11,904</u>	<u>11,466</u>
Other items		
Auditors' remuneration		
– Current year	600	760
– Underprovision in previous year	200	–
	<u>800</u>	<u>760</u>
Cost of inventories	189,717	207,883
Depreciation of property, plant and equipment	17,563	30,869
Exchange loss, net	4,762	1,795
Operating lease charge on premises	907	1,551
Provision for inventory obsolescence	–	5,685
	<u>213,866</u>	<u>247,783</u>
Staff costs (excluding directors' emoluments):		
Wages and salaries	32,452	43,295
Termination benefits	1,558	2,563
Contributions to retirement schemes	987	1,314
	<u>34,997</u>	<u>47,172</u>

8. DIRECTORS' EMOLUMENTS

		2007			
	<i>Note</i>	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors					
Ho Yau Shun	i	–	308	10	318
Tong Cheehung, Richard	ii	–	482	4	486
Xu Jin		–	–	–	–
Non-executive directors					
Chan Shu Wah	iii	–	–	–	–
Chan Ying Gi, Dorice	iv	–	–	–	–
Kong Yick Ming	v	–	–	–	–
Lau Kin Hon		–	600	12	612
Independent non-executive directors					
Chan Man Sum Ivan	vi	115	–	–	115
Cheung Kiu Cho Vincent	vii	96	–	–	96
He Chengying	viii	61	–	–	61
Ng Shiu Kwan	ix	59	–	–	59
Yeung Po Chin	x	59	–	–	59
Yim Kai Pung	xi	25	–	–	25
		<u>415</u>	<u>1,390</u>	<u>26</u>	<u>1,831</u>

Notes:

2006/2007

- i) Retired on 27 September 2006.
- ii) Resigned on 1 August 2006.
- iii) Retired on 27 September 2006.
- iv) Resigned on 24 August 2006.
- v) Retired on 27 September 2006.
- vi) Appointed on 14 June 2006.
- vii) Appointed on 14 June 2006.
- viii) Appointed on 27 September 2006.
- ix) Retired on 27 September 2006.
- x) Retired on 27 September 2006.
- xi) Resigned on 14 June 2006.

		2006				
	Note	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Compensation for loss of office HK\$'000	Total HK\$'000
Executive directors						
Chan Chun Hing	i	–	10	–	–	10
Chan Ying Gi, Dorice	ii	–	899	2	–	901
Cheung Tak Ming, Paul	iii	11	110	–	–	121
Ho Yau Shun	iv	–	47	–	–	47
Lee Kwa Ching, Peter	v	–	193	1	360	554
Tong Cheehung, Richard	vi	–	26	–	–	26
Non-executive directors						
Lai Yik Yee, Andona	vii	20	–	–	–	20
Lau Kin Hon	viii	51	461	7	–	519
Kok Zhi Yi, Katrina	ix	–	283	5	–	288
Independent non-executive directors						
Fok Kam Chau, Peter	x	109	–	–	–	109
Lee Kwan Hung, Eddie	xi	19	–	–	–	19
Leung Milton Kwan	xii	66	–	–	–	66
Ng Shiu Kwan	xiii	15	–	–	–	15
Tso Hon Sai, Bosco	xiv	50	–	–	–	50
U Keng Tin	xv	16	–	–	–	16
Wong Hui Ching, Jeoffrey	xvi	105	–	–	–	105
Yeung Po Chin	xvii	93	–	–	–	93
Yim Kai Pung	xviii	93	–	–	–	93
		<u>648</u>	<u>2,029</u>	<u>15</u>	<u>360</u>	<u>3,052</u>

Notes:

2005/2006

- i) Resigned on 19 April 2005.
- ii) Appointed on 19 April 2005 as Non-executive Director, re-designated as Executive Director on 31 May 2005 and Non-executive Director on 24 March 2006.
- iii) Appointed on 26 September 2005 as Independent Non-executive Director, re-designated as Executive Director on 13 October 2005 and resigned on 23 January 2006.
- iv) Appointed on 23 January 2006.
- v) Resigned on 10 May 2005.
- vi) Appointed on 24 March 2006.
- vii) Appointed on 9 August 2005 and resigned on 19 October 2005.
- viii) Appointed on 19 April 2005 as Independent Non-executive Director and re-designated as Non-executive Director on 31 May 2005.
- ix) Re-designated as Non-executive Director on 19 April 2005 and resigned on 9 August 2005.
- x) Appointed on 1 April 2005 and retired on 23 September 2005.
- xi) Resigned on 23 April 2005.

- xii) Appointed on 13 October 2005 and resigned on 10 February 2006.
- xiii) Appointed on 14 February 2006.
- xiv) Appointed on 31 May 2005 and retired on 23 September 2005.
- xv) Resigned on 19 April 2005.
- xvi) Appointed on 11 April 2005 and retired on 23 September 2005.
- xvii) Appointed on 26 September 2005.
- xviii) Appointed on 26 September 2005 and resigned on 14 June 2006.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year. Compensation for loss of office in 2006 were paid by the Company for the loss of office as director of the Company.

9. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals of the Group during the year included two (2006: two) directors of the Company, details of whose emoluments are set out in note 8 above. The emoluments of the remaining three (2006: three) individuals are as follows:

	2007	Group	2006
	<i>HK\$'000</i>		<i>HK\$'000</i>
Salaries and other benefits	2,066		1,442
Contributions to retirement scheme	36		34
	<u>2,102</u>		<u>1,476</u>

The emoluments fell within the following bands:

	Group	
	Number of individuals	
	2007	2006
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

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.

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

	2007	Group
	<i>HK\$'000</i>	<i>2006</i>
		<i>HK\$'000</i>
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax:		
Under (Over) provision in prior years	56	(5,822)
Deferred taxation		
Origination and reversal of temporary difference	–	285
Total taxation charge (credit) for the year	<u>56</u>	<u>(5,537)</u>

	2007	Group
	<i>%</i>	<i>2006</i>
		<i>%</i>
<i>Reconciliation of effective tax rate</i>		
Applicable tax rate	(16)	(15)
Non-deductible expenses	–	(1)
Utilisation of previously unrecognised tax losses	(1)	(1)
Unrecognised temporary differences	(17)	(4)
Unrecognised tax losses	33	19
Over provision in prior years	–	11
Others	1	1
Effective tax rate for the year	<u>–</u>	<u>10</u>

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

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

Of the Group's loss for the year of HK\$22,822,000 (2006: HK\$46,972,000), a loss of HK\$15,912,000 (2006: HK\$46,453,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$22,822,000 (2006: HK\$46,972,000) and on the weighted average number of 868,733,440 (2006: 868,733,440) shares in issue during the year.

Diluted loss per share for the years of 2007 and 2006 are not shown as there are no potential ordinary shares in issue in both years.

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 2006								
At beginning of year	210,096	3,302	17,913	3,252	806	36,147	12,028	283,544
Additions	–	41	222	112	27	2,597	604	3,603
Disposals	(19,632)	(21)	–	(11)	(541)	–	(338)	(20,543)
Depreciation	(6,051)	(885)	(6,670)	(1,868)	(128)	(15,267)	–	(30,869)
Impairment loss	(13,171)	–	–	–	–	–	–	(13,171)
Reversal of impairment loss	–	–	3,653	–	–	12,196	–	15,849
Reclassification to properties held for sale	(12,688)	–	–	–	–	–	–	(12,688)
Reclassification from construction-in- progress	11,831	3	118	–	–	–	(11,952)	–
At balance sheet date	170,385	2,440	15,236	1,485	164	35,673	342	225,725
Reconciliation of carrying amount – year ended 31 March 2007								
At beginning of year	170,385	2,440	15,236	1,485	164	35,673	342	225,725
Additions	593	634	443	467	223	3,388	237	5,985
Disposals and write-off	–	(53)	(1,766)	(26)	–	–	–	(1,845)
Depreciation	(4,628)	(818)	(5,319)	(1,109)	(140)	(5,549)	–	(17,563)
Impairment loss	–	–	–	–	–	(4,569)	–	(4,569)
Reversal of impairment loss	12,016	–	2,262	–	–	–	–	14,278
Reclassification from construction-in- progress	–	221	–	–	–	–	(221)	–
At balance sheet date	178,366	2,424	10,856	817	247	28,943	358	222,011
At 1 April 2006								
Cost	253,348	23,537	120,591	33,302	6,363	191,058	342	628,541
Accumulated depreciation and impairment losses	(82,963)	(21,097)	(105,355)	(31,817)	(6,199)	(155,385)	–	(402,816)
	170,385	2,440	15,236	1,485	164	35,673	342	225,725
At 31 March 2007								
Cost	253,941	15,791	104,288	32,833	6,421	194,446	358	608,078
Accumulated depreciation and impairment losses	(75,575)	(13,367)	(93,432)	(32,016)	(6,174)	(165,503)	–	(386,067)
	178,366	2,424	10,856	817	247	28,943	358	222,011

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

In light of the continuing operating loss experienced by the Group during the year, the management has reviewed the carrying value of the property, plant and machinery in order to assess their recoverable amount. Based on this assessment, reversal of and provision for impairment loss have been recognised as follows:

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
By reference to the subsequent disposal considerations		
– Leasehold land and buildings in Hong Kong	–	(1,638)
– Leasehold land and buildings in the PRC	–	(8,018)
	<u>–</u>	<u>(9,656)</u>
By reference to independent professional valuation on the market value of the assets		
– Plant and machinery	2,262	3,653
Based on value in use as estimated by the management		
– Leasehold land and buildings in the PRC	12,016	(3,515)
– Moulds	(4,569)	12,196
	<u>7,447</u>	<u>8,681</u>
Reversal of (Provision for) impairment loss on property, plant and equipment	<u>9,709</u>	<u>2,678</u>

Represented by:

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss on property, plant and equipment	(4,569)	(13,171)
Reversal of impairment loss on property, plant and equipment	14,278	15,849
	<u>9,709</u>	<u>2,678</u>

The net book value of the Group's property, plant and equipment includes an amount of HK\$801,000 (2006: HK\$3,090,000) in respect of assets held under finance leases.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests in subsidiaries		
Unlisted shares, at cost	158,598	158,598
Less: Provision for impairment in value	(157,877)	(157,877)
	<u>721</u>	<u>721</u>
Due from subsidiaries	408,989	379,119
Provision for doubtful debts	(321,140)	(305,454)
	<u>87,849</u>	<u>73,665</u>
	<u>88,570</u>	<u>74,386</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying value of the amounts due approximates their fair values.

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

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company		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 Ltd.	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
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%	Property holding
Magicgrand Development Limited	British Virgin Islands	US\$1 ordinary	–	100%	Manufacturing and trading of plastic and metal products
Jinda Plastic Metal Products (Shenzhen) Co., Ltd.	The PRC	HK\$180,000,000 registered capital	–	100%	Manufacturing and trading of plastic and metal products
Magician Industrial Company Limited	Hong Kong	HK\$5 ordinary	–	100%	Marketing and trading of plastic and metal products
More Concept Limited	Hong Kong	HK\$3 ordinary	–	100%	Marketing and trading of plastic and metal products
Grandmate Industrial Company Limited	Hong Kong	HK\$251,000 ordinary	–	100%	Marketing and trading of plastic and metal products
Magician Lifestyle Limited	Hong Kong	HK\$1 ordinary	–	100%	Marketing and trading of plastic and metal products

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

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

15. INVENTORIES

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	12,638	7,980
Work-in-progress	9,842	10,771
Finished goods	7,054	9,319
	<u>29,534</u>	<u>28,070</u>

The amount of inventories included in above, excluding those fully provided for with nil carrying value, carried at fair value less costs to sell is HK\$3,522,000 (2006: HK\$10,611,000).

16. TRADE AND BILLS RECEIVABLES

In general, the Group 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	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 1 month	14,026	16,439
1 month to 2 months	10,181	7,784
2 months to 3 months	2,267	3,756
3 months to 6 months	201	126
6 months to 1 year	340	330
	<u>27,015</u>	<u>28,435</u>

17. TRADE AND OTHER PAYABLES

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
From a related company	1,923	–
From third parties	36,581	50,256
	<u>38,504</u>	<u>50,256</u>
Other payables and accruals	48,488	47,119
	<u>86,992</u>	<u>97,375</u>

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

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 3 months	23,158	12,195
3 months to 6 months	5,177	7,451
6 months to 1 year	2,179	9,044
More than 1 year	7,990	21,566
	<u>38,504</u>	<u>50,256</u>

Included in the other payables and accruals is an advance from a third party of HK\$13,177,000 (2006: HK\$Nil) which is unsecured, interest-free and has no fixed repayment term.

18. ADVANCE FROM A RELATED COMPANY

The advance from a related company, a company in which Mr. Xu Jin has beneficial interest, is unsecured, interest-free and has no fixed repayment term.

19. LOAN FROM A RELATED COMPANY, UNSECURED

The loan from a related company, a company in which Mr. Xu Jin has beneficial interest, was unsecured, interest bearing at a fixed interest rate of 7% per annum and repayable on 11 May 2007. In May 2007, the Company entered into a loan renewal agreement with the related company in the same terms as the previous loan agreement. The loan is repayable in September 2007.

20. LOANS FROM A SHAREHOLDER, UNSECURED

The loans from a shareholder were unsecured and interest bearing at HIBOR plus 3% per annum. Out of the loans from the shareholder of HK\$28,000,000, HK\$13,000,000 was due for settlement on 18 March 2007. In May 2007, the Company entered into loan renewal agreements with the shareholder in the same terms as the previous loan agreements. The entire loans are repayable in September 2007.

21. BANK AND OTHER BORROWINGS**(a) Short-term bank and other borrowings, secured**

Included in short-term bank and other borrowings was bank loan of HK\$120,000,000 which is repayable within 1 year. Bank and other loans were interest bearing at LIBOR/HIBOR plus 1.5% to 2% per annum.

(b) Long-term bank borrowing, secured

The bank loan of HK\$70,000,000 was interest bearing at HIBOR plus 1.5% per annum. The bank loan was fully repaid during the year.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amounts payable:				
Within one year	2,273	6,980	2,003	6,213
In the second to fifth years inclusive	4,006	81	3,666	74
	6,279	7,061	5,669	6,287
Future finance charges	(610)	(774)	–	–
Present value of lease obligations	<u>5,669</u>	<u>6,287</u>	<u>5,669</u>	<u>6,287</u>

The lease terms ranged from three to five years. All lease agreements are on a fixed repayment basis and no arrangement for contingent rental payments.

23. SHARE CAPITAL

	2007 HK\$'000	2006 HK\$'000
Authorised: 4,000,000,000 (2006: 4,000,000,000) ordinary shares of HK\$0.10 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid: 868,733,440 (2006: 868,733,440) ordinary shares of HK\$0.10 each	<u>86,873</u>	<u>86,873</u>

24. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group						
At 1 April 2005	282,049	1,265	139	51	(272,947)	10,557
Loss for the year	-	-	-	-	(46,972)	(46,972)
At 31 March 2006	<u>282,049</u>	<u>1,265</u>	<u>139</u>	<u>51</u>	<u>(319,919)</u>	<u>(36,415)</u>
At 1 April 2006	282,049	1,265	139	51	(319,919)	(36,415)
Loss for the year	-	-	-	-	(22,822)	(22,822)
At 31 March 2007	<u>282,049</u>	<u>1,265</u>	<u>139</u>	<u>51</u>	<u>(342,741)</u>	<u>(59,237)</u>
		Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company						
At 1 April 2005		282,049	1,265	158,398	(415,447)	26,265
Loss for the year		-	-	-	(46,453)	(46,453)
At 31 March 2006		<u>282,049</u>	<u>1,265</u>	<u>158,398</u>	<u>(461,900)</u>	<u>(20,188)</u>
At 1 April 2006		282,049	1,265	158,398	(461,900)	(20,188)
Loss for the year		-	-	-	(15,912)	(15,912)
At 31 March 2007		<u>282,049</u>	<u>1,265</u>	<u>158,398</u>	<u>(477,812)</u>	<u>(36,100)</u>

The laws and regulations of the PRC require wholly foreign-owned enterprises in the PRC ("WFOE") to provide for certain statutory reserves, namely general reserve, enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the statutory accounts.

The Group's subsidiaries in the PRC, which are WFOE, are required to allocate at least 10% of their after-tax profit to the general reserve until the reserve has reached 50% of its registered capital. The general reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. The staff welfare and bonus fund can only be used for the welfare of the employees of the subsidiaries in the PRC. Appropriation to the enterprise expansion fund and staff welfare and bonus fund is at the discretion of the Board of Directors of the subsidiaries in the PRC.

The 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.

25. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deductible temporary differences	15,763	66,561
Tax losses	305,474	213,555
	<u>321,237</u>	<u>280,116</u>
At the balance sheet date	<u>321,237</u>	<u>280,116</u>

The tax losses of HK\$95,056,000 (2006: HK\$36,906,000) arising in Hong Kong have no expiry date under current tax legislation. The tax losses of HK\$210,418,000 (2006: HK\$176,649,000) and deductible temporary differences of HK\$15,763,000 (2006: HK\$66,561,000) arising in the PRC can be used to offset against future taxable profits of the respective subsidiaries for a maximum of 5 years. The Group has not recognised deferred tax asset in respect of tax losses and deductible temporary differences because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The unrecognised tax losses arising in PRC at the balance sheet date will expire as follows:

	Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Year of expiry		
2010	41,543	41,543
2011	135,106	135,106
2012	33,769	–
	<u>210,418</u>	<u>176,649</u>
At the balance sheet date	<u>210,418</u>	<u>176,649</u>

26. 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.

27. PENSION RETIREMENT OBLIGATIONS

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

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

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK\$1,013,000 (2006: HK\$1,329,000).

28. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties, details of which are set out below:

Related party relationship	Nature of transaction	Group	
		2007 HK\$'000	2006 HK\$'000
Key management personnel, including directors (note i)	Compensation		
	Salaries and other benefits	3,636	3,326
	Termination benefits	–	636
	Contribution to MPF Scheme	63	48
	Total compensation	<u>3,699</u>	<u>4,010</u>
Companies owned by Mr. Xu Jin, a director and shareholder of the Company	Advances to the Group	7,000	–
	Loan to the Group	7,800	–
	Guarantee for short-term bank borrowings granted to the Group	10,000	–
	Interest expenses on loans granted	<u>330</u>	<u>–</u>
A company owned by the beneficial owner of the Company's shareholder	Guarantee for short-term bank borrowings granted to the Group	<u>10,000</u>	<u>–</u>
A shareholder	Loans to the Group	28,000	–
	Interest expenses on loans granted	<u>1,026</u>	<u>–</u>
Ex-director, Mr. Kong Yick Ming, and a related company of the ex-director	Settlement of claims in respect of financial guarantee granted to the Group in previous years	<u>3,354</u>	<u>–</u>

- (i) The remuneration of directors and key executives is reviewed by the Board having regard to the performance of individuals and market trends.

- (ii) In November 2006, the Group entered into two agency agreements with its related companies, companies owned by Mr. Xu Jin, a director and shareholder of the Company, and the beneficial owner of the Company's shareholder respectively for providing trade financial assistance in relation to the procurement of the Group's raw materials. The related companies only recovered any charges and expenses incurred for the provision of such services from the Group.

29. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments include equity investments, trade and other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United State dollar exchange rate remains pegged and the PRC government continues to be conservative in their foreign exchange and monetary policies. Moreover, the currency risk for bank and other borrowings was minimal as they were denominated in Hong Kong dollars and United States dollars. However, management monitors currency risk exposure and will consider hedging significant exposure should the need arise.

Interest rate risk

The Group's interest rate risk primarily relates to the Group's bank and other borrowings (included in current and non-current liabilities) and obligation under finance leases. The interest rates and terms of repayment have been disclosed in Note 19, 20, 21 and 22 to the financial statements respectively. Management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

The Group had net current liabilities of approximately HK\$190,709,000 as at 31 March 2007 which include bank loans and other borrowings of approximately HK\$133,068,000 and HK\$42,800,000 respectively. As mentioned in note 2 to the financial statements, management will monitor the cash flows of the Group and, upon maturity, arrange refinancing of the bank and other borrowings, where appropriate, to enable the Group to service repayment of these borrowings when due.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management of the Group has a credit limit policy in place and exposures to credit risk are monitored on an ongoing basis. In order to minimise credit risk, management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions is taken to recover overdue debts.

30. COMMITMENTS

(a) Capital expenditure commitments

	2007 HK\$'000	Group 2006 HK\$'000
Contracted but not provided for, net of deposits paid	<u>244</u>	<u>83</u>

(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	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	898	150
In the second to fifth years inclusive	149	–
	<u>1,047</u>	<u>150</u>

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company has contingent liabilities not provided for in the financial statements in respect of corporate guarantees of HK\$152,500,000 (2006: HK\$115,600,000) for banking facilities granted to its subsidiaries, which were utilised by subsidiaries to the extent of approximately HK\$133,100,000 (2006: HK\$83,922,000).

The Company has not recognised any deferred income for the corporate guarantees given in respect of the banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK\$Nil.

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

32. 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	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land and buildings	178,366	170,385
Bank deposits	5,058	2,130
	<u>183,424</u>	<u>172,515</u>

33. POST BALANCE SHEET EVENTS

On 27 June 2007, the Company entered into a conditional Placing Agreement for the placing of zero-coupon convertible bonds in an aggregate principal amount of up to HK\$26,000,000 at a maturity date of eighteen months (the "Maturity Date") from the issue date of the convertible bonds (the "Issue Date"). Each convertible bond is convertible into one ordinary share at an exercise price of HK\$0.15 each. Bondholders shall not be entitled to receive notice of, attend or vote at any general meeting of the Company.

If the convertible bonds or any part thereof are not converted into ordinary shares, the Company shall have the right at any time during the period commencing from the date immediately following the Issue Date and expiring on the Maturity Date to redeem the whole or part of the outstanding convertible bonds at a premium at the rate of 10% of the principal amount of the convertible bonds to be redeemed.

II. INDEBTEDNESS**(a) Borrowings**

As at 30 September 2007, the latest practicable date prior to the printing of this circular, for the purpose of ascertaining information relating to the indebtedness of the Group, the Group had outstanding borrowings of approximately HK\$210 million.

(b) Securities

As at 30 September 2007, the above borrowings were secured by the Group's certain leasehold land and buildings and bank deposits of approximately HK\$120 million and HK\$5.2 million respectively.

(c) Contingent liabilities

As at 30 September 2007, the Company has contingent liabilities in respect of corporate guarantees of HK\$164 million for banking facilities granted to its subsidiaries, which were utilised by subsidiaries to the extent of approximately HK\$128 million.

Various ex-employees of Jinda Plastic Metal Products (Shenzhen) Co. Ltd. ("Jinda"), a wholly owned subsidiary of the Company, have lodged claims against Jinda in the PRC courts relating to labour dispute totaling about RMB3.44 million, Jinda is actively defending the claims. The Directors believe that Jinda is in a good financial standing to settle the amount, in case it loses in the legal action. The Directors take the view that the litigation arose in usual course of trading which would not exert any material adverse impact on the financial position of the Group as a whole.

(d) Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 September 2007, the Group had no outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 March 2007, being the date to which the latest published audited accounts of the Company were made up to.

III. WORKING CAPITAL

The Board is of the opinion that based on the internally generated funds, available banking facilities and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements.

IV. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 March 2007, being the date of which the latest audited financial statements of the Group were made up.

I. UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 13 of Part B of Appendix 1 to and Rule 4.29 of the Listing Rules to illustrate the effect of the Open Offer on the audited consolidated net tangible assets of the Group as at 31 March 2007, as set out in Appendix I to this circular, as if it had taken place on 31 March 2007. The unaudited pro forma consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not be indicative of the net tangible assets of the Group following the Open Offer.

Based on 434,366,720 Offer Shares in issue, the unaudited pro forma consolidated net tangible assets of the Group as at 31 March 2007 is based on audited consolidated net tangible assets of the Group as at 31 March 2007, as shown in the consolidated balance sheets of the Company as at 31 March 2007 as set out in Appendix I to this circular and the adjustments described below.

Audited consolidated net tangible assets attributable to equity holders of the Company as at 31 March 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma consolidated net tangible assets of the Group attributable to the shareholders of the Company after the Open Offer <i>HK\$'000</i>	Audited consolidated net tangible assets per Share as at 31 March 2007 <i>HK\$</i>	Unaudited pro forma consolidated net tangible assets per Share immediately after the completion of the Open Offer <i>HK\$</i> <i>(Note 3)</i>
27,636	40,600	68,236	0.03	0.05

Notes:

1. The audited consolidated net tangible assets attributable to equity holders of the Company as at 31 March 2007 has been extracted from the published annual report of the Company for the year ended 31 March 2007.
2. The adjustment represents the estimated net proceeds from the Open Offer of approximately HK\$40,600,000 which was calculated based on 434,366,720 Offer Shares to be issued at a subscription price of HK\$0.10 per Offer Share and after deduction of related expenses and assuming no exercise of any conversion rights attaching to the convertible bonds of the Company on or before the completion of the Open Offer.
3. The calculation of the unaudited pro forma consolidated net tangible assets per Share is based on 1,303,100,160 Shares (including the issued share capital of the Company of 868,733,440 shares as at the Latest Practicable Date and 434,366,720 Offer Shares) in issue immediately after the completion of the Open Offer.

It is assumed that no Convertible Bonds has been converted into Shares up to the completion of the Open Offer.

4. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2007.

II. REPORT ON UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report on unaudited pro forma consolidated net tangible assets of the Group, prepared for the sole purpose of inclusion in this circular, received from Mazars CPA Limited, the auditors of the Company:

12 November 2007

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP TO THE DIRECTORS OF MAGICIAN INDUSTRIES (HOLDINGS) LIMITED

We report on the unaudited pro forma financial information of Magician Industries (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in page II-1 under the heading of Unaudited Pro Forma Consolidated Net Tangible Assets of the Group in Appendix II of the Company's circular dated 12 November 2007 (the "Circular") in connection with the proposed open offer (the "Open Offer") of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the Open Offer might have affected the relevant financial information of the Group as at 31 March 2007. The basis of preparation of the pro forma financial information is set out on page II-1 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2007 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Mazars CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Vigers Appraisal & Consulting Limited, an independent valuer, in connection with its valuation as at 30 September 2007 of the property interests in the PRC of the Group.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong



12 November 2007

The Directors
Magician Industries (Holdings) Limited
Flat A, 2nd Floor,
Yeung Yiu Chung (No. 6) Industrial Building,
No. 19 Cheung Shun Street,
Cheung Sha Wan,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Magician Industries (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) in the People’s Republic of China (“the PRC”), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 30 September 2007 (“date of valuation”) for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property interests, which are held and occupied by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price in Shenzhen City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The

depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interests. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest, we have relied on the legal opinion (“the PRC legal opinion”) provided by the Group’s PRC legal adviser, GFE Law Office.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate used in valuing the property interests in the PRC as at 30 September 2007 was HK\$1=RMB0.967. There has been no significant fluctuation in the exchange rate for Renminbi against Hong Kong Dollars between that date and the date of this letter.

The potential tax liability which would arise on the disposal of the property interests held by the Group in the PRC mainly includes PRC sales tax (5% of sales revenue), PRC land appreciation tax (30% - 60% of the net appreciation amount) and PRC corporate income tax (15% - 33%). It is unlikely that such tax liability will be crystalized in the recent future as the Group has no current intention to dispose of or transfer the relevant property interests. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Executive Director

Note: Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty years' experiences in undertaking valuations of properties in Hong Kong and has over thirteen years' experiences in valuations of properties in the PRC.

SUMMARY OF VALUES

Property interests held and occupied by the Group in the PRC

Property	Market Value as at 30 September 2007
1. An industrial complex located at Shajing Road, Shajing Town, Baoan District, Shenzhen, the PRC	RMB75,000,000 (equivalent to approximately HK\$77,559,000) (See Note 1 below)
2. A parcel of land located at Shatou Cun, Shajing Town, Baoan District, Shenzhen, the PRC	No commercial value (See Note 2 below)
Total:	RMB75,000,000 (equivalent to approximately HK\$77,559,000)

Note 1: In the course of our valuation, we have ascribed no commercial value to part of the property as that part of the property is not permitted to be transferred and the Real Estate Certificate has not been obtained. However, for indicative purpose, the market value of that part of the property as at the date of valuation was RMB96,800,000 (equivalent to approximately HK\$100,103,000) assuming that part of the property is entitled to be transferred in the open market and has obtained the Real Estate Ownership Certificate.

Note 2: In the course of our valuation, we have ascribed no commercial value to the property as the property is not permitted to be transferred. However, for indicative purpose, the market value of the property as at the date of valuation was RMB2,790,000 (equivalent to approximately HK\$2,885,000) assuming that the property is entitled to be transferred in the open market.

VALUATION CERTIFICATE

Property interests held and occupied by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value in as at 30th September 2007
1. An industrial complex located at Shajing Road, Shajing Town, Baoan District, Shenzhen, the PRC	<p>The property comprises 8 parcels of land together with 15 buildings completed between 1993 and 2005 erected thereon.</p> <p>The property has a total site area of approximately 71,012.94 sq.m. and has a total gross floor area of approximately 117,347.2 sq.m. In which, 12 buildings having a total gross floor area of approximately 96,997.2 sq.m. have obtained the Real Estate Ownership Certificates and the remaining 3 buildings with a total gross floor area of approximately 20,350 sq.m. have not obtained the Real Estate Ownership Certificates. Particulars of the land portion and the building portion of the property are summarized in Notes 2 and 3.</p> <p>The property has been granted a land use rights for a term of 50 years with an expiry date on 9 November 2041 for industrial and quarter uses.</p>	The property is occupied by the Group for factory, warehouse and ancillary uses.	<p>RMB75,000,000</p> <p>(equivalent to approximately HK\$77,559,000)</p> <p>(See Note 11 below)</p>

Notes:

- According to 65 Real Estate Ownership Certificates (Document Nos.: Shen Fang Di Zi. No. 7211057, 7211056, 7211055, 7211054, 7211053, 7211062, 7211061, 7211060, 7211059, 7211058, 7217747, 7217761, 7217748, 7217749, 7217751, 7217756, 7217762, 7217755, 7217757, 7217746, 7217752, 7217753, 7217754, 7217760, 7217758, 7228014, 7228012, 7228011, 7228008, 7228007, 7228006, 7228004, 7228001, 7211046, 7211045, 7211067, 7211065, 7211066, 7211064, 7211051, 7211047, 7211048, 7211049, 7211050, 5000095958, 5000095959, 5000095960, 5000095961, 5000095962, 5000097310, 5000097311, 5000097312, 5000097313, 5000097314, 7211052, 7217750, 7217759, 7217745, 5000086008, 7227795, 7217707, 7217708, 7217709, 7217710 and 7217712), the land use rights of the property having a total site area of approximately 71,012.94 sq.m. have been granted to Jinda Plastic Metal Products (Shenzhen) Co., Ltd. ("Jinda Plastic") for a term of 50 years commencing from 10 November 1991 to 9 November 2041. The ownerships of the building portion with a total gross floor area of approximately 96,997.2 sq.m. have been vested in Jinda Plastic.

2. The land portion of the property comprises 8 parcels of land having a total site area of approximately 71,012.94 sq.m., the particulars of these 8 parcels of land are summarized as follow:

Site No.	Site Area (sq.m.)	Usage
A309-0247	26,499.15	Industrial
A309-221	5,269.8	Industrial
A309-0245	9,175.09	Industrial
A309-003	11,702.90	Industrial
A309-0219	7,398.7	Industrial
A309-220	2,563.9	Quarter
A309-004	4,470.8	Quarter
A309-013	3,932.6	Quarter
Total	71,012.94	

3. The building portion of the property comprises 15 buildings having a total gross floor area of approximately 117,347.2 sq.m. In which, 12 buildings have obtained the Real Estate Ownership Certificates and the remaining 3 buildings with a total gross floor area of approximately 20,350 sq.m. have not yet obtained. The particulars of the building portion have been summarized as follow:

Building	Gross Floor Area (sq.m.)	No. of storey	Year of completion	Real Estate Ownership Certificate (Document No.)
Plastic Cement Factory	28,661.8	5	1993	Shen Fang Di Zi No. 7217707 Shen Fang Di Zi No. 7217708 Shen Fang Di Zi No. 7217709 Shen Fang Di Zi No. 7217710 Shen Fang Di Zi No. 7217712
Metal Factory	28,567.1	5	2001	Shen Fang Di Zi No. 5000097310 Shen Fang Di Zi No. 5000097311 Shen Fang Di Zi No. 5000097312 Shen Fang Di Zi No. 5000097313 Shen Fang Di Zi No. 5000097314
Jinda Plastics City (金達塑膠城) (also known as Quarter A)	7,212.7	8	1995	Shen Fang Di Zi No. 7228014 Shen Fang Di Zi No. 7228012 Shen Fang Di Zi No. 7228011 Shen Fang Di Zi No. 7228008 Shen Fang Di Zi No. 7228007 Shen Fang Di Zi No. 7228006 Shen Fang Di Zi No. 7228004 Shen Fang Di Zi No. 7228001
Main Warehouse	17,618.3	5	1994	Shen Fang Di Zi No. 5000095958 Shen Fang Di Zi No. 5000095959 Shen Fang Di Zi No. 5000095960 Shen Fang Di Zi No. 5000095961 Shen Fang Di Zi No. 5000095962
Quarter A	1,584.3	5	1993	Shen Fang Di Zi No. 7217752 Shen Fang Di Zi No. 7217753 Shen Fang Di Zi No. 7217754 Shen Fang Di Zi No. 7217760 Shen Fang Di Zi No. 7217758
Quarter B	1,585.3	5	1993	Shen Fang Di Zi No. 7217756 Shen Fang Di Zi No. 7217762 Shen Fang Di Zi No. 7217755 Shen Fang Di Zi No. 7217757 Shen Fang Di Zi No. 7217746

Building	Gross Floor Area (sq.m.)	No. of storey	Year of completion	Real Estate Ownership Certificate (Document No.)
Quarter C	1,588.3	5	1993	Shen Fang Di Zi No. 7217747 Shen Fang Di Zi No. 7217761 Shen Fang Di Zi No. 7217748 Shen Fang Di Zi No. 7217749 Shen Fang Di Zi No. 7217751
Quarter D	1,728.9	5	1994	Shen Fang Di Zi No. 7211062 Shen Fang Di Zi No. 7211061 Shen Fang Di Zi No. 7211060 Shen Fang Di Zi No. 7211059 Shen Fang Di Zi No. 7211058
Quarter E	1,728.9	5	1994	Shen Fang Di Zi No. 7211057 Shen Fang Di Zi No. 7211056 Shen Fang Di Zi No. 7211055 Shen Fang Di Zi No. 7211054 Shen Fang Di Zi No. 7211053
Quarter F	2,457.8	6	1994	Shen Fang Di Zi No. 7211052 Shen Fang Di Zi No. 7211051 Shen Fang Di Zi No. 7211050 Shen Fang Di Zi No. 7211049 Shen Fang Di Zi No. 7211048 Shen Fang Di Zi No. 7211047
Quarter G	2,457.8	6	1994	Shen Fang Di Zi No. 7211046 Shen Fang Di Zi No. 7211045 Shen Fang Di Zi No. 7211067 Shen Fang Di Zi No. 7211065 Shen Fang Di Zi No. 7211066 Shen Fang Di Zi No. 7211064
Canteen D	1,806	3	1993	Shen Fang Di Zi No. 7217750 Shen Fang Di Zi No. 7217759 Shen Fang Di Zi No. 7217745
Large Machine Factory	15,240	4	1999	Not applicable
Metal Material Godown	1,942	1	2005	Not applicable
Public Godown	3,168	1	1996	Not applicable
Total	117,347.2			

4. The land (Site No. A309-0245) together with the Metal Factory erected thereon are subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 4 November 2003 vide memorial no. 2003-2347(348).
5. The land (Site No. A309-0219) together with the Main Warehouse erected thereon are subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 30 May 2003 vide memorial no. 2003-0883(348).
6. The land (Site No. A309-003) together with the Plastic Cement Factory erected thereon are subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 30 May 2003.
7. The land (Site No. A309-004) together with the Quarter A, Quarter B and Quarter C erected thereon are subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 30 May 2003.

8. The land (Site No. A309-013) together with the Quarter D and Quarter G erected thereon are subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 30 May 2003.
9. The land (Site No. A309-0247) is subject to a mortgage in favour of Bank of China (Shenzhen Baoan Branch) dated 26 October 2004.
10. Pursuant to a Mortgage Agreement entered into between Jinda Plastic (the “Mortgagor”) and The Bank of China Limited (Shenzhen Branch) (the “Mortgagee”) dated 19 October 2006 (Document No.: (2006) Zhen Zhong Yin Si Di Zi No. 0072), the buildings – Jinda Plastics City (金達塑膠城), Main Warehouse, Quarters A to G and Canteen D and land parcels – Site Nos. A309-221, A309-155 and A309-0247 of Property 1 and Property 2 are subject to a mortgage in favour of the Mortgagee at a loan amount of HK\$110,000,000.
11. On account of the statement stated on the Real Estate Ownership Certificates that part of the property is not permitted to be transferred in the open market, we have ascribed no commercial value to the land parcels (Site Nos.: A309-0247, A309-221, A309-0245, A309-220 and A309-004) together with the buildings – Metal Factory, Jinda Plastics City (金達塑膠城), Quarter A, Quarter B, Quarter C and Canteen D. Beside, the Real Estate Ownership Certificates of the Large Machine Factory, Metal Material Godown and Public Godown have not yet been obtained, we have ascribed no commercial value to these three buildings.

However, for indicative purpose, the market value of the above-mentioned buildings and land parcels as at the date of valuation was RMB96,800,000 (equivalent to approximately HK\$100,103,000) assuming the property is entitled to be transferred in the open market.

12. The PRC legal opinion states, inter alia, the following:
 - (i) Jinda Plastic has obtained the legal title of the property which is protected by the law of PRC.
 - (ii) Jinda Plastic is the sole registered owner of the property.
 - (iii) The property is subject to mortgages in favour of Bank of China Limited (Shenzhen Branch), which have been registered legally.
 - (iv) Part of the property (land parcels – Site Nos.: A309-0247, A309-221, A309-0245, A309-220 and A309-004) together with the buildings – Metal Factory, Jinda Plastics City, Quarter A, Quarter B, Quarter C and Canteen D) is not permitted to be transferred. These premises can only be transferred upon an approval for transfer is given by the relevant PRC land management departments and additional land premiums have been fully settled.
 - (v) The property can only be transferred upon the consent of the mortgagor.
13. Jinda Plastic is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value in as at 30th September 2007
2. A parcel of land located on Shatou Cun, Shajing Town, Baoan District, Shenzhen, the PRC	<p>The property comprises a parcel of land with certain structures erected thereon.</p> <p>The property is a leveled land with a site area of approximately 9,995.5 sq.m.</p> <p>The property has been granted a land use rights for a term of 50 years with an expiry date on 7th May 2042 for industrial uses.</p>	The property is a vacant site with certain structures erected thereon.	No commercial value (See Note 2 below)

Notes:

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi. No. 7224714), the land use rights of the property (Site No.: A309-155) having a site area of approximately 9,995.5 sq.m. has been granted to Jinda Plastic Metal Products (Shenzhen) Co., Ltd. ("Jinda Plastic") for a term of 50 years commencing from 8 May 1992 to 7 May 2042 for industrial uses.
2. On account of the statement stated on the Real Estate Ownership Certificates that the property is not permitted to be transferred in the open market, we have ascribed no commercial value to the property (Site No.: A309-155). However, for indicative purpose, the market value of the property as at the date of valuation was RMB2,790,000 (equivalent to approximately HK\$2,885,000) assuming the property is entitled to be transferred in the open market.
3. Pursuant to a Mortgage Agreement entered into between Jinda Plastic (the "Mortgagor") and The Bank of China Limited (Shenzhen Branch) (the "Mortgagee") dated 19 October 2006 (Document No.: (2006) Zhen Zhong Yin Si Di Zi No. 0072), the buildings – Jinda Plastics City (金達塑膠城), Main Warehouse, Quarters A to G and Canteen D and land parcels – Site Nos. A309-221, A309-155 and A309-0247 of Property 1 and Property 2 are subject to a mortgage in favour of the Mortgagee at a loan amount of HK\$110,000,000.
4. The PRC legal opinion states, inter alia, the following:
 - (i) Jinda Plastic has obtained the legal title of the property which is protected by the law of PRC.
 - (ii) Jinda Plastic is the sole registered owner of the property.
 - (iii) The property is subject to a mortgage in favour of Bank of China Limited (Shenzhen Branch), which has been registered legally.
 - (iv) The property is not permitted to be transferred. The property can only be transferred upon an approval for transfer is given by the relevant PRC land management departments and an additional land premium has been fully settled.
 - (v) The property can only be transferred upon the consent of the mortgagor.
5. Jinda Plastic is a wholly-owned subsidiary of the Company.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that in relation to the Underwriter) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than that in relation to the Underwriter) have been arrived at after due and careful consideration and there are no other facts (other than those in relation to the Underwriter) not contained in this circular the omission of which would make any statement (other than those in relation to the Underwriter) herein misleading.

The director(s) of the Underwriter jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that in relation to the Group) and confirms, having made all reasonable enquiries, that to the best of its knowledge, opinions expressed in this circular (other than that in relation to the Group) have been arrived at after due and careful consideration and there are no other facts (other than those in relation to the Group) not contained in this circular the omission of which would make any statement (other than those in relation to the Group) herein misleading.

2. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date were, and (ii) immediately following completion of the Open Offer will be, as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>4,000,000,000</u>	Shares as at the Latest Practicable Date and upon completion of the Open Offer	<u>400,000,000.00</u>
 <i>Issued and fully paid share capital or credited as fully paid:</i>		
868,733,440	Shares in issue as at the Latest Practicable Date	86,873,344.00
<u>434,366,720</u>	Offer Shares to be issued pursuant to the Open Offer	<u>43,436,672.00</u>
<u>1,303,100,160</u>	Shares in issue upon completion of the Open Offer	<u>130,310,016.00</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of allotment of the Offer Shares. The issued Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

There is no arrangement under which future dividends are/will be waived or agreed to be waived. Other than the convertible bonds mentioned in paragraph 2(c) of this Appendix, the Company had no debt securities or other convertible securities in issue as at the Latest Practicable Date.

(b) Share Options

Save and except as disclosed in this circular, none of the members of the Group has granted any options, warrants or other rights to call for the issue of or agreed to issue any share or loan capital or any instrument convertible into or exchangeable for shares of such capital, and none of the members of the group is a party to or otherwise bound by any agreement for the purchase or repurchase of shares of any member of the Group.

(c) Convertible Bonds

By an instrument dated 1 August 2007 and executed by the Company by way of a deed poll, HK\$26,000,000 zero-coupon convertible bonds due upon the expiry of eighteen months from 1 August 2007 in registered form have been created and are outstanding. The Convertible Bonds may be converted into up to 173,333,333 new Shares. The conversion rights attached to the Convertible Bonds are not exercisable for the period commencing on the date of issue of the Convertible Bonds (i.e. 1 August 2007) and expiring on the date falling six months thereafter (i.e. 31 January 2008). The conversion price at which each new Share shall be issued upon the exercise of the conversion right attached to the Convertible Bonds is initially HK\$0.15, and is subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, capital reduction, rights issue and other events which have diluting effects on the issued share capital of the Company. Under such instrument, the Company is required to instruct an approved merchant bank to consider whether any adjustment should be made to the conversion price in order to fairly and appropriately reflect the relative interests of the Company and holders of the Convertible Bonds. Particulars of the adjustments regarding the Convertible Bonds will be set out in the announcement of the results of the Open Offer to be made by the Company.

Save and except for the outstanding Convertible Bonds, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

No Shares had been issued by the Company since 31 March 2007, being the date of the latest published audited financial statements of the Company were made up.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive 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 SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Class and number of Shares <i>(Note 1)</i>	Approximate percentage of the issued share capital of the Company <i>(Note 2)</i>
XU Jin	Beneficial owner	253,837,198 Shares (L)	29.22%

Notes:

- The letter "L" represents the Director's interest (long position) in the Shares.
- The percentages shown are calculated based on 868,733,440 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(b) Directors' interests in assets of the Company

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2007, the date to which the latest published audited financial statements of the Group were made up.

(c) Directors' service agreements

As at the Latest Practicable Date:

- (i) none of the Directors has entered or proposed to enter into a service contract with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation);
- (ii) none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or associated companies within the Relevant Period;
- (iii) none of the Directors had any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more; and
- (iv) none of the Directors had any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

(d) Other Director's interests

- (i) As at the Latest Practicable Date, Hong Kong Winko Polymers Corporation Limited in which Mr. Xu Jin has beneficial interest in 90% of its issued share capital advanced a loan in the principal amount of US\$1 million (equivalent to approximately HK\$7.8 million) to the Company. Such loan is unsecured, interest bearing at a fixed interest rate of 7% per annum and is repayable on 7 December 2007. Save as mentioned above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and which was significant in relation to the business of the Group.
- (ii) Save as disclosed in this circular, none of the Directors had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party for the two years period immediately preceding the Latest Practicable Date.
- (iii) The Company does not have any shareholding in the Underwriter nor any dealing in any securities of the Underwriter during the Relevant Period and up to the Latest Practicable Date. None of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company nor the financial and other adviser of the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had any interest in the shares, convertible securities, warrants, options or derivatives of the Company and the Underwriter as at the Latest Practicable Date.

- (iv) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriter and parties acting in concert with it and other persons that the Offer Shares to be acquired by the Underwriter under the Underwriting Agreement would be transferred, charged or pledged to any other persons.
- (v) Each of the Underwriter and its concert parties, and Mr. Xu Jin (the Chairman of the Board and the executive Director) and his associates and concert parties, and those who are interested in, and involved in, the Underwriting Agreement, the Open Offer, the Special Deal and the Whitewash Waiver will abstain from voting on the resolutions in relation to the Underwriting Agreement, the Open Offer (including the EA Absence), the Whitewash Waiver and the Special Deal at the SGM. None of the Shareholders had, prior to the Latest Practicable Date, irrevocably committed itself to vote for or against the Open Offer, the Special Deal and the Whitewash Waiver, and save for the Underwriter, none of the Shareholders, prior to the Latest Practicable Date, had irrevocably committed themselves to accept or reject the Offer Shares to which they are entitled.
- (vi) As at the Latest Practicable Date, except for the entering into of the Underwriting Agreement, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Underwriter or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer, the Underwriting Agreement and the Whitewash Waiver.
- (vii) As at the Latest Practicable Date, there was no benefit given or agreed to be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver.
- (viii) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Open Offer or otherwise connected with the Open Offer, the Underwriting Agreement and the Whitewash Waiver.
- (ix) As at the Latest Practicable Date, none of the advisers of the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had any interest in the securities of the Company.
- (x) As at the Latest Practicable Date, none of the Directors (other than the Underwriter) had a material personal interest in any material contract entered into by the Underwriter.
- (xi) As at the Latest Practicable Date, the Underwriter and its concert parties beneficially owned 143,492,000 Shares, representing approximately 16.52% of the existing issued share capital of the Company. Save as aforesaid and that the Underwriter was deemed to be interested in 434,366,720 Offer Shares which the Underwriter had undertaken to take up under the Open Offer pursuant to the Underwriting Agreement, none of the Underwriter and parties acting in concert with it owned or had any interest in the securities of the Company as at the Latest Practicable Date. Save for the entering into of the Underwriting Agreement, none of the Underwriter and parties acting in concert with any of them had dealt in any securities of the Company during the Relevant Period.

4. DEALINGS IN SECURITIES, INDEMNITY AND OTHER ARRANGEMENTS**(a) Directors**

None of the Directors or their respective associates had dealt in any shares, convertible securities, warrants, options or derivatives of the Company nor of the Underwriter during the Relevant Period and up to the Latest Practicable Date.

Mr. Xu Jin has not indicated to the Company that he would or would not take up such number of Offer Shares to which he is entitled pursuant to the Open Offer.

(b) The Underwriter

As at the Latest Practicable Date and during the Relevant Period, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Underwriter or parties acting in concert with it and any other person.

None of the directors of the Underwriter had dealt for value in any shares in the Company during the Relevant Period and up to the Latest Practicable Date and up to the Latest Practicable Date.

(c) Others

No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of “associate” under the Takeovers Code as at the Latest Practicable Date and during the Relevant Period.

None of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company, any fund managed on a discretionary basis by any fund manager connected with the Company nor any advisers of the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor any of them had dealt in any shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

5. SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had an option in respect of such capital:

Name of entity	Capacity	Class and number of Shares (Note 1)	Approximate percentage of the issued share capital of the Company (Note 2)
Big-Max	Beneficial owner	577,858,720 Shares (L) (Notes 1 and 3)	66.52%
Li Li-Xin	Interest of controlled corporation	577,858,720 Shares (L) (Note 3)	66.52%
Jin Ya Er	Interest of spouse	577,858,720 Shares (L) (Note 3)	66.52%
Silvermark International Limited	Beneficial owner	55,657,926 Shares (L) (Note 4)	6.41%
Zhou Hui Lian	Interest of controlled corporation	55,657,926 Shares (L) (Note 4)	6.41%

Notes:

- The letter "L" represents the entity's interests in the shares.
- The percentage figures shown are calculated based on 868,733,440 Shares in issue as at the Latest Practicable Date.
- These 577,858,720 Shares include the 143,492,000 Shares owned by Big-Max (i.e. the Underwriter) together with the long position to acquire an additional 434,366,720 Offer Shares which Big-Max has undertaken to take up under the Open Offer pursuant to the Underwriting Agreement. Big Max is owned as to 90% by Mr. Li Li Xin and as to 10% by Ms. Jin Ya Er, the wife of Mr. Li Li Xin. These Shares represent approximately 44.34% of the enlarged issued share capital upon completion of the Open Offer.
- Ms. Zhou Hui Lian is deemed to have a beneficial interest in 55,657,926 Shares through Silvermark International Limited, the entire issued share capital of which is beneficially owned by Ms. Zhou Hui Lian.

As at the Latest Practicable Date, save as mentioned above in this paragraph 5, no entity was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, there is no other person (other than the Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions interested in of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had an option in respect of such capital.

6. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

(a) Name and address of the Directors

Name	Address
<i>Executive Director</i>	
Mr. Xu Jin (Chairman)	Flat 303, No. 24 Nan Ya Xin Cun, Ningbo, PRC
<i>Non-executive Director</i>	
Mr. Lau Kin Hon	Flat A, 3/F Braemar Hill Mansions 19 Braemar Hill Road North Point Hong Kong
<i>Independent non-executive Directors</i>	
Mr. He Chengying	19E, Block D Yuan Chong Garden Futian Shenzhen PRC
Mr. Chan Man Sum Ivan	Room G, 7/F, Block One Tsueng Kwan O Plaza Tsueng Kwan O New Territories Hong Kong
Mr. Cheung Kiu Cho Vincent	Flat A, 13/F 7 Mount Sterling Mall Mei Foo Sun Chuen Kowloon Hong Kong

(b) *Qualification of the Directors and senior management*

Executive Director

Mr. XU Jin, aged 42, is the founder and currently the chairman of a private enterprise incorporated in the PRC whose principal businesses include manufacturing and trading of plastic and metal household products. Mr. Xu has extensive experience in manufacturing and trading of plastic and metal products. He was appointed as chairman and executive Director of the Company and a director of various subsidiaries of the Company in March 2006.

Non-executive Director

Mr. LAU Kin Hon, aged 40, is a Hong Kong practicing solicitor and is currently a partner of Messrs. Tang Tso & Lau, Solicitors. He has been practicing law in Hong Kong for 15 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 44, graduated from the Department of Accountancy of South Western University of Finance and Economics, holds a Master Degree of Economics from Zhejiang University and a Doctoral Degree of Economics from Xiamen University. He previously worked for Shenzhen Investment Holding Corporation, China Eagle Securities and United Securities. Mr. He is currently the Assistant to President and General Manager of the R&D Department of Guosen Securities. He is also an associate professor, senior economist and a special research fellow of the China Management Science Research Institute. Mr. He had previously engaged in state enterprise, state-owned asset management, as well as directly participated in drafting and formulating policies for state enterprise and state-owned asset management reforms. Subsequently, Mr. He has engaged in stock market innovation, assets reorganization, as well as capital market operation and research. He has accumulated extensive experience in corporate reform, assets reorganization and capital management planning. He was appointed as independent non-executive Director of the Company in September 2006.

Mr. CHAN Man Sum Ivan, aged 34, is a member of the American Institute 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 9 years of experience in the field of investment banking, accounting and financial management. He was appointed as independent non-executive Director of the Company in June 2006.

Mr. CHEUNG Kiu Cho Vincent, aged 32, is a Registered Professional Surveyor in the General Practice Division and member of both The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors. Mr. Cheung holds a Master of Business Administration degree in International Management granted by University of London in association with Royal Holloway and Bedford New College and a Bachelor of Science (Honours) degree in Real Estate granted by The Hong Kong Polytechnic University. Mr. Cheung is an Associate Director of an international corporate valuation and advisory company. Mr. Cheung has over 10 years of experience in the field of assets valuation, assets management and corporate advisory. He was appointed as independent non-executive Director of the Company in June 2006.

Senior management

Mr. TANG Yu Ping, aged 38, is the chief financial officer of the Group. Mr. Tang possesses over 13 years of experience in corporate development, financial management and consulting for various industries including logistics and manufacturing. He was the financial controller of a Greater China group listed in Hong Kong for which he led the successful IPO process. By profession, Mr. Tang is a Certified Public Accountant of Hong Kong, and he is also a Fellow of the Association of Chartered Certified Accountants in UK. Moreover, he holds a Master degree in Operational Research and Information Systems from the London School of Economics and Political Science. He joined the Group in April 2006.

Mr. MUNG Chin Yue, aged 41, is the general manager of the Group and is responsible for overall operations of the Group including marketing, sales, product development and manufacturing. Mr. Mung possesses more than 17 years of experience in sales and marketing of consumer products and in management of manufacturing companies. Prior to joining the Group, he was the general manager of a manufacturing company in Greater China. Mr. Mung obtained his Bachelor Degree in Sociology and Politics, Combined Honors, from the University College of Swansea, UK. He joined the Group in June 2007.

Ms. YANG Shu Ying, aged 44, 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 23 years' experience in marketing and sales of household products, garment & sundry. Ms. Yang graduated from Ming Chuan College, Taiwan. She joined the Group in 1992, left in 1995 and rejoined in 1996.

Mr. TONG Kam Lung, aged 38, is the qualified accountant of the Company. He is the finance manager of the Group and responsible for group accounting matters. He is a Fellow member of Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia. He has 15 years working experience in financial accounting and management accounting. Prior to his current occupation, he was a financial controller and qualified accountant of a listed company. He joined the Group in May 2006.

The business address of each of Mr. TANG Yu Ping, Mr. MUNG Chin Yue, Ms. YANG Shu Ying and Mr. TONG Kam Lung is Flat A, 2nd Floor, Yeung Yiu Chung (No.6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

7. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Registered Office	Clarendon House Church Street Hamilton, HM11 Bermuda
Principal place of business in Hong Kong	Flat A, 2nd Floor Yeung Yiu Chung (No.6) Industrial Building 19 Cheung Shun Street Cheung Sha Wan Kowloon Hong Kong
Authorised representatives	XU Jin, Flat 303, No. 24 Nan Ya Xin Cun, Ningbo, PRC LAU Kin Hon, Flat A, 3/F Braemar Hill Mansions 19 Braemar Hill Road North Point Hong Kong
Principal share registrar and transfer office in Bermuda	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Branch share registrar and transfer office in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
The Underwriter	Big-Max Manufacturing Co., Limited Unit A, 5/F., Garment Centre 576-586 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Ultimate beneficial owners of the Underwriter	Mr. Li Li Xin and Ms. Jin Ya Er No. 48, Group 26, Maimianqiao Maimianqiao Village Jishigang Town, Yinzhou Area Ningbo City, the PRC

Legal advisers to the Company as to Hong Kong law	Chiu & Partners 41st Floor Jardine House 1 Connaught Place Hong Kong
Property valuer to the Company as to the properties in the PRC	Vigers Appraisal & Consulting Ltd 10/F., The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
Legal adviser to the Company as to the property titles in the PRC	GFE Law Office 18/F., Guangdong Holdings Tower No.555, Dongfeng East Road Guangzhou PRC
Financial adviser to the Company	Baron Capital Limited 4/F Aon China Building 29 Queen's Road Central Central Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Veda Capital Limited Suite 809 8/F Shui On Centre 8 Harbour Road, Wanchai Hong Kong
Auditors	Mazars CPA Limited <i>Certified Public Accountants</i> 34/F, The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Principal bankers	Indover bank (Asia) Limited Suites 1901-02, 19/F Central Plaza 18 Harbour Road Wanchai Hong Kong

Bank of Communication Co., Ltd, Shenzhen Branch
14th Floor
Huaneng Building
2006A Shennan Zhonglu
Shenzhen
the PRC

Bank of Communication Co., Ltd, Hong Kong Branch
Commercial Banking Centre (Island Central)
1/F., 32-34 Johnston Road
Wanchai
Hong Kong

8. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice in this circular:

Veda Capital Limited	a licensed corporation permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Mazars CPA Limited	Certified Public Accountants
Vigers Appraisal & Consulting Ltd	Professional surveyors and valuers
GFE Law Office	Licensed legal advisers on PRC laws

As at the Latest Practicable Date, none of Veda Capital, Mazars CPA Limited, Vigers Appraisal & Consulting Ltd., and GFE Law Office had any interest, either direct or indirect, in any assets which have been, since 31 March 2007, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group nor had any shareholding in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Veda Capital, Mazars CPA Limited, Vigers Appraisal & Consulting Ltd., and GFE Law Office has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it respectively appears.

9. LITIGATION

Various ex-employees of Jinda Plastic Metal Products (Shenzhen) Co. Ltd. (“Jinda”), a wholly owned subsidiary of the Company, have lodged claims against Jinda in the PRC courts relating to labour dispute totaling about RMB3.44 million. Jinda is actively defending the claims. The Directors believe that Jinda is in a good financial standing to settle the amount, in case it loses in the legal action. The Directors take the view that the litigation arose in usual course of trading which would not exert any material adverse impact on the financial position of the Group as a whole.

Jinda has initiated claims in the PRC courts against various PRC customers for outstanding purchase price totaling about RMB1.68 million. The claims are under process.

Except for the above, as at the Latest Practicable Date, none of the member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened against any members of the Group.

10. MATERIAL CONTRACTS

Save for the contracts set out below, there is no other material contract (not being contract entered into in the ordinary course of business) entered into after the date two years before 21 October 2007, being the date of the Announcement by the Group:

- (a) the Underwriting Agreement;
- (b) the placing agreement dated 27 June 2007 and made between IBTS Asia (HK) Limited (as placing agent) and the Company (as issuer) in respect of the placing of the Convertible Bonds to places to be procured by the placing agent pursuant to which the Company agreed to pay to IBTS Asia (HK) Limited a placing commission of 1% of the aggregate placing price of the Convertible Bonds in the principal amount of up to HK\$26,000,000 placed by IBTS Asia (HK) Limited; and
- (c) a bridging loan agreement dated 22 August 2007 and between the Company as borrower and Big-Max as lender, pursuant to which Big-Max has agreed to provide further unsecured loan facility to the Company up to HK\$10 million at an interest rate of 3% above HIBOR per annum, which will be repayable on the date falling four months after the date of drawdown of such loan. The full amount of the loan in the sum of HK\$10 million was drawn by the Company on 18 October 2007.

11. MARKET PRICES

The table below shows the closing price of the existing Shares on the Stock Exchange as at (i) the last trading day on which trading in Shares took place in each of the six calendar months immediately preceding the date of the Announcement; (ii) the Last Trading Date; and (iii) the Latest Practicable Date.

Date	Closing price of the Existing Shares
30 April 2007	HK\$0.305
31 May 2007	HK\$0.320
29 June 2007	HK\$0.300
31 July 2007	HK\$0.255
31 August 2007	HK\$0.440
28 September 2007	HK\$0.550
Last Trading Date	HK\$0.495
31 October 2007	HK\$0.900
Latest Practicable Date	HK\$1.090

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$1.090 on the Latest Practicable Date and HK\$0.210 on 17 August 2007 respectively.

12. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of Group.

13. GENERAL

- (a) The company secretary of the Company is Mr. Lau Kin Hon. He is a Hong Kong practicing solicitor. He is currently a non-executive Director.
- (b) The qualified accountant of the Company is Mr. Tong Kam Lung. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia.
- (c) The expenses in connection with the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK\$2.8 million and will be payable by the Company.
- (d) The English text of this document shall prevail over the Chinese text for the purpose of interpretation.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any Business Day at the principal place of business in Hong Kong of the Company at Flat A, 2nd Floor, Yeung Yiu Chung (No.6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) this circular;
- (b) the memorandum of association and bye-laws of the Company;

- (c) the annual reports of the Company for each of the three financial years ended 31 March 2007;
- (d) the report from Mazars CPA Limited on the pro forma financial information, the text of which is set out on pages II-1 to II-3 of this circular;
- (e) the letter, summary of values and valuation certificates prepared by Vigers Appraisal & Consulting Ltd., the text of which is set out on pages III-1 to III-9 of this circular;
- (f) the report on the titles to the properties of the Group located in the PRC issued by GFE Law Office;
- (g) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 34 to 56 of this circular;
- (h) the written consents referred to under the paragraph headed “Experts” in this appendix;
- (i) the written consent of Baron Capital Limited to the issue of this circular with the inclusion of its name and logo in which they respectively appear;
- (j) the letter from the Independent Board Committee, the texts of which are set out on pages 32 and 33 of this circular; and
- (k) the material contracts referred to under the paragraph headed “Material Contracts” in this appendix.

The above copy documents (except this circular) will also be available at the website of the Securities and Futures Commission at www.sfc.hk and Company’s website at www.magician.com.hk from the date of this circular up to (and including) the date of the SGM in accordance with Notes 1 and 2 to Rule 8 of the Takeovers Code.

NOTICE OF SGM



MAGICIAN INDUSTRIES (HOLDINGS) LIMITED

通達工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of Magician Industries (Holdings) Limited (“**Company**”) will be held at 10:00 a.m. on Wednesday, 28 November 2007 at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon: (i) the passing of ordinary resolutions numbered 2 and 3 as set out in the notice convening this meeting; (ii) the Executive (as defined in the Circular (as defined below)) granting to the Underwriter (as defined in the Circular) and parties acting in concert with it the Whitewash Waiver (as defined in the Circular) and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive; (iii) the Executive (as defined in the Circular (as defined below)) giving consent to the Special Deal (as defined in the Circular); (iv) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Offer Shares (as defined below) (in fully-paid form); (v) the filing and registration of all documents relating to the Open Offer (as defined below), which are required by law to be filed or registered with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 (as consolidated and revised) of Bermuda and the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance of Hong Kong, respectively; and (vi) the obligation of the Underwriter under the Underwriting Agreement (as defined in the Circular) becoming unconditional and not being terminated in accordance with the terms of that agreement:
 - (a) the Underwriting Agreement be and it is hereby confirmed, approved and ratified;
 - (b) the issue by way of open offer (“**Open Offer**”) of 434,366,720 shares of HK\$0.10 each in the share capital of the Company (“**Offer Shares**”) to the shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company at 4:00 p.m. on 28 November 2007 in the proportion of one Offer Share for every two existing shares of HK\$0.10 each of the Company then held at the subscription price of HK\$0.10 per Offer Share and otherwise on the terms and conditions set out in a circular dated 12 November 2007 (“**Circular**”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) be and is hereby approved;

* for identification purpose only

NOTICE OF SGM

- (c) the directors of the Company (“**Directors**”) be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer provided that in the case of Shareholders whose addresses as shown on the register of members of the Company on at 4:00 p.m. on 28 November 2007 are in any place outside Hong Kong and the Directors, based on the enquiry made by the Company, consider it necessary or expedient not to offer the Offer Shares to such Shareholders (“**Excluded Shareholders**”) on account of either legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Offer Shares shall not be issued to the Excluded Shareholders but shall form part of the Offer Shares underwritten by the Underwriter pursuant to the Underwriting Agreement;
 - (d) the arrangement that the Offer Shares not validly applied for by the Shareholders (other than the Excluded Shareholders) are not available for application by the Shareholders in excess of their assured allotments be and is hereby approved;
 - (e) the Directors be and are hereby authorised to make such other exclusions or other arrangements in relation to the Excluded Shareholders as they may deem necessary or expedient and generally to do such things or make such arrangements as they may think fit to effect the Open Offer; and
 - (f) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Underwriting Agreement or any of the transactions contemplated thereunder.”
2. “**THAT** subject to the Executive (as defined in the Circular (as defined below)) granting to the Underwriter (as defined in the Circular) and parties acting in concert with it the Whitewash Waiver (as defined in the Circular) and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (“**Takeovers Code**”) waiving any obligation on the part of the Underwriter and parties acting in concert with it to make a mandatory general offer to the holders of securities of the Company to acquire securities of the Company other than those already owned by the Underwriter and parties acting in concert with it which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of the fulfillment of the Underwriter’s underwriting obligations under the Underwriting Agreement (as defined in the Circular), the principal terms of which are set out in a circular of the Company to its shareholders dated 12 November 2007 (“**Circular**”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) be and is hereby approved.”

NOTICE OF SGM

3. “**THAT** subject to the Executive (as defined in the Circular (as defined below)) giving consent to the Special Deal (as defined in the Circular) and the satisfaction of any condition attached to such consent given by the Executive, the Special Deal on terms and conditions as set out in a circular of the Company to its shareholders dated 12 November 2007 (“**Circular**”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) be and is hereby approved.”

By order of the board of directors of
Magician Industries (Holdings) Limited
XU Jin
Chairman

Hong Kong, 12 November 2007

Head office and principal place of business in Hong Kong:

Flat A, 2nd Floor
Yeung Yiu Chung (No.6) Industrial Building
19 Cheung Shun Street
Cheung Sha Wan, Kowloon
Hong Kong

Notes:

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority, must be deposited with the Company at its principal office in Hong Kong at Flat A, 2/F, Yeung Yiu Chung (No. 6) Industrial Building, 19 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude the shareholders of the Company from attending and voting in person at the Meeting should it/he/she so desire.

As at the date hereof, the board of directors of the Company comprises (a) Mr. Xu Jin (Chairman), being executive Director, (b) Mr. Lau Kin Hon being non-executive Director and (c) Mr. He Chengying, Mr. Chan Man Sum Ivan and Mr. Cheung Kiu Cho Vincent being independent non-executive Directors.