



**MAGICIAN**

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

INTERIM REPORT

2007/08

中期報告



The board of directors (the “Board”) of Magician Industries (Holdings) Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007 (the “Period”) together with the comparative figures as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Turnover	3	120,270	124,269
Cost of sales		(100,186)	(110,282)
Gross profit		20,084	13,987
Other revenues		655	1,113
Other income		326	267
Selling and distribution expenses		(4,022)	(4,555)
Administrative and other operating expenses		(18,302)	(26,530)
		(21,343)	(29,705)
Loss from operations	4	(1,259)	(15,718)
Finance costs		(5,988)	(6,252)
Loss before taxation		(7,247)	(21,970)
Taxation	5	(4)	(56)
Loss for the Period		(7,251)	(22,026)
Loss per share	7		
– Basic, HK cents		(0.83)	(2.54)
– Diluted, HK cents		(0.78)	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<i>Notes</i>	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>221,782</b>	222,011
		<b>221,782</b>	222,011
<b>CURRENT ASSETS</b>			
Inventories		<b>30,355</b>	29,534
Trade and bills receivable	8	<b>30,533</b>	27,015
Prepayments, deposits and other receivables		<b>4,121</b>	4,395
Tax recoverable		–	233
Pledged deposits		<b>5,190</b>	5,058
Cash and bank balances		<b>9,266</b>	7,919
		<b>79,465</b>	74,154
<b>CURRENT LIABILITIES</b>			
Trade payables	9	<b>38,888</b>	38,504
Other payables		<b>45,930</b>	48,488
Advance from a related company	12	–	7,000
Loan from a related company, unsecured	13	<b>7,800</b>	7,800
Loans from a shareholder, unsecured	14	<b>28,000</b>	28,000
Short-term bank and other borrowings, secured		<b>127,994</b>	133,068
Current portion obligations under finance leases		<b>2,483</b>	2,003
Tax payables		<b>1,670</b>	–
		<b>252,765</b>	264,863

	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
<i>Notes</i>		
<b>NET CURRENT LIABILITIES</b>	<b>(173,300)</b>	(190,709)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>48,482</b>	31,302
<b>NON-CURRENT LIABILITIES</b>		
Zero-coupon convertible bonds	<b>25,461</b>	–
Obligations under finance leases	<b>2,306</b>	3,666
	<b>27,767</b>	3,666
<b>NET ASSETS</b>	<b>20,715</b>	27,636
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>86,873</b>	86,873
Reserves	<b>(66,158)</b>	(59,237)
	<b>20,715</b>	27,636

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Capital redemption reserve	Exchange fluctuation reserve	Contributed surplus	Zero- coupon convertible bonds	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	86,873	282,049	1,265	139	51	-	(319,919)	50,458
Loss for the Period	-	-	-	-	-	-	(22,026)	(22,026)
At 30 September 2006	86,873	282,049	1,265	139	51	-	(341,945)	28,432
At 1 April 2007	86,873	282,049	1,265	139	51	-	(342,741)	27,636
Movements/Loss for the Period	-	-	-	-	-	330	(7,251)	(6,921)
At 30 September 2007	<b>86,873</b>	<b>282,049</b>	<b>1,265</b>	<b>139</b>	<b>51</b>	<b>330</b>	<b>(349,992)</b>	<b>20,715</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash (outflow)/inflow from operating activities	<b>(5,336)</b>	(26,413)
Net cash from investing activities	<b>(5,524)</b>	8,316
Net cash from financing activities	<b>12,340</b>	22,423
Net increase/(decrease) in cash and cash equivalents	<b>1,480</b>	4,326
Cash and cash equivalents at beginning of Period	<b>12,976</b>	6,759
Cash and cash equivalents at end of Period	<b>14,456</b>	11,085

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The Group's condensed consolidated financial statements have been prepared in accordance with applicable disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rule") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and interpretations and the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 March 2007.

### 3. 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.

	Turnover		Segment results	
	Six months ended 30 September		Six months ended 30 September	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
USA	97,723	95,097	6,452	1,054
Canada	2,210	5,523	298	(262)
Hong Kong	8,507	9,976	1,269	1,041
Mainland China	729	89	(38)	(246)
Europe	4,123	5,491	519	(214)
Others	6,978	8,093	879	150
	<b>120,270</b>	124,269	<b>9,379</b>	1,523
Unallocated corporate expenses			<b>(10,638)</b>	(17,241)
Loss from operations			<b>(1,259)</b>	(15,718)
Finance costs			<b>(5,988)</b>	(6,252)
Taxation			<b>(4)</b>	(56)
Loss for the Period			<b>(7,251)</b>	(22,026)

**4. LOSS FROM OPERATIONS**

This is stated after charging/(crediting) the following:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Amortisation of prepaid lease payments	527	527
Depreciation on property, plant and equipment	7,259	14,347
Provision for inventory obsolescence	37	1,119
Provision for bad and doubtful debts	–	287
Exchange loss, net	1,826	2,642
Staff costs	17,064	17,453
Bank interest income	(216)	(109)
Litigation settlements and penalty	1,234	4,927

**5. TAXATION**

Hong Kong profits tax amounting to approximately HK\$4,000 has been provided as the Group incurred a profit for taxation purposes for the Period (2006: HK\$56,000). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**6. DIVIDENDS**

The Directors of the Company do not recommend the payment of interim dividend (2006: Nil) in respect of the Period.

**7. LOSS PER SHARE**

The calculation of basic loss per share for the Period is based on the net loss of HK\$7,251,000 (2006: loss of HK\$22,026,000), and on the weighted average number of 868,733,440 ordinary shares (2006: 868,733,440 ordinary shares) in issue throughout the Periods.

Diluted loss per share for the Period were computed by dividing the loss for the Period by weighted average number of ordinary shares in issue during the Period, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arose from zero-coupon convertible bonds.



**8. TRADE AND BILLS RECEIVABLES**

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

	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
Less than 1 month	<b>10,732</b>	14,026
1 month to 2 months	<b>17,260</b>	10,181
2 months to 3 months	<b>2,509</b>	2,267
3 months to 6 months	<b>32</b>	201
6 months to 1 year	<b>-</b>	340
	<b>30,533</b>	27,015

**9. TRADE PAYABLES**

An aging analysis of trade payables is set out below:

	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
Less than 3 months	<b>24,326</b>	23,158
3 months to 6 months	<b>5,670</b>	5,177
6 months to 1 year	<b>3,079</b>	2,179
More than 1 year	<b>5,813</b>	7,990
	<b>38,888</b>	38,504

## 10. COMMITMENTS

	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
(a) <b>Capital expenditure commitments</b> Contracted but not provided for, net of deposits paid	195	244

(b) **Commitment under operating leases**

The Group had total future minimum lease payments under non-cancelable operating leases, which are payable as follows:

	<b>30 September 2007 HK\$'000 (unaudited)</b>	31 March 2007 HK\$'000 (audited and restated)
Within 1 year	554	898
In the second to fifth years inclusive	-	149
	<b>554</b>	<b>1,047</b>

## 11. CONTINGENT LIABILITIES

In addition to the guarantee granted for banking facilities as disclosed in the latest annual report, at the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of claims by various ex-employees of the Company's subsidiary in the PRC court for compensation totaling RMB3,442,158.

## 12. ADVANCE FROM A RELATED COMPANY

The advance from a related company, a company in which Mr. Xu Jin has beneficial interest, was unsecured and interest-free. The advance was repaid on 8 August 2007.

**13. 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. The loan was renewed and repayable in January 2008.

**14. LOANS FROM A SHAREHOLDER, UNSECURED**

The loans from a shareholder were unsecured and interest bearing at HIBOR plus 3% per annum. The loans were renewed and repayable in December 2007.

**15. POST BALANCE SHEET EVENTS**

Subsequent to 30 September 2007, the Group has the following post balance sheet events:

- (a) The bank loan in the principal amount of around HK\$108.8 million (outstanding as at the balance sheet date) was settled in late October 2007. Moreover, a 3-year term loan facility in the amount of RMB120 million at the interest rate of 105% of the base leading rate published by the People's Bank of China was obtained in October 2007. As at the date hereof, RMB100 million has been drawn 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 due course. The assets pledged for the said loan had a value of approximately HK\$178 million which are fixed assets located in the PRC, which accommodate certain production facilities of the Group.
- (b) The Company announced on 21 October 2007 to raise approximately HK\$43.3 million by way of a proposed open offer at the price of HK\$0.1 per offer shares on the basis of one offer share for every two shares held on the record date.

## MANAGEMENT DISCUSSION AND ANALYSIS

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**FINANCIAL HIGHLIGHTS*****General Information***

For the six months ended 30 September 2007, Magician recorded a turnover of approximately HK\$120.3 million, representing a slight drop of 3.2% when compared with the HK\$124.3 million reported for the corresponding period last year. The Group reported a loss from operation of approximately HK\$1.3 million compared to a loss of HK\$15.7 million last year, and a loss for the Period of approximately HK\$7.3 million when compared to a loss of HK\$22.0 million during the same period last year. The Group's basic loss per share was HK0.83 cents.

There was neither acquisition nor disposal of principal subsidiaries or associated companies during the period under review, while investments held have not been materially changed from those disclosed in the latest annual report.

***Liquidity and Financial Resources***

As at 30 September 2007, the Group's net assets decreased to approximately HK\$20.7 million, rendering net asset value per share at HK2.38 cents. The Group's total assets at that date were valued at approximately HK\$301.2 million, including cash and bank deposits totaling approximately HK\$9.3 million. Consolidated borrowings amounted to HK\$194.0 million. Its debt-to-equity ratio (bank and other borrowings over total equity) has been increased from 656.9% as at 31 March 2007 to 936.7% as at 30 September 2007.

***Capital Structure of the Group***

As at 30 September 2007, the Group's major borrowings included a one-year term loan provided by Bank of China, Baoan, Shenzhen, which had an outstanding balance of approximately HK\$108.8 million, other bank borrowings of HK\$19.2 million and advance and borrowings from a shareholder and a related company totaling approximately HK\$35.8 million. On 1 August 2007, the Company issued convertible bonds in the principal amount of HK\$26 million to various placees. The full amount of the convertible bonds was outstanding as at 30 September 2007. All of the Group's borrowings have been denominated in Hong Kong dollar and U.S. dollar made on a floating-rate and fixed rate basis respectively. Change in the Group's major borrowings subsequent to 30 September 2007 is set out in Note 15 to the financial statements.

***Charges on Group Assets***

Certain assets of the Group having a carrying value of approximately HK\$181.1 million as at 30 September 2007 (31 March 2007: HK\$183.4 million) were pledged to secure banking facilities of the Group.

***Capital Expenditure and Commitments***

The Group will continue to allocate a reasonable amount of resources to acquisition and improvement of capital assets such as moulds and new machines to maintain efficiency and to meet production and market demands. Sources of funding are expected to come primarily from trading revenue that the Group will generate and from alternative debt and equity financing.

***Exposure to Foreign-Exchange Fluctuations***

The Group's trading income, monetary assets and liabilities were principally denominated in Hong Kong dollar, PRC Renminbi and U.S. dollar. As far as the Hong Kong dollar remains pegged to the U.S. dollar and the PRC government continues to be conservative in their foreign exchange and monetary policies, the exposure to foreign exchange fluctuations would not be significant.

**Segment Information**

North America remained the Group's primary market, which accounted for 83.1% of total sales. The remaining comprised sales to Europe, Hong Kong, PRC and others.

**Contingent Liabilities**

In addition to the guarantee granted for banking facilities as disclosed in the latest annual report, at the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of claims by various ex-employees of the Company's subsidiary in the PRC court for compensation totaling approximately RMB3.4 million.

**Employee Information**

As at 30 September 2007, the Group employed a workforce of 1,151 employees in its various offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were provided and commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, practical seminars for knowledge update, on-the-job training and safety training programs to its employees. There was a share-option scheme in force but no share option was granted during the period under review.

**Review of Operations**

During the period under review, the Group recorded a loss for the period of HK\$7.3 million. As a result of the Group's cost reduction measures and revised business strategy, the loss was significantly reduced compared to a loss for the period of HK\$22.0 million for the corresponding period last year. The Group has been declining low margin sales orders while focusing on higher margin products to maintain the gross profit margin, such as OEM products and silicone bakeware, which is the major reason for improving the Group's bottom-line.

International sales for the six months ended 30 September 2007 remained stable at approximately HK\$111.0 million as compared with HK\$114.2 million recorded for the same period last year. For the period under review, sales in the US market increased by 2.8% to approximately HK\$97.7 million when compared to HK\$95.1 million for the same period last year. Sales in the Canadian market fell by 60% to approximately HK\$2.2 million from the HK\$5.5 million recorded for the same period last year. The sales performance of the European market dropped to approximately HK\$4.1 million, compared to HK\$5.5 million recorded for the same period last year. 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.

## Prospects

The Group will continue its cost control measures and business strategy of focusing on better return products and customers which successfully led to the Group's narrowed loss. If the production costs continue to rise, the Group will consider adopting further 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. On the other hand, the Group will step up its efforts to explore new business. With the Group's innovative R&D team, we believe that we can produce quality products to meet market needs and to maintain high profit margins.

The Group has been taking initiative in expanding its customer base, especially the higher margin OEM customers, who are willing to invest in tailor-made products that fit their specific requirements. The Group has been developing new products such as kitchenware gadgets, metal silicone over-mould bakeware and silicone bakeware. In the short to medium term, we will diversify new product line to optimize the production capacity. In the long run, the Group will further develop its business into the European, Australian and Japanese markets.

We believe that the Group's clear business strategies and their robust implementation will eventually bear fruitful results to our shareholders.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") were as follows:

Name of director	Number of shares held, capacity and nature of interest			Percentage of total Issued ordinary shares
	Directly beneficially owned	Through controlled corporation	Total	
Xu Jin	253,837,198	–	253,837,198	29.2%

All interests disclosed above represent long position in the shares of the Company.

Save as disclosed herein, as at 30 September 2007, none of the directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

Furthermore, no share options were granted under the Company's share option scheme since its adoption on 8 August 2002. Other than that, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18 have any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above in respect of the directors and chief executives, as at 30 September 2007, the register of substantial shareholders maintained under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

<b>Name</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of total issued ordinary shares</b>
Big-Max Manufacturing Co., Limited (Note 1)	143,492,000	16.5%
Silvermark International Limited (Note 2)	55,657,926	6.4%

*Note 1:* Mr Li Li Xin is deemed to have a beneficial interest in 143,492,000 shares of the Company through Big-Max Manufacturing Co., Limited, 90% of its issued share capital is beneficially owned by Mr Li Li Xin. Ms Jin Ya Er being the spouse of Mr Li Li Xin, is deemed to have a beneficial interest in 143,492,000 shares of the Company.

*Note 2:* Ms Zhou Hui Lian is deemed to have a beneficial interest in 55,657,926 shares of the Company through Silvermark International Limited, the entire issued share capital of which is beneficially owned by Ms Zhou Hui Lian.

All interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 September 2007, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares of the Company.

#### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

#### **AUDIT COMMITTEE**

The Audit committee, comprising three independent non-executive directors, Mr Chan Man Sum Ivan (Chairman), Mr He Chengying and Mr Cheung Kiu Cho Vincent had reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements for the Period.

#### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the Period, except for the following:

Code Provision A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. During the Period, Mr Xu Jin, chairman of the Group, has been acting as interim chief executive officer of the Company pending a suitable candidate for the vacancy. The Company is in the process of identifying an appropriate candidate as the Company's chief executive officer.



## **MODEL CODE**

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The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period following enquiry by the Company.

By Order of the Board  
**Magician Industries (Holdings) Limited**  
**Xu Jin**  
*Chairman*

Hong Kong, 27 November 2007



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