2008/09

中期報告 Interim Report

MAGICIAN
INDUSTRIES (HOLDINGS) LIMITED
通達工業(集團)有限公司
Stock Code 股份代號：526

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 2008 (the "Period") together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2008	2007
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Turnover	3	**145,135**	120,270
Cost of sales		**(120,268)**	(100,186)
Gross profit		**24,867**	20,084
Other revenue		**673**	655
Other income		**128**	326
Selling and distribution expenses		**(4,984)**	(4,022)
Administrative and other operating expenses		**(20,556)**	(18,302)
		(24,739)	(21,343)
Profit/(Loss) from operations	4	**128**	(1,259)
Finance costs		**(7,082)**	(5,988)
Loss before taxation		**(6,954)**	(7,247)
Taxation	5	**–**	(4)
Loss for the Period		**(6,954)**	(7,251)
Loss per share			
– Basic, HK cents	7	**(0.50)**	(0.58)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 September 2008 HK$'000 (unaudited)	31 March 2008 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**235,727**	231,695
		235,727	231,695
CURRENT ASSETS			
Inventories		**37,301**	20,202
Trade and bills receivables	8	**61,190**	23,243
Prepayments, deposits and other receivables		**2,644**	3,087
Pledged deposits		**5,370**	5,298
Bank balances and cash		**5,170**	14,680
		111,675	66,510
CURRENT LIABILITIES			
Trade payables	9	**60,886**	27,081
Other payables and accruals		**35,266**	37,498
Advance from a related company, unsecured	12	**3,409**	–
Loan from a related company, unsecured	13	**6,396**	6,396
Loan from a shareholder, unsecured	14	**6,000**	6,000
Short-term bank borrowings		**33,997**	10,374
Current portion of long-term bank borrowing		**11,364**	11,111
Current portion of obligations under finance leases		**2,971**	3,173
Zero-coupon convertible bonds		**18,164**	17,389
		178,453	119,022

	Note	30 September 2008 HK$'000 (unaudited)	31 March 2008 HK$'000 (audited)
NET CURRENT LIABILITIES		**(66,778)**	(52,512)
TOTAL ASSETS LESS CURRENT LIABILITIES		**168,949**	179,183
NON-CURRENT LIABILITIES			
Obligations under finance leases		**632**	881
Long-term bank borrowing		**113,636**	116,667
		114,268	117,548
NET ASSETS		**54,681**	61,635
CAPITAL AND RESERVES			
Share capital		**13,849**	13,849
Reserves		**40,832**	47,786
		54,681	61,635

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 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	86,873	282,049	1,265	139	51	330	(349,992)	20,715
At 1 April 2008	13,849	7,982	1,265	139	54,477	216	(16,293)	61,635
Loss for the Period	–	–	–	–	–	–	(6,954)	(6,954)
At 30 September 2008	**13,849**	**7,982**	**1,265**	**139**	**54,477**	**216**	**(23,247)**	**54,681**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash (outflow) from operating activities	**(23,855)**	(5,336)
Net cash from investing activities	**(10,161)**	(5,524)
Net cash from financing activities	**24,578**	12,340
Net (decrease)/increase in cash and cash equivalents	**(9,438)**	1,480
Cash and cash equivalents at beginning of Period	**19,978**	12,976
Cash and cash equivalents at end of Period	**10,540**	14,456

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 Rules") 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 2008.

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 Six months ended 30 September		**Segment results Six months ended 30 September**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
USA	**115,921**	97,723	**6,667**	6,452
Canada	**3,137**	2,210	**597**	298
Hong Kong	**10,580**	8,507	**1,599**	1,269
PRC	**184**	729	**(10)**	(38)
Europe	**4,652**	4,123	**687**	519
Others	**10,661**	6,978	**2,086**	879
	145,135	120,270	**11,626**	9,379
Unallocated corporate expenses			**(11,498)**	(10,638)
Profit/(Loss) from operations			**128**	(1,259)
Finance costs			**(7,082)**	(5,988)
Taxation			**–**	(4)
Loss for the Period			**(6,954)**	(7,251)

4. PROFIT/(LOSS) FROM OPERATIONS

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

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation of prepaid lease payments	**558**	527
Depreciation on property, plant and equipment	**6,475**	7,259
Provision for inventory obsolescence	**(5)**	37
Provision for bad and doubtful debts	**85**	–
Exchange loss, net	**3,904**	1,826
Staff costs	**22,544**	17,064
Termination benefits	**424**	661

5. TAXATION

Hong Kong profits tax has not been provided as the Group incurred a loss for taxation purposes for the Period (2007: HK$4,000). PRC enterprise income tax has not been provided as the PRC subsidiaries incurred a loss for taxation purposes.

6. DIVIDENDS

The Directors of the Company do not recommend the payment of interim dividend (2007: 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 for the Period of HK$6,954,000 (2007: loss of HK$7,251,000) and on the weighted average number of 1,384,918,340 ordinary shares (2007: 1,248,348,000 ordinary shares) in issue throughout the Periods.

No diluted loss per share is for the Period as the potential ordinary shares under the zero-coupon convertible bonds are anti-dilutive.

The comparative amount of the loss per share has been adjusted as a result of Open Offer effected in December 2007.

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:

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Current	**57,454**	16,706
Less than 1 month past due	**2,087**	4,358
1 month to 2 months past due	**906**	328
2 months to 3 months past due	**1**	1,294
3 months to 6 months past due	**179**	22
6 months to 1 year past due	**5**	3
Over 1 year past due	**558**	532
	3,736	6,537
	61,190	23,243

9. TRADE PAYABLES

An aging analysis of trade payables is set out below:

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Less than 3 months	**44,460**	14,623
3 months to 6 months	**8,955**	4,928
6 months to 1 year	**1,282**	200
More than 1 year	**6,189**	7,330
	60,886	27,081

10. COMMITMENTS

Commitment under operating leases

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

	30 September 2008 HK$'000 (unaudited)	31 March 2008 HK$'000 (audited)
Within 1 year	**884**	824
In the second to fifth years inclusive	**529**	926
	1,413	1,750

11. 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$33,600,000 (31 March 2008: HK$33,600,000) for banking facilities granted to its subsidiaries, which were utilized by the subsidiaries to the extent of approximately HK$33,997,000 (31 March 2008:HK$ 10,374,000).

The Company has not recognized 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 zero.

12. ADVANCE FROM A RELATED COMPANY, UNSECURED

The advance from a related company, in which Mr. Li Li Xin has beneficial interest, was unsecured, interest free and repayable on demand.

13. LOAN FROM A RELATED COMPANY, UNSECURED

The loan from a related company, in which Mr. Xu Jin has beneficial interest, was unsecured, interest-bearing at 7% per annum and repayable in November 2008.

14. LOAN FROM A SHAREHOLDER, UNSECURED

The loan from a shareholder, in which Mr. Li Li Xin has beneficial interest, was unsecured and interest- bearing at HIBOR plus 3% per annum and repayable in November 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

General Information

For the six months ended 30 September 2008, Magician recorded a turnover of approximately HK$145.1 million, representing an increase of 20.7% when compared with the HK$120.3 million reported for the corresponding period last year. The Group reported an operating profit of HK$0.1 million compared to an operating loss of HK$1.3 million last year, and a loss for the period of HK$7.0 million when compared to a loss of HK$7.3 million during the same period last year. The Group's basic loss per share was HK0.5 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 2008, the Group's net assets decreased to HK$54.7 million, rendering net asset value per share at HK3.9 cents. The Group's total assets at that date were valued at HK$347.4 million, including cash and bank deposits totaling approximately HK$5.2 million. Consolidated borrowings amounted to HK$196.6 million. Its debt-to-equity ratio (bank and other borrowings over total equity) has been increased from 279.1% as at 31 March 2008 to 359.5% as at 30 September 2008.

Capital Structure of the Group

As at 30 September 2008, the Group's major borrowings included a three-year term loan provided by Bank of Communications, Shenzhen branch, which had an outstanding balance of HK$125.0 million, other bank borrowings of HK$34.0 million and advance and borrowings from a shareholder and two related companies totaling HK$15.8 million. All of the Group's borrowings have been denominated in Hong Kong dollar, U.S. dollar and PRC Renminbi made on a floating-rate and fixed rate basis. As at 30 September 2008, the principal amount outstanding on the convertible bonds of the Company was HK$17 million and there was no conversion during the Period.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK$172.9 million as at 30 September 2008 (31 March 2008: HK$172.8 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 alternative debt and equity financing.

Exposure to Foreign-Exchange Fluctuations

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollar, PRC Renminbi and U.S. dollar. As far as the Hong Kong dollar remains pegged to the U.S. dollar and PRC government takes prudent and gradual measures against the appreciation of Renminbi, the Group's exposure to currency exchange fluctuation risk would be in line with the gradual appreciation of Renminbi. Given that Renminbi is not an international currency, there is no effective method to hedge the relevant risk for the size and cashflow pattern of the Group. However, as most of our raw materials procurement have been settled in U.S. dollar and Hong Kong dollar, and most of the Group's customers accept the passing-on of the rising costs, to various extent, due to the appreciation of Renminbi, the effect arising from the relevant risk can be reduced significantly.

As at 30 September 2008, the Group had no financial instrument for foreign exchange hedging purposes. However, the Group would continue to monitor the Renminbi currency fluctuation and adopt appropriate measures if the need arises.

Segment Information

North America remained the Group's primary market, which accounted for 82.0% of total sales. The remaining comprised sales to Europe, Hong Kong, PRC and others.

Contingent Liabilities

As at 30 September 2008 the Company has contingent liabilities not provided for in the financial statements in respect of corporate guarantees of HK$33.6 million (31 March 2008: HK$33.6 million) for banking facilities to its subsidiaries, which were utilized by the subsidiaries to the extent of approximately HK$34.0 million (31 March 2008: HK$10.4 million).

Employee Information

As at 30 September 2008, the Group employed a workforce of 1,229 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$7.0 million. As a result of the Group's cost reduction measures and revised business strategy, the loss was reduced compared to a loss for the period of HK$7.3 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 2008 increased by 21.0% to HK$134.4 million from HK$111.0 million reported for the same period last year. For the period under review, sales in the US market increased by 18.6% to HK$115.9 million when compared to HK$97.7 million for the same period last year. Sales in the Canadian market increased by 41.9% to HK$3.1 million from the HK$2.2 million recorded for the same period last year. The sales performance of the European market increased to HK$4.7 million, compared to HK$4.1 million recorded for the same period last year.

PROSPECTS

The Group will continue its cost control measures and business strategy of focusing on better return products and customers that successfully led to the Group's narrowed loss. Apart from the continuing effort in cost control measures such as structural changes in procurement and manufacturing planning and/or considering relocation of its production facilities (or part of them) to lower cost areas, the Group will step up its efforts to explore new business. The Group took 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. In the long run, the Group will further develop its business into the markets outside United States.

With the Group's innovative R&D team, we believe that we can produce quality products to meet market needs and to maintain better profit margins. The Group has been developing new products in the categories such as kitchen gadgets, metal silicone over-mould bakeware and silicone bakeware. In the short to medium term, we will diversify new product line to optimize the product cycles and the production capacity planning.

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 2008, 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:

	Number of shares held, capacity and nature of interest			Percentage of total
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Issued ordinary shares**
Li Li Xin	–	377,247,014	377,247,014	27.2%
Xu Jin	253,837,198	–	253,837,198	18.3%

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

Save as disclosed herein, as at 30 September 2008, 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 Period.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of the directors and chief executives, as at 30 September 2008, 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.

Name	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Big-Max Manufacturing Co., Limited *(Note 1)*	377,247,014	27.2%

Note 1: Mr Li Li Xin is deemed to have a beneficial interest in 377,247,014 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 377,247,014 shares of the Company.

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

Save as disclosed above, as at 30 September 2008, 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 was both the chairman and interim chief executive officer of the Company until he resigned as chief executive officer and re-designated as non-executive director on 18 September 2008. The Company appointed Mr. Li Li Xin as chairman of the Company and Mr. Cheng Jian He as chief executive officer on 18 September 2008.

MODEL CODE

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
Li Li Xin
Chairman

Hong Kong, 27 November 2008

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