13. POST BALANCE SHEET EVENTS

Subsequent to 30 September 2006, the Group has the following post balance sheet events:

(a) Bank of China, Baoan, Shenzhen (the "Bank"), provided the Group with a one year term loan in the sum of HK$130 million to replace the entire existing loan facilities from the Bank.

(b) the winding up petition against a wholly-owned subsidiary of the Company disclosed in the latest annual report and all related proceedings were resolved and settled.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

General Information

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK$124.3 million, representing a drop of 9.1% when compared with the HK$136.7 million reported for the corresponding period last year. The Group reported an operating loss of HK$15.7 million compared to an operating loss of HK$26.5 million last year, and a loss for the period of HK$22.0 million when compared to a loss of HK$39.1 million during the same period last year. The Group's basic loss per share was HK2.54 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 2006, the Group's net assets decreased to HK$28.4 million, rendering net asset value per share at HK3.27 cents. The Group's total assets at that date were valued at HK$318.9 million, including cash and bank deposits totaling approximately HK$11.1 million. Consolidated borrowings amounted to HK$170.3 million. Its debt-to-equity ratio has been increased from 318% as at 31 March 2006 to 599% as at 30 September 2006.

Capital Structure of the Group

As at 30 September 2006, the Group's major borrowings included a three-year term loan provided by Bank of China, Baoan, Shenzhen, which had an outstanding balance of HK$68.0 million after paying installments of totaling HK$2 million during the Period, a short-term revolving loan of HK$65.0 million, and advance/borrowings from shareholders of HK$29.8 million. All of the Group's borrowings have been denominated in Hong Kong dollars and US dollars and made on a floating-rate and fixed rate basis respectively. Change in the Group's major borrowings subsequent to 30 September 2006 is set out in Note 13 to the financial statements.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK$166.3 million as at 30 September 2006 (31 March 2006: HK$172.5 million) were pledged to secure banking facilities of the Group.

Details of Future Plans for Material Investments or Capital Assets

The Group does not have any future plans for material investments. There will, however, be a reasonable amount of expenditure in capital assets including, in particular, new machines and moulds to cope with 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 dollars, Chinese Renminbi and U.S. dollars. 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 Group's exposure to currency exchange risk is not significant.

Segment Information

USA remained the Group's primary market, which accounted for 76.5% of total sales. The remaining comprised sales to Canada, Hong Kong, Mainland China, Europe 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 a guarantee of RMB7.5 million granted for the restructures of a finance lease for its subsidiary.

Subsequent to 30 September 2006, the winding up petition disclosed in the latest annual report and all related proceedings were resolved and settled.

Employee Information

As at 30 September 2006, the Group employed a workforce of 1,880 employees in its various offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were provided, commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, vocational seminars, 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

For the six months ended 30 September 2006, the Group recorded a loss from operations of HK$15.7 million. As a result of the Group's cost reduction measures and revised business strategy, the loss is narrowed compared to a loss of HK$26.5 million for the corresponding period last year. However, the ever lasting high price level of raw materials, rise in labour costs and shortage of labour in Guangdong continued to erode the Group's bottom line.

During the period under review, the Group's major markets remained sluggish. Demand for household products slackened while competition was fierce. The Group responded by declining low margin sales orders while focusing on higher margin products such as metal silicone over-mould bakeware, silicone bakeware and OEM products. The Group paid persistent efforts to explore new business opportunities. For example, the Group has produced innovative pet accessories for a large pet product company in the USA and achieved stable profit.

International sales for the six months ended 30 September 2006 declined by 5.8% to HK$114.2 million from HK$121.2 million recorded for the same period last year. For the Period, sales in the US market increased by 4.7% to HK$95.1 million when compared to HK$90.9 million for the same period last year. Sales in the Canadian market fell by 29.6% to HK$5.5 million from the HK$7.8 million recorded for the same period last year. The sales performance of the European market dropped to HK$5.5 million, compared to HK$5.8 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's stringent cost control measures and revised business strategy to focus on better return products and customers are proven to be successful as reflected in narrowed loss. The Group will continue to take aggressive steps to adapt to the market realities and is confident that profitability will improve as a result of our cost containment efforts.

The Group continued to win support from its customers despite difficult business environment. The Group also 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. These products are protected from severe competition by patents and copyrights. The Group will allocate resources and support these OEM customers. In the long run, the Group will further develop into the European and Australian markets.

Looking ahead, we believe that the Group's persistent efforts to enhance profit margins and reduce operational costs will allow the Group eventually to overcome current market challenges and deliver improved results.

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

As at 30 September 2006, 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
Mr 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 2006, 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 2006, 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
Transpac Nominees Pte Ltd.	213,279,577	24.6%
Big-Max Manufacturing Co. *(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., 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 2006, 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. The roles of chairman and chief executive officer had been separate and performed by different individuals during the Period until resignation of the former chief executive officer with effect from 1 August 2006. Since then Mr Xu Jin, the chairman, has been acting as interim chief executive officer of the Company until the vacancy is filled by an appropriate candidate. The Company considers that the arrangement is temporary and the Company is in the process of identifying an appropriate candidate as the Company's chief executive officer.

During the Period, the terms of reference of the audit committee and remuneration committee were available on request but had not been included in the Company's website as required by Code Provision C.3.4 Notes 1 and B.1.4 Notes 1 respectively as the Company's website has not been updated. The Company is in the process of updating its website to include the terms of reference of the audit committee and remuneration committee.

MODEL CODE

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

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

Hong Kong, 15 December 2006