

## **Enquiry in relation to Magician Industries (Holdings) Limited**

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### **The Enquiry**

The Financial Reporting Council (the “Council”) initiated an enquiry in relation to the consolidated financial statements of Magician Industries (Holdings) Limited (“Magician”) (Stock code: 00526) for the year ended 31 March 2008 (the “2008 Financial Statements”). The enquiry was initiated from the review of the modified auditors’ reports by the Council since July 2008. The auditor of the 2008 Financial Statements, Mazars CPA Limited (“Mazars”), expressed a disclaimer of opinion on, among other things, the value in use of certain property, plant and equipment (the “PPE”). Magician recognised a reversal of impairment loss on the PPE concerned of HK\$14,207,000.

On 6 November 2008, the Council resolved to appoint a Financial Reporting Review Committee, reference E01-08 (the “FRRC”) to conduct the enquiry. On 25 June 2009, the FRRC completed the enquiry and prepared a report on the findings of the enquiry (the “Enquiry Report”). The Enquiry Report was subsequently adopted by the Council on 10 July 2009.

The FRRC found that:

1. there is a relevant non-compliance in the 2008 Financial Statements. The relevant non-compliance refers to the non-compliance in respect of:
  - (a) the measurement of the value in use of, and consequential reversal of impairment loss in relation to, certain PPE in the 2008 Financial Statements, which were based on the value-in-use calculation of all PPE (the “Value-In-Use Calculation”) as at 31 March 2008 which, in turn was not performed in accordance with Hong Kong Accounting Standard 36 *Impairment of Assets* (“HKAS 36”). The FRRC considered that, among other things, the growth in sales in the cash flows projections for measuring the value in use was not based on supportable assumptions; and
  - (b) the failure to disclose the discount rate(s) used in the 2008 Value-In-Use Calculation as required by paragraph 130(g) of HKAS 36.
2. the computation methodology in the 2008 Value-In-Use Calculation was not appropriate.

## **Post-Enquiry Events**

On 26 June 2009, Magician issued its consolidated financial statements for the year ended 31 March 2009 (the “2009 Financial Statements”). A further reversal of impairment loss on the PPE concerned of HK\$6,335,000 was recognised.

It is understood that in relation to the 2009 Financial Statements, Magician revised the 2008 Value-In-Use Calculation taking into account the findings in the Enquiry Report and the growth in sales for the forthcoming five years was projected at rates lower than those used in the original calculation.

In the auditor’s report on the 2009 Financial Statements, Mazars made no reference to the previous year’s disclaimer of opinion on the value in use of certain PPE as at 31 March 2008. Mazars confirmed that it had satisfied itself that the revised 2008 Value-In-Use Calculation was properly prepared and the projected sales assumption in the revised 2008 Value-In-Use Calculation was reasonable and supportable.

It is noted that the discount rate(s) used in the 2008 Value-In-Use Calculation was disclosed in the 2009 Financial Statements. Magician confirmed that the Value-In-Use Calculation for measuring the recoverable amount of the PPE as at 31 March 2009 was prepared on a basis similar to the revised 2008 Value-In-Use Calculation.

The Enquiry Report is published on the website of the FRC ([www.frc.org.hk](http://www.frc.org.hk)) on 11 September 2009.