

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting", issued by the Hong Kong Society of Accountants.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are same as those used in the Group's annual financial statements for the year ended 31st March, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (Revised)	: Events after the balance sheet date
SSAP 10 (Revised)	: Accounting for investments in associates
SSAP 17 (Revised)	: Property, plant and equipment
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The changes of the Group's accounting policies do not have any significant effect on the financial statements for the current or prior period.

2. SEGMENTAL INFORMATION

Geographical segments

	Turnover		Contributions to profit from operations	
	Six months ended 30th September,		Six months ended 30th September,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
North America				
United States of America	114,502	118,179	27,263	34,082
Canada	11,303	10,087	2,936	2,909
The People's Republic of China ("PRC")				
Hong Kong	21,535	18,966	5,257	5,470
Mainland China	43,640	37,784	20,608	10,897
Europe	14,291	10,286	4,004	2,966
Others	1,291	7,784	206	2,245
	<u>206,562</u>	<u>203,086</u>	<u>60,274</u>	<u>58,569</u>
Unallocated other revenue			1,843	2,331
Unallocated corporate expenses			(51,861)	(58,614)
Profits from operations			<u>10,256</u>	<u>2,286</u>

Business segments

	Turnover		Contributions to profit from operations	
	Six months ended		Six months ended	
	30th September,		30th September,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Manufacturing	162,012	161,714	40,349	41,521
Distribution	44,550	41,372	19,925	17,048
	<u>206,562</u>	<u>203,086</u>	<u>60,274</u>	<u>58,569</u>
Unallocated other revenue			1,843	2,331
Unallocated corporate expenses			(51,861)	(58,614)
Profits from operations			<u>10,256</u>	<u>2,286</u>

3. DEBT RESTRUCTURING COSTS

On 10th November, 2000, the Group entered into a legally binding Debt Restructuring Deed with the Bank Group, excluding a mainland China bank, pursuant to which the Bank Group agreed to restructure the outstanding bank indebtedness of the Group. This debt restructuring plan was completed on 15th December, 2000. During the Period, cost incurred amounted to HK\$0.6 million (2000: HK\$4.5 million) for legal & professional fees.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after crediting and charging the followings:

	Six Months Ended	
	30th September,	
	2001	2000
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Crediting		
Interest income	1,039	1,176
Rental income from land and building under operating leases, net of outgoings	255	238
Net exchange gain	611	607
Charging		
Cost of goods sold	146,830	144,517
Depreciation and amortisation	20,687	20,826
Interest on borrowings	6,310	16,014
Provisions for inventory obsolescence	1,632	1,716
Provision for bad and doubtful debts	2,297	621
Severance payments	900	873

5. TAX

Six Months Ended	
30th September,	
2001	2000
HK\$'000	HK\$'000
(unaudited)	(unaudited)

The charge comprises:

Hong Kong profit tax	-	-
Mainland China income tax	387	-
	<hr/> 387	<hr/> -

Hong Kong Profit Tax has been calculated at the rate of 16% (2000: 16%) on the estimated assessable profit for the Period. Mainland China income tax has been provided at a reduced rate of 7.5% (2000: 7.5%) on the estimated assessable profits generated by a mainland China subsidiary.

6. DIVIDENDS

The directors of the Company do not recommend the payment of interim dividend (2000: Nil) in respect of the Period.

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit attributable to shareholders for the Period of HK\$3,564,000 (2000: loss of HK\$14,083,000) and the weighted average number of 868,733,440 shares (2000: 434,366,720 shares) in issue during the Period.

The calculation of diluted earnings per share for the Period is based on the adjusted consolidated net profit of approximately HK\$4,525,000 (2000: loss of HK\$14,083,000) on the assumption that all convertible bonds were converted on the date of issue on 15th December, 2000 and on the weighted average number of 1,304,366,720 shares (2000: 434,366,720 shares) deemed to have been in issue during the Period.

8. ADDITIONS TO FIXED ASSETS

During the Period, the Group has spent HK\$1.0 million (six months ended 30th September, 2000: HK\$5.3 million) on the construction of its production premises and HK\$7.1 million (six months ended 30th September, 2000: HK\$5.3 million) on additions to manufacturing plant and equipment in order to upgrade its manufacturing capabilities.

9. TRADE AND BILLS RECEIVABLES

Analysis of aging of trade and bills receivables of the Group is as follows:

	30/9/2001 HK\$'000 (unaudited)	31/3/2001 HK\$'000 (audited)
Less than 3 months	72,803	63,932
3 months to 6 months	6,450	6,557
6 months to 1 year	3,875	4,318
More than 1 year	5,787	7,119
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	88,915	81,926
Less: Provision for bad and doubtful debts	(9,551)	(9,137)
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	79,364	72,789

Sales to overseas customers are largely settled on open account, where the instruction of payment is executed after 30-60 days.

10. TRADE PAYABLES

Analysis of aging of trade payables of the Group is as follows:

	30/9/2001 HK\$'000 (unaudited)	31/3/2001 HK\$'000 (audited)
Less than 3 months	23,007	18,218
3 months to 6 months	3,071	1,989
6 months to 1 year	323	224
More than 1 year	1,244	1,391
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	27,645	21,822

Payment terms with suppliers range from cash on delivery to a credit period of 30 to 60 days.

11. SHARE CAPITAL

During the Period, no ordinary share (1.4.2000 to 31.3.2001: issued 434,366,720 ordinary shares of par value HK\$0.1 each) of the Company has been issued.

12. RESERVES

The Group	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2000	238,612	1,265	139	51	(137,784)	102,283
Share sales	43,437	-	-	-	-	43,437
Net profit for the year	-	-	-	-	5,681	5,681
At 31st March, 2001	282,049	1,265	139	51	(132,103)	151,401
Net profit for the Period	-	-	-	-	3,564	3,564
At 30th September, 2001	282,049	1,265	139	51	(128,539)	154,965

13. COMMITMENTS

	30/9/2001 <i>HK\$'000</i> <i>(unaudited)</i>	31/3/2001 <i>HK\$'000</i> <i>(audited)</i>
Authorised and contracted for:		
Purchases of land and buildings, and plant and equipment	1,881	825
Authorised and not contracted for:		
Purchases of plant and equipment	1,978	1,761
	3,859	2,586
Non-cancellable operating leases		
Land and buildings expiring:		
Within one year	1,447	2,159
In the second to fifth years, inclusive	1,785	1,634
	3,232	3,793
	7,091	6,379

14 CONTINGENT LIABILITIES

A claim from an ex-employee of the Group for approximately HK\$1.2 million has been filed in the Labour Tribunal. In the opinion of directors, the Group had fulfilled all its obligations towards that ex-employee and that the claim is not justified. Accordingly, no provision has been made in the accounts.

Save as aforesaid, the Group had no material contingent liabilities in outstanding litigation against the Group as at 30th September, 2001.

15. RESTRICTED BANK DEPOSITS

As at 30th September, 2001, the Group has a total of restricted bank deposits of approximately HK\$41.8 million (2001: 41.0 million) held by a bank as collateral for general banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Steady Progress in a Tough Global Market Environment

In a difficult and uncertain global economic environment, which has deteriorated even further after September 11, it is absolutely essential for a manufacturer like Magician to remain focused and keep up with changes in consumer requirements and buying patterns. To remain competitive, Magician has concentrated on continuously developing creative products while keeping down overheads, a strategy that has proved successful.

For the six months ended 30th September, 2001, the Group experienced a slight increase in turnover, from HK\$203.1 million in 2000 to HK\$206.6 million, despite the shrinking US market. Operating profit has also risen, by 348.6%. Even though the global market has been haunted by a looming recession, Magician still managed to increase turnover in Europe by 38.9%, in mainland China by 15.5%, in Hong Kong by 13.5% and in Canada by 12.1%.

International Market

The weak US economy caused a slight decrease in turnover in the US market but the Canadian market registered satisfactory growth, thanks to the Group's well-planned marketing efforts.

The Group's efforts in Europe have been rewarded handsomely, registering a turnover of HK\$14.3 million, representing a significant increase compared with last year. The better-than-expected increase in turnover marks Europe as the best-performing market in the period under review.

At the same time, more and more overseas suppliers and potential customers have contacted the Group through its website, leading to good business opportunities.