

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.

PRC Market

Our firm market position in mainland China also generated good results. “NICOLE design” (“N’n”) is now a quality household brand name in mainland China. Creative product designs under that trademark have generated an excellent market response but, at the same time, have led to copying and other forms of infringement. With patent registration applications in hand, actions have been taken with the appropriate China authorities to combat unfair competition, and it is expected that the recent entry of China into the World Trade Organization (“WTO”) will bring about satisfactory protection of the Group’s intellectual property rights. On the whole, the Group expects favorable developments in business on the mainland owing to its continual efforts to stay ahead of market trends in household product design.

Marketing strategy in mainland China has also proved successful with the Group recording an encouraging increase in turnover during the period under review. The reward scheme offering staff bonus incentives introduced last year to specific regions on the mainland further boosted sales. Encouraged by these satisfactory results, the Group has decided to extend the reward scheme to cover more sales regions in the PRC.

The Group’s customers include such famous chain stores as Wal-Mart, Carrefour, Metro, Beijing Hualian and Trust-Mart. Its kitchenware range has proved to be the most popular among the wide variety of products it offers. During the past six months, in line with the Group’s prudent expansion strategy in the PRC, Magician has gained more than 100 new customers, resulting in over 500 new outlets. We have thus been able to maintain the total number of distribution outlets at more than 3,000. The Group’s solid foothold in mainland China provides a strong competitive edge that is expected to continue to generate favorable prospects.

In Hong Kong, despite the fact that the economy is undergoing a difficult restructuring, the Group has experienced a turnover of 21.5 million, a satisfactory rise compared with that of last year.

Stringent Cost-Saving Measures

To stay competitive in this turbulent market situation, stringent cost-reduction measures are necessary. The Group managed to cut costs considerably by restructuring the electroplating department and reengineering production processes. These major changes plus an ongoing cost control program have reduced overall administration costs by approximately 4.8%. Implementing the program with other control measures, the Group has been able to save HK\$3 million this year and expects similar savings over the next few years.