

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group's financial situation has largely improved. The Group's debt-to-equity ratio has been further reduced from 1.43 at 31st March, 2001 to 1.34 at 30th September, 2001. This improvement is primarily due to the smooth progress of the debt-restructuring program, a decrease in bank borrowings as a result of successful tight cost-control measures, and cuts in the interest rate. Under a Debt Restructuring Deed arranged with its bank creditors, the Group issued two different convertible bonds to discharge bank indebtedness to the extent of HK\$174 million. After the completion of a share offer derived from these bonds in early 2001, the balance for zero coupon secured convertible bonds and 4% coupon secured convertible bonds are HK\$30 million and HK\$57.1 million respectively.

After fulfilling its commitment to repay the first installment of HK\$11 million on 30th August, 2001, a long-term loan amounting to HK\$98.6 million remains as at 30th September, 2001. The loan, bearing interest at three-month HIBOR (Hong Kong Inter Bank Offer Rate) plus 1%, will be repaid semi-annually for approximately five years. With the consecutive interest rate cuts and the gradual reduction of principal, the Group's financial burden has been greatly alleviated; and total interest expenses have been reduced by 60.6%. Currently, the Group has access to an eight-digit banking facility to support its operation.

CHARGES ON GROUP ASSETS

As at 30th September, 2001, the Group's bank borrowings were secured by the Group's land & buildings and plant & machinery with a carrying value of HK\$124 million (31st March, 2001: HK\$127.8 million)

PROSPECTS

Navigating through uncertain waters

Looking ahead, while macro prospects for global economy seem discouraging, Magician is confident that it has made all the necessary efforts needed to meet uncertain market conditions.

The PRC market appears to be generating favorable growth. The affirmation of WTO membership will further stimulate economic growth while at the same time bring about competition on an unprecedented scale. Moreover, the expected increase in market activity and volume will likely offer numerous opportunities for Magician, which the Group hopes will offset the negative impact brought about by greater competition. As the purchasing power of PRC consumers rises, so will their desire for higher quality brand-name products. "N'n", as a well-regarded brand name, with its well-established market position and reasonable price range, is ideal for PRC consumers. The management plans to seize this timely opportunity to expand the Group's share in the PRC market as a whole.

The actual long-term impact of September 11 on US consumer sentiment remains uncertain, but 2001 Christmas orders to date already indicate that US customers are behaving more prudently this year than last year. Customers are ordering less while requiring deliveries at shorter spans, in order to avoid excessive stock. It is only when sales appear to be promising that additional orders are placed. With its flexibility in pricing, production lead-time and insistence on product quality, Magician serves as an ideal supplier for US customers. In general, household products are still in great demand despite the general slump in spending. Even though the US market may be shrinking on the whole, the strong competitive edge of the Group should attract even more customers. At the moment, the Group has orders on hand at a high enough level to meet the sales budget for the December quarter.

For overseas markets, Magician will continue to pursue its strategy of teaming up with famous brand-name household product distributors who have networks worldwide. This strategy has proved to be profitable and has generated stable business. Supported by its strong, cost-effective and efficient production base in the PRC, the Group will seek more of these business partners.

Doing business in today's uncertain times will not be easy. However, with the Group's strong management, pragmatic business philosophy and solid foundation in the promising PRC market, the Group is confident that it will be able to steer smoothly through the present difficult business environment.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 30th September, 2001, the interests of the directors, chief executives, or their associates in the shares of the Company, or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Nature of interests	Number of issued ordinary shares of HK\$0.10 each in the Company
Mr. Kong Yick Ming (<i>note 1</i>)	Corporate	286,984,000
Mr. Ku Ling Yu, John (<i>note 2</i>)	Corporate	117,491,777

Note 1: Mr. Kong Yick Ming is deemed to have a beneficial interest in 286,984,000 ordinary shares of the Company through Concept Developments Limited, the entire issued share capital of which is owned by Topwell International Limited (“Topwell”). Rainbow Pacific Limited (“Rainbow”) holds 336 A shares in Topwell, representing 33.6% of the issued share capital of Topwell. Rainbow is a company wholly-owned by Centre Trustees (C.I.) Limited, as a trustee for a discretionary trust, the Rainbow Trust, the beneficiaries of which are the family members of Mr. Kong Yick Ming.

Note 2: Mr. Ku Ling Yu, John is deemed to have a beneficial interest in 117,491,777 ordinary shares of the Company through Primewell Investment Limited, the entire issued share capital of which is beneficially owned by Mr. Ku Ling Yu, John.

Pursuant to the Company’s share option scheme, certain directors were granted share options in prior years to subscribe for shares at an initial exercise price of HK\$1.68 per share, subject to adjustment, as follows:

Name of director	Number of share options outstanding at 31st March, 2001	Number of share options surrendered during the Period	Number of share options lapsed during the Period	Number of share options outstanding at 30th September, 2001
Mr. Kong Yick Ming	1,000,000	–	–	1,000,000 *

* The share options were lapsed on 6th October, 2001.

Save as disclosed above, none of the directors, chief executives, or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, or any of its associated corporations, as defined in the SDI Ordinance.