

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

General Information

For the six months ended 30th September, 2002, the Group's turnover grew by approximately 27% to HK\$262.4 million when compared with HK\$206.6 million in the corresponding period last year. Operating profit soared 93% from HK\$10.3 million to HK\$19.8 million, while net profit attributable to shareholders also increased 4 times to HK\$14.6 million from HK\$3.6 million during the same period last year. The Group's basic earnings per share was HK1.68 cents and diluted earnings per share was HK1.19 cents.

During the period under review, no principal subsidiaries or associated companies were acquired or disposed of, while investments held have not materially changed from those disclosed in the latest annual report.

Liquidity and Financial Resources

As at 30th September, 2002, the Group's net assets increased to HK\$268.6 million rendering net assets value per share to HK30.9 cents. The Group's total assets at that date were valued at HK\$615.3 million, including cash and bank deposits totaling approximately HK\$49.8 million. Its consolidated borrowings amounted to HK\$246.1 million. The Group's debt-to-equity ratio has been further reduced from 0.923 at 31st March, 2002 to 0.916 at 30th September, 2002.

Improvements over latest annual report's figures were primarily due to successful compliance by the Group of its obligations under the debt-restructuring program, coupled with a decrease in bank borrowings and cuts in interest rates.

Capital Structure of the Group

The Group's major borrowings included a 5-year term loan, which had an outstanding balance of HK\$76.6 million after having fulfilled its commitment to repay three installments totaling HK\$33 million over last 18 months. The term loan, bearing a floating interest rate, is scheduled to be repaid completely in thirty-nine months.

Under the Debt Restructuring Deed dated 10th November, 2000, the Group also issued two convertible bonds, one being zero coupon secured convertible bonds and the other being 4% coupon secured convertible bonds, both to mature at 15th December, 2005, for discharge of bank indebtedness to the extent of HK\$174 million. After the completion of a share offer in early 2001, the balance of zero coupon secured convertible bonds and 4% coupon secured convertible bonds were HK\$30 million and HK\$57 million respectively.

Since May this year, all of the Group's borrowings are denominated in Hong Kong dollars. In addition, all the borrowings of the Group are made on a floating rate basis, except for the 4% coupon secured convertible bonds which have a fixed interest rate. As a result of consecutive cuts in market interest rate and gradual repayment of debts, the Group's financial burden has been greatly alleviated; and the finance costs for the period under review have dropped by 40% when compared to the corresponding period last year. The Group, therefore, is in sound financial position and has sufficient credit facilities to support its operations.

Charges on Group Assets

During the period under review, the Group's bank borrowings were secured by the Group's assets.

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 expenditures on capital assets, including in particular additional and new machines and moulds to cope with production and market demands. It is expected that sources of funding will come primarily from trading profits that the Group will generate, coupled with banking facilities that it currently has.

Exposure on Foreign Exchange Fluctuations

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollar and Renminbi, the Group's exposure to currency exchange risk was minimal.

Segment Information

The sales distribution by geographical area has not changed materially. The Group's biggest market was still North America. The sales distribution for North America, Mainland China, Hong Kong, Europe and others were 69%, 17%, 7%, 3% and 4% respectively.

Contingent Liabilities

The contingent liabilities of the Group have not changed materially from those disclosed in the latest annual report.

Employee Information

As at 30th September, 2002, the Group employed a workforce of 5,885 employees in its various offices and factories located in Hong Kong and Mainland China. Competitive remuneration packages were structured, commensurate with individual responsibilities, qualification, experience and performance. The Group provided on-the-job training and safety training programs to employees.

There was a share option scheme in force but no share option was granted during the period under review.

Review of Operations

Despite the tough and volatile business environment caused by the ongoing global recession, the Group has continued to improve its operations. While many competitors have reported sluggish or disappointing sales, Magician has achieved a 27% growth in turnover and three times increase in net profit attributable to shareholders, reaching HK\$262.4 million and HK\$14.6 million, respectively. This performance can be mainly attributed to the Group's outstanding results in overseas markets with a combined increase of 42% in sales over those in the same period last year.

International Sales

For the six months ended 30th September, 2002, overseas sales totaled HK\$200.5 million, thanks to the Group's focused efforts on international expansion and R&D-driven marketing strategies. Aiming globally but thinking locally, the Group has been able to devise many innovative products catering to different countries and market segments such as non-stick bakeware, disposable re-usable storage boxes and double-wall drinkware.

Of our global sales, the performance of the U.S. market has been one of the most encouraging with turnover reaching HK\$165.1 million, representing an increase of 44% compared to the HK\$114.5 million generated in the same period last year. As mentioned in our 2002 annual report, a knock-on effect of September 11 was U.S. consumers' renewed attention to their domestic lives and thus a greater interest in home-related products. As a result, our business partners reported impressive growth, especially in bakeware, kitchen utensils and plastic houseware.

The Canadian market performed as remarkably as that of its southern neighbour. Sales for the six months ended 30th September, 2002, shot up by 44% to HK\$16.2 million from last year's HK\$11.3 million. European sales also fared better with a 10% increase to HK\$9.4 million over the HK\$8.5 million reported during the same period last year. The

turnover from other international markets climbed a combined 37% to HK\$9.7 million mainly due to strong sales in Japan and Mexico, thanks to the popularization of home-value stores in the former market and robust growth of big home stores in the latter.

Mainland China Sales

During the period under review, Mainland China sales remained stable at HK\$44 million due to the Group's efforts to expand sales network and adoption of cost control measures in transportation and logistics via sea freight in various distribution points.

In line with its strategy to expand into secondary cities in Mainland China, the Group extended its sales network to the Xinjiang Autonomous Region. A new sales office was also opened in Kunming, the capital city of Yunnan province, which has put the Group in a better position to capitalize on the economic growth in the Southeastern part of China and its flourishing cross-border trade with neighbouring countries. During the period under review, sales of Xinjiang Autonomous Region and Kunming contributed approximately RMB646,000.

During the period under review, the Group has successfully registered patents for most of its newly developed products which include its night light collection, stainless steel products and kitchen gadgets. NICOLE design, our famous brand in Mainland China, has performed extremely well with the support of some very best selling items such as the leakage proof microwavable box collection, leakage proof traveler soap box and graininess handle Chinese turner. The Mesh System, our new concept design in modern storage catering to both household and commercial needs, has also been well received by the market.

At the moment, the Group's sales network covers 30 cities, bringing the number of direct customers to about 900 which command a total of approximately 4,000 retail outlets in Mainland China.

Hong Kong Sales

Hong Kong sales dropped 17% to HK\$17.9 million compared with HK\$21.5 million during the same period last year. This decrease was mainly attributable to the continued economic depression in the territory, which had dealt a great blow to consumer confidence and consumption.

Prospects

Looking ahead, the Group remains confident as before. Magician will continue to spearhead its development program in R&D – a key contributor to the Group's impressive 2002 interim results and an important engine to drive its long-term growth. To better define the direction of its R&D program, the Group will rely on constant communication with customers and analyze market information gathered in different countries. This focus in direction will help enlarging the Group's customer base, and attracting a greater number of prestigious customers, which are famous for creating interesting and functional household gadgets. The Group is working on a new line of kitchenware tailor-made for a few of its main customers and believes such cooperation shall provide invaluable experience and create more business opportunities.

The Group expects international markets to continue to form the pillar of Magician's business growth. Sales in the U.S. market will pick up more quickly than other countries since the Group has started to receive huge orders from this core market. Thus, orders from U.S. are expected to increase at least 5% next year.

In Mainland China, with the new leadership taking centre stage at the close of the 16th Party Congress, continued development will ensue and will further improve the national economy and living standards on the whole. The Group anticipates that this favourable operating environment will help stabilizing its Mainland China sales next year. The Group is now working vigorously on realigning product lines and devising brand promotion programs in Mainland China.

In Hong Kong, the latest housing policy announcement by the government is expected to provide a much-needed boost to the stagnant property market, which will in turn enhance the demand for home-related products.

Barring unforeseen circumstances, the Group remains confident that its aggressive R&D program and focused marketing strategies, coupled with the low interest rate environment, will steer Magician to even better results in the remainder of the year.