MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

General Information

For the six months ended 30th September, 2003, the Group recorded a turnover of approximately HK$247.2 million, representing a decrease of 6% when compared with the HK$262.4 million reported for the corresponding period last year. Operating profit dropped 72% to HK$5.5 million from HK$19.8 million, while net profit attributable to shareholders was HK$1.4 million compared to a profit of HK$14.6 million during the same period last year. The Group's basic earnings per share was HK0.16 cents.

During the period under review, the Group prepared to prepay the entire indebtedness outstanding under the Debt Restructuring Deed ("DRD") dated 10th November, 2000, by funds obtained through the internal resources of the Group; a loan from the Bank of China, Shenzhen City Branch, Bao-an Sub-branch ("BOC SZ"); and the release of the existing working capital security deposit. As detailed in the announcements of the Company dated 4th November, 2003 and 6th November, 2003, the debt prepayment was completed on 6th November, 2003.

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

Liquidity and Financial Resources

As at 30th September, 2003, the Group's net assets increased to HK$273.4 million, rendering net asset value per share at HK31.5 cents. The Group's total assets at that date were valued at HK$725.7 million, including cash and bank deposits totaling approximately HK$158.0 million. During the transitional period of the debt-prepayment plan, the Group's consolidated borrowings increased to HK$327.6 million, which included a three-year loan of HK$100 million provided by BOC SZ pursuant to the loan agreements dated 27th September, 2003. Its debt-to-equity ratio, therefore, soared to 120% as at 30th September, 2003, from 83% as at 31st March, 2003. Included in the Group's consolidated borrowings were five-year term loan of HK$54.6 million and convertible bonds of HK$87.1 million, they were fully repaid when the debt-prepayment exercise completed in November 2003.

Capital Structure

Pursuant to the DRD, the Group's major borrowings included (i) a five-year term loan, which had an outstanding balance of HK$54.6 million after the paying of five installments totaling HK$55 million over two and a half years; and (ii) the balance of zero coupon secured convertible bonds and 4% coupon secured convertible bonds of HK$30 million and HK$57 million, respectively.

In addition, the Group conditionally obtained a three-year loan of HK$100 million from BOC SZ in the transitional period of the debt-prepayment plan as mentioned above.

All of the Group's borrowings, including the loan from BOC SZ, were denominated in Hong Kong dollars. In addition, all borrowings bearing interest were made on a floating-rate basis, except for the 4% coupon secured convertible bonds, which had a fixed interest rate. As a result of stable market interest rates and the gradual repayments of debts, the finance costs for the period under review have further dropped by 5% compared to the corresponding period last year. The Group, therefore, is in a sound financial position with sufficient credit facilities to support its operations both before and after the debt-prepayment plan.

Charges On Group Assets

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

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 expenditure in capital assets, in particular for the construction of additional factory floors, a new electroplating plant and relevant environmental-protection systems, and other new machines and moulds to cope with production and market demands. Sources of funding are expected to come primarily from trading profits that the Group will generate, coupled with banking facilities that it may obtain.

Exposure to Foreign-Exchange Fluctuations

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese 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 the exchange rate between the Hong Kong dollar and Chinese Renminbi, the Group has had minimal exposure to currency-exchange risk.

Segment Information

The sales distribution by geographical area has not changed materially. The Group's biggest market continues to be North America. The sales distribution for North America, Mainland China, Hong Kong, Europe and others was 60%, 19%, 11%, 6% 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, 2003, the Group employed a workforce of 4,118 employees in its various offices and factories in Hong Kong and Mainland China. Competitive remuneration packages were structured, commensurate with individual responsibilities, qualification, experience and performance. The Group also provided on-the-job training and organized safety programs for its employees.

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

Review of Operations

Due to the disappointing performance of the North American market, Magician recorded 6% drop in turnover and 72% decrease in operating profit, which stood at HK$247.2 million and HK$5.5 million, respectively. This resulted in a net profit attributable to shareholders of HK$1.4 million, mainly due to decrease in sales and rise of production cost. The outbreak of SARS earlier this year dealt a great blow to the Group's business since overseas buyers were reluctant to visit Magician's showroom in Hong Kong and production plant in the PRC, which resulted in the loss of some major orders expected. On top of that, the price of plastic raw materials soared by 30% to 40% while that of steel climbed by 10% to 40% as well.

However, thanks to the Group's efforts in expanding its customer base, over the interim period Magician was able to sign up some OEM customers for gifts and premium products from Canada and South Korea.

International Sales

For the six months ended 30th September, 2003, the Group's overseas sales totaled HK$174.4 million, representing a drop of 13% when compared to that of the same period last year.

Of our global sales, the performance of the U.S. market has been disappointing with turnover dropping 19% to HK$133.6 million compared to the HK$165.1 million generated in the same period last year. This fall in sales was mainly due to a weak economy in the U.S., which not only directly affected consumer confidence but also hurt retailer confidence. We were informed by our customers that they consider their stock in hand more than sufficient to cope with customer demands and have therefore adopted a prudent attitude in order placement so as to maintain a minimum inventory level.

The performance of the Canadian market was similar to its southern neighbour with a sales drop of 11% to HK$14.4 million compared to last year's HK$16.2 million. European sales fared much better than the North American market with a turnover of HK$15.7 million, an increase of 67% over the HK$9.4 million reported for the same period last year. This was attributable to our initiatives to nurture a stronger bond with European customers since two years ago, which resulted in expansion of customer base during the period under review. The turnover from other international markets also recorded a combined increase of 10% to HK$10.7 million.

Mainland China Sales

During the period under review, PRC sales grew approx. 5% to HK$46.2 million. This stable growth was attributable to a satisfactory response to the introduction of new designs and products under "NICOLE design", a well-known brand name for household products in Mainland China. The sophisticated approach to marketing "NICOLE design", including several special summer joint promotions with major customers, also stimulated sales.

During the period under review, the Group maintained an extensive sales-office network covering more than 30 major cities spanning 20 provinces, 4 municipalities and 3 autonomous regions, supplying to about 1,000 retail customers who together operate approximately 4,300 sales outlets in the PRC.

Over the interim period, multi-purpose storage systems, drinkware and soapbox collections were the hottest-selling items for the Group in the PRC.

Hong Kong Sales

Hong Kong sales increased 48% to HK$26.5 million, compared with HK$17.9 million during the same period last year. This encouraging growth was mainly attributable to increased promotional activities with retail customers.

Prospects

The Group expects further challenges to arise from the volatile global economy, coupled with an underperforming market in the United States. While working hard to boost its overseas sales performance, the Group will put more resources into the PRC in view of the promising sales growth in the region.

Thanks to the rise of living standards and purchasing power in the PRC, the Group is optimistic it can increase sales in 2004 by expanding its presence in retail outlets and working closely with local business partners to foster mutual growth. Nevertheless, the Group also recognizes that the opening up of Mainland China has already drawn an increasing number of foreign competitors, which will ultimately result in thinning profit margins. Therefore, we have decided to adopt a four-pronged strategy in the PRC, namely, (1) Diversify product lines under the brand name of "NICOLE design" to launch more new items encompassing the latest trends; (2) Solidify market position by maintaining closer cooperation with existing customers and assigning more authorized distributors that operate strongly in local networks; (3) Develop concept stores to stimulate sales and build stronger corporate image; and (4) Enhance logistic-control and supply-chain management to reduce operation costs and boost product competitiveness.

Looking ahead, the Group believes the prepayment of debt under the DRD has helped Magician relieve itself from its previous financial burden, and expects that the Group will be in a better position to focus on reviving sales in North America as well as expanding business in the PRC.