MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

General Information

For the six months ended 30th September, 2004, the Group recorded a turnover of approximately HK$264.8 million, representing an increase of 7% when compared with the HK$247.2 million reported for the corresponding period last year. However, due to escalating raw material cost, the Group reported an operating loss of HK$2.1 million compared to an operating profit of HK$5.5 million last year, and a net loss attributable to shareholders of HK$5.9 million when compared to a profit of HK$1.4 million during the same period last year. The Group's basic loss per share was HK0.68 cents.

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, 2004, the Group's net assets decreased to HK$267.5 million, rendering net asset value per share at HK30.8 cents. The Group's total assets at that date were valued at HK$595.6 million, including cash and bank deposits totaling approximately HK$18.4 million. Consolidated borrowings amounted to HK$196.2 million. Its debt-to-equity ratio has been slightly increased, from 72% as at 31st March, 2004 to 73% as at 30th September, 2004.

Capital Structure of the Group

As at 30th September, 2004, the Group's major borrowings included a three-year term loan provided by Bank of China, Baoan, Shenzhen, which had an outstanding balance of HK$85 million after paying one installment of HK$7.5 million in September 2004, and two short-term revolving loans totaling HK$65 million.

All of the Group's borrowings have been denominated in Hong Kong dollars and made on a floating-rate basis. As a result of stable market interest rates and the early repayments of outstanding debts in November 2003, the finance costs for the period under review have further dropped by 18% compared to the corresponding period last year.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK$235.1 million as at 30th September, 2004 (31st March, 2004: HK$245.3 million) were pledged to secure banking facilities of the Group.

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 new machines and moulds to cope with production and market demands. Sources of funding are expected to come primarily from trading revenue 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 69%, 12%, 10%, 6% and 3%, 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, 2004, the Group employed a workforce of 4,191 employees in its various offices and factories in Hong Kong and Mainland China. Magician offered competitive remuneration packages, 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

Despite a 7% increase in turnover, Magician recorded an operating loss of HK$2.1 million and a net loss attributable to shareholders of HK$5.9 million for the period under review. These losses were mainly attributable to the rising cost of production, as the price of the Group's two major raw materials – plastics and steel - has climbed by as much as 40% since early 2004.

Nevertheless, the Group made some progress in customers base expansion during the period under review by sealing contracts with some large distributors in the US, Canada, Australia, Italy and the UK. Besides, the Group also launched a number of new products, including electric thermo plastic coolers, silicone BBQ brushes and water bottles.

International Sales

For the six months ended 30th September, 2004, overseas sales totaled HK$208.1 million, representing an increase of 19% when compared to the same period last year.

During the period under review, the performance of the US market improved with a sales increase of 28% to HK$171.3 million when compared to HK$133.6 million for the same period last year. This increase was mainly due to an extremely vibrant housing market as new-home sales continued to climb due to low mortgage interest rates, which generated greater demand for household products.

However, there was no improvement in the Canadian market in which saw sales dropped 23% to HK$11.1 million compared to HK$14.4 million over the same period last year. European sales performance was fair with a turnover of HK$16.8 million, representing an increase of 7% over the HK$15.7 million reported for the same period last year. This stable performance was attributable to our initiatives to nurture a stronger bond with European customers since two years ago, which secured steady revenue stream. The turnover from other international markets recorded a combined decreased of 17% to HK$8.9 million.

Mainland China Sales

During the period under review, PRC performance was disappointing with a sales decline of 34% to HK$30.6 million when compared to the HK$46.2 million for the same period last year.

The Group is now maintaining a total of 25 direct sales offices and four local distributors in Mainland China. To continue expanding its geographical coverage in the PRC, the Group will appoint more locally based distributors to replace underperforming direct sales offices in the PRC.

Hong Kong Sales

During the period under review, Hong Kong sales recorded a slight decrease of 2% to HK$26.1 million from last year's HK$26.5 million.

Prospects

Looking ahead, Magician believes its greatest challenge will still come from the high cost of its raw materials — plastics and steel, which have shown no signs of price drop in the immediate future.

To combat pressures of raw material cost exerted on Magician's operations, the Group has gradually shifted focus of its client base to high profit margin OEM customers. The Group also plans to enhance its profit margin through strengthening of product development. The Group's patent-product — "TurboBake" pan has proved to be very successful in opening up global markets with a latest contract worth US$120,000 coming from a large kitchenware distributor in Canada. Following this success, the Group will launch more bakeware products in the near future. The Group also plans to launch a new product series – Electric Thermo Plastic Cooler, in 2005.