FINANCIAL HIGHLIGHTS

General Information

For the year ended 31 March 2006, Magician recorded a turnover of HK$233.9 million, representing a drop of 47.5% compared to HK$445.8 million recorded last year. Loss for the year was HK$47.0 million, compared to HK$176.0 million for last year. The Group's basic loss per share was HK5.41 cents.

There was neither acquisition nor disposal of principal subsidiaries or associated companies during the year. All the investment properties held by the Group were disposed of during the year.

Liquidity and Financial Resources

As at 31 March 2006, the Group's net assets decreased to HK$50.5 million, representing net asset value per share at HK5.8 cents. The Group's total assets as at that date were valued at HK$309.5 million, including cash and bank deposits totaling approximately HK$4.6 million. Consolidated borrowings amounted to HK$160.5 million. Its debt-to-equity ratio has been increased from 170% as at 31 March 2005 to 318% as at 31 March 2006.

Capital Structure

As at 31 March 2006, the Group's major borrowings included a three-year term loan provided by Bank of China, Baoan, Shenzhen, China which had an outstanding balance of HK$70 million after paying one installment of HK$7.5 million during the year, and two short-term revolving loans totaling HK$65 million. During the year under review, a new secured short-term loan of HK$15 million was raised at a fixed rate of interest and has been fully repaid.

All of the Group's borrowings have been denominated in Hong Kong dollars and made on a floating-rate basis (except for the secured short term loan mentioned above). As a result of rising market interest rates and overdue interest payment, coupled with the additional short term loan raised, the finance costs for the year under review increased to 11.5 million as compared to 6.9 million for the previous year.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK$172.5 million as at 31 March 2006 (2005: HK$188.6 million) were pledged to secure bank facilities for the Group.

Certain plant and machinery with net book value of approximately HK$6 million as at 31 March 2006, held by the Group's subsidiary in the PRC had been frozen by the Shenzhen court in the PRC following legal actions taken by several trade creditors and employees.

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, new machines and moulds to meet production and market demands. Sources of funding are expected to come primarily from trading revenue that the Group will generate and alternative debt and equity financing.

Exposure on Foreign-Exchange Fluctuations

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, PRC Renminbi and U.S. dollars. As far as the Hong Kong dollar remains pegged to the U.S. dollar and the PRC government continues to be conservative in their foreign exchange and monetary policies, the Group's exposure to currency exchange risk is not significant.

Segment Information

North America remained the Group's primary market, which accounted for 81% of total sales. The remaining comprised of sales to Europe, Hong Kong, PRC and others.

Contingent Liabilities

As at the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK$115.6 million (2005: HK$119.5 million) for banking facilities granted to subsidiaries, which were utilized by subsidiaries to the extent of approximately HK$83.9 million (2005: HK$156.2 million).

Subsequent to the balance sheet date, a supplier filed a winding up petition ("the Petition") with the High Court of Hong Kong against a wholly-owned subsidiary ("the subsidiary") of the Company for outstanding balances in respect of purchased raw materials. Subsequently, the subsidiary was being informed of notices from Mr. Kong Yick Ming ("Mr. Kong") and 4 other creditors as the supporting creditors of the Petition. Mr. Kong is a director of the subsidiary and the Company. A total claim of approximately HK$5,092,000 has been provided and subsequently settled. Having taken appropriate legal advice, the directors considered the validity of further claims of approximately HK$4,605,000 were doubtful and it is not necessary to make any provision in this regard.

Employee Information

As at 31 March 2006, the Group employed a workforce of 2,025 employees in its various offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were provided and commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, vocational seminars, on-the-job training and safety training programs to its employees.

There was a share option scheme in force but no share option was granted during the year under review. No bonus has been paid other than sums, each equivalent to one additional month's salary, paid to individual staff members in December 2005 as part of agreed salary package, which applied to most of the employees.

Staff costs during the year amounted to HK$50.2 million (2005: HK$66.4 million), representing a decrease of 24.4% compared to that of last year.

REVIEW OF OPERATIONS

For the year ended 31 March 2006, Magician recorded a net loss attributable to shareholders of HK$47.0 million. The loss was mainly due to the increase in production cost as a result of surging price level of raw materials. Rise in labour costs and shortage of labour in Guangdong also further eroded the Group's bottom line.

In light of the continuing operating loss experienced by the Group, management conducted an impairment review of its property, plant and equipment by reference to independent professional valuations on the market value basis and the value in use assessment. As a result, an impairment loss of HK$13.2 million and a reversal of impairment loss of HK$15.8 million were recognised in the income statement.

During the year under review, the Group continued to experience severe challenges. The Group's major markets remained sluggish. Demand for household products slackened while competition was fierce. The Group responded by declining low margin sales orders while focusing on higher margin products such as metal silicone over-mould bakeware, silicone bakeware and OEM products.

International sales for the year ended 31 March 2006 declined by 39.9% to HK$214 million from HK$355.8 million in prior year. For the year under review, sales in the US market dropped by 36.7% to HK$181.8 million when compared to HK$287.1 million for last year. Sales in the Canadian market also fell by 68.5% to HK$7.6 million from the HK$24.1 million recorded last year. The sales performance of the European market dropped to HK$12.8 million, compared to HK$28.4 million in the previous year. Sustained high oil prices had a negative impact on the demand for household products in these markets. To enhance the quality of earnings, the Group focused its efforts on orders with higher profit margins and favourable payment terms, which also contributed to the reduction in sales.

PROSPECTS

There are signs that raw material prices, though remaining at high levels, have stabilized. The Group will continue to take aggressive steps to adapt to these realities and is confident that profitability will improve as a result of our cost containment efforts.

The Group continued to win support from its customers in spite of difficult business environment. The Group also took initiative in expanding its customer base, especially the higher margin OEM customers, who are willing to invest in tailor-made products that fit their specific requirements. These products are protected from severe competition by patents and copyrights. The Group will allocate resources and support these OEM customers.

To improve profit margin, the Group has been strengthening its product development capabilities. The Group's silicone bakeware and kitchen tools have proved to be very successful in this regard, and the Group will continue to launch additional new bakeware products and value-pack of bakeware products and kitchen tools. Moreover, the Group is putting more emphasis on research and development of innovative products with higher profit margin. The Group intends to capitalize on the market trend of mixing and matching different materials, such as a metal piece with silicone handle, etc. in product differentiation and the creation of higher value products. The Group has extensive in-house expertise and production capabilities to capture share in this high-end category.

In addition, we will adopt more stringent cost control measures and pursue new product development initiatives. The Group has already signed up a large pet product company, 8 in 1, in the US market to produce innovative pet accessories. We believe all these strategies will help to offset the negative impact of rising raw material costs and provide a platform for better returns going forward.

Looking ahead, we believe that the Group's persistent efforts to enhance profit margins and reduce operational costs will allow Magician eventually to overcome current market challenges and deliver improved results.