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Management Discussion and Analysis

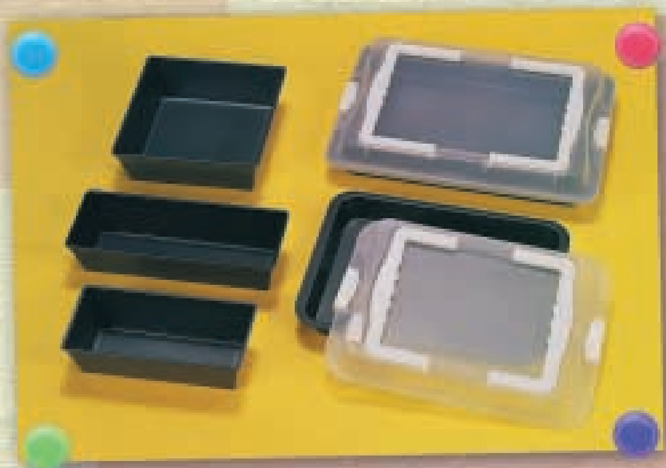
FINANCIAL HIGHLIGHTS

General Information

For the year ended 31st March, 2004, Magician recorded a turnover of HK$470.8 million, representing a drop of 10% compared to HK$523.4 million recorded last year. Operating profit dropped by 75% to HK$8.4 million from HK$33.2 million, while profit attributable to shareholders was HK$1.3 million, compared to HK$18.1 million last year. The Group's basic earnings per share was HK0.15 cents.

On 6th November, 2003, the Group prepaid the entire indebtedness outstanding under the DRD dated 10th November, 2000, by funds obtained through a loan from BOC SZ, the release of an existing working capital security deposit, and other internal resources of the Group.

No principal subsidiaries or associated companies were acquired or disposed of during the year. Investments held have not materially changed from those disclosed in last year's annual report.



Liquidity and Financial Resources

As at 31st March, 2004, the Group's net assets increased to HK$273.4 million, rendering net asset value per share at HK31.47 cents (2003: HK31.32 cents). The Group's total assets as at that date were valued at HK$601 million (2003: HK$622 million), including cash and bank deposits totaling approximately HK$29.1 million (2003: HK$59.9 million). Consolidated borrowings amounted to HK$197.4 million (2003: HK$224.8 million). Its debt-to-equity ratio has been further reduced, from 83% as at 31st March, 2003 to 72% as at 31st March, 2004.

Capital Structure

As at 31st March, 2004, the Group's major borrowings included a three-year bank loan, which had an outstanding balance of HK$92.5 million after paying a first installment of HK$7.5 million during the year under review, and short-term revolving bank loans totaling HK$65 million. These borrowings were

denominated in Hong Kong dollars and made on a floating-interest-rate basis. As a result of stable market interest rates and the early repayments of outstanding debts under the DRD, finance costs for the year under review were reduced. The Group is in a sound financial position, with sufficient credit facilities to support its operations both before and after the debt-prepayment exercise.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK$245.3 million as at 31st March, 2004 (2003: HK$409.3 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 expenditures on capital assets including, in particular, 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 its banking facilities and leasing arrangements.

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. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and there has been minimal fluctuation in the Hong Kong dollar-to-Renminbi exchange rate, the Group had minor exposure to currency exchange risk.

Segment Information

Sales distribution by geographical area has not changed significantly. The Group's biggest market was still North America (59%), followed by Mainland China (17%), Hong Kong (12%), Europe (7%) and others (5%).

Contingent Liabilities

The contingent liabilities of the Group have not changed materially from those disclosed in last year's annual report.

REVIEW OF OPERATIONS

International Sales

International sales for the year ended 31st March, 2004 were disappointing, dropping by 15% to HK$334.5 million from last year's HK$392.4 million. This decrease was largely due to the sluggish performance in the U.S. market and SARS. U.S. sales fell by 23%, from HK$313.7 million for the year ended 31st March, 2003 to HK$242.8 million for 2004. Amid uncertainties over future economic outlook, our U.S. customers have generally adopted a prudent attitude in order placement, so as to maintain a minimum inventory level. The same situation appeared in the Canadian market where sales dropped by 4% to HK$35 million from the HK$36.4 million generated last year.

Nevertheless, the sales performance of European market was encouraging, increasing by approximately 40% to reach HK$33.3 million, from HK$23.8 million recorded in the financial year ended 31st March, 2003. This improvement proves that our efforts to foster closer relationship with European customers have borne fruit, especially in the Netherlands and Germany where customer network expansion has been most encouraging. Turnover in other international markets also climbed, increasing by approximately 26% to HK$23.3 million, with notable more sales in Israel and South Africa.

Mainland China Sales

For the year ended 31st March, 2004, sales in Mainland China amounted to HK$81.2 million, representing a drop by 11% from last year's HK$91.6 million. This decrease was mainly attributable to the Group's stricter credit policy backed by a newly introduced and more sophisticated computerized control system, resulting in suspension of merchandise supply to customers who appeared to be financially unhealthy. In addition, increased cost of sales, coupled with competition from overseas newcomers, have adversely affected our profit margin.

During the year under review, Magician put great effort into brand building by opening a "Magic Home" concept stall and four "NICOLE design" concept-corner stalls in a number of department stores in Mainland China. The Group also participated in a number of major nation-wide home-product exhibitions and stepped up its advertising campaigns to achieve a wider reach in the country.

On the whole, we have adjusted our sales and distribution strategies during the year under review. To achieve better market coverage, the Group appointed locally based distributors to replace some of its PRC direct sales offices who were not performing as well as were expected, in particular those in Chang Chun and Chong Qing. The Group is now maintaining a total of 27 direct sales offices and four local distributors in Mainland China.

During the year under review, plastic goods such as containers, multi-compartment closets and shopping baskets were the most popular items in Mainland China.

Hong Kong sales

Hong Kong sales reported a remarkable 40% growth during the year under review, with turnover increasing from HK$39.4 million to HK$55.1 million. The growth was mainly due to increased sales to export agents. Among all the popular items, gravy server with oil strainer, water pitcher and cable organizer were the best selling items in Hong Kong.

PROSPECTS

It is believed that one of the greatest challenges that Magician faces is the problem brought about by ever-increasing cost of raw materials, which in turn is largely driven by huge consumption and continuous demand resulting from the country's bustling manufacturing industries. However, we expect this problematic situation to improve gradually, in view of austerity measures launched by the central government in an effort to cool down the nation's over-heated economy.

Furthermore, we believe several measures that the Group undertook during the year will help Magician to enhance its profit margin. At our R&D section, the Group's consistent push to create such original products as the "TurboBake" pan will positively affect our profit margin. With a selling price that can be set higher than normal baking pans in the market, the "TurboBake" pan will be a focal point of our marketing and sales campaigns in the coming years, contributing favorably to our profits. In terms of customer base, the Group has put greater efforts into developing better relationship with OEM and ODM customers who are willing to spend more on tailored-made products that fit their specific requirements. We believe these two favorable factors, coupled with our stringent cost-control measures, will not only help offset the negative impact of escalated cost of raw materials, but also bring about better returns for Magician in future.

As for the outlook of our major markets, we expect sales orders from the U.S. to rebound gradually since our customers there have reported revenue growth in recent months. In Europe, we expect our sales growth to continue, thanks to our persistent efforts over the past two years in building a stronger customer network. We believe the expansion of the European Union on 1st May, 2004 will help to boost economic exchanges and activities in a larger region and offer new opportunities for growth.

In Mainland China, we are optimistic that the economy will continue to grow healthily given the government's determination to put the nation's economic development on to the right track with a series of austerity measures. Therefore, we plan to establish more concept stalls to enhance both our corporate image and brand names. We will also gear up marketing and promotion activities in various retail outlets by cooperating with local distributors and retailers.

Hong Kong's economy has rebounded since the second half of 2003, which gradually restored confidence of homeowners in more household expenditures. The surge in the sale of flats has formed a solid foundation for our stable growth in the housewares market.

Looking ahead, we believe that with the Group's consistent efforts with a view to enhancing profit margin and reducing financial burden, Magician is well equipped to meet with market challenges and create better results.