





Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

General Information

For the year ended 31 March 2005, Magician recorded a turnover of HK\$ 445.8 million, representing a drop of 5.3% compared to HK\$470.8 million recorded last year. Due to the escalating raw material cost, the Group reported an operating loss of HK\$77.2 million compared to an operating profit of HK\$8.4 million last year, while net loss attributable to shareholders was HK\$176 million, compared to a profit of HK\$1.3 million last year. The Group's basic loss per share was HK20.25 cents.

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 31 March 2005, the Group's net assets decreased to HK\$ 97.4 million, rendering net asset value per share at HK11.2 cents. The Group's total assets as at that date were valued at HK\$405.5 million, including cash and bank deposits totaling approximately HK\$12.9 million. Consolidated borrowings amounted to HK\$166 million. Its debt-to-equity ratio has been increased from 72% as at 31 March 2004 to 170% as at 31 March 2005.

Capital Structure

As at 31 March 2005, 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\$82.3 million after paying two installments totaling HK\$10.1 million during the year, 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, the finance costs for the year under review remain almost the same as compared to the corresponding period last year.

Charges on Group Assets

Certain assets of the Group having a carrying value of HK\$188.6 million as at 31 March 2005 (2004: HK\$ 245.3 million) were pledged to secure bank facilities of the Group.

Certain bank accounts, which totaling HK\$2.6 million as at 31 March 2005, held by the Group's subsidiary in the PRC had been frozen by the court in the PRC following the legal actions taken by several 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 cope with production and market demands. Sources of funding are expected to come primarily from trading revenue 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. In as much 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 during the year under review. The Group's biggest market was still North America. The sales distribution for North America, Europe, Hong Kong, the PRC and others was 69.8%, 6.4%, 9.8%, 10.4% and 3.6%, respectively.





Contingent Liabilities

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$119,500,000 (2004: HK\$135,000,000) for banking facilities granted to subsidiaries, which were utilised by subsidiaries to the extent of approximately HK\$156,201,000 (2004: HK\$119,031,000).

Employee Information

As at 31 March 2005, the Group employed a workforce of 3,540 employees in its various offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were structured, commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, practical seminars for knowledge update, 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 2004 as part of agreed salary package, which applied to most of the employees.

Staff costs during the year amounted to HK\$66.4 million (2004: HK\$73.3 million), representing a decrease of 9.5% compared to that of last year.

REVIEW OF OPERATIONS

For the year ended 31 March 2005, Magician recorded an operating loss of HK\$77.2 million and a net loss attributable to shareholders of HK\$176 million. These losses were mainly due to impairment loss on property, plant and equipment of HK\$91.7 million, and rising costs of production, as the price of the Group's two major raw materials – plastics and steel – was significantly higher in each case compared to the same period last year. These materials accounted for about 50% of the Group's total production costs.

Nevertheless, the Group made progress in expanding its customer base by sealing contracts with three large distributors in the US, as well as some large distributors in Canada, Australia, Italy and the UK. The Group also launched a number of new products, including silicone bakeware and kitchen tools, non-stick bakeware, metal silicone over-mould bakeware, electric thermo plastic coolers and water bottles.

International Sales

International sales for the year ended 31 March 2005 remained stable, increasing slightly by 6% to HK\$355.8 million from last year's HK\$334.5 million. For the year under review, the sales performance of the US market improved with sales increased by 18.2% to HK\$287.1 million when compared to HK\$242.8 million for last year. The sales increase was mainly due to greater demand for household products with this in turn the result of increased sales of new homes in the US. The economic recovery in the US was a major stimulus to consumption in the year under review and this had an effect on demand for household products.

However, there was no improvement in the Canadian market where sales dropped by 31% to HK\$24.1 million from HK\$35 million recorded last year. The sales performance of the European market dropped to HK\$28.4 million, compared to HK\$33.3 million in the previous year. The most popular item in our European markets during the year under review was non-stick bakeware.



The PRC Sales

For the year ended 31 March 2005, sales in the PRC were disappointing, dropping by 43% to HK\$46.3 million from last year's HK\$81.2 million. This decrease was mainly due to the increase in production costs, coupled with the adverse effects on our profit margins of overseas competitors entering the market.

We strengthened our sales and distribution strategies during the year. The Group appointed local distributors to replace some of the underperforming direct sales offices in this market. The Group now has 23 direct sales offices and six local distributors in the PRC.

During the year under review, microwave storage containers, tableware and bathroom accessories were the most popular items in the PRC.



Hong Kong Sales

Hong Kong sales reported a decrease of 20.7% during the year under review, with turnover decreasing from HK\$55.1 million to HK\$43.7 million. Gravy server with oil strainer, water pitcher and cable organizer were the best selling items in Hong Kong.

PROSPECTS

Magician believes it will continue to face significant challenges from the ever-increasing cost of raw materials as China's manufacturing sector continues to grow rapidly. The Group sees no indication in the immediate future that the cost of raw materials will moderate. However, we are taking

steps to combat the pressure of raw material costs by gradually shifting the focus of our client base to high-margin OEM customers. The Group also plans to enhance its profit margin by strengthening its product development capabilities so that it can broaden its product range and hence its market presence. In this regard, the Group's silicone bakeware and kitchen tools have proved to be very successful. Following this success, the Group will launch additional new bakeware products in the near future.

The Group also recognizes the need to enhance relationships with OEM customers that are willing to invest in tailor-made products that fit their specific requirements. In addition, we will adopt more stringent cost control measures and pursue new product development initiatives. We believe all these strategies will help to offset the negative impact of rising raw material costs and provide a platform for improved returns going forward.

We shall take appropriate steps to follow up the opinion, concerns and recommendations expressed by the auditors in relation to our operation and internal control.

As for the outlook in our major markets, we expect sales from the US to improve gradually as we have signed up three large new distributors in this market. The Group believes the economic recovery in Europe will also stimulate consumption and demand. Given our persistent efforts over recent years to build a stronger customer network, we expect stable sales growth.



In the PRC, the Group will adopt a more conservative approach in terms of expansion and promotion activities. We are re-thinking about our sales and distribution strategies. We will continue to replace underperforming direct sales offices with local distributors and to implement other plans in order to improve the situation.

With the rebound in Hong Kong's economy, sales of new homes have increased and stimulated demand for household products. The Group believes this will provide a solid foundation for stable growth in the house ware market.

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