

LETTER TO SHAREHOLDERS & MANAGEMENT DISCUSSION AND ANALYSIS



Kong Yick Ming
Chairman



LETTER TO SHAREHOLDERS & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

I am glad to report that there are obvious signs of the tide turning, such that I can say with reasonable confidence that we may expect to see the approach of a better era in our Company.

As we began to forge our way into the 21st century, our journey quickly became riddled with unprecedented challenges that were equally affecting people and businesses worldwide. General phenomena of the Hong Kong economy at the beginning of the period under review were ostensibly marked by a global recession that had seen consumer confidence plummeting to record lows. The September 11 terrorist attacks dealt an additional hard and severe blow. As shock waves in the aftermath of the attacks continued to rip through economic and political circles, the world in particular the United States was more determined than ever to fight terrorism and restore good order. Spirits were high, which helped to arouse an otherwise depressed economic climate. It was timely for China to be admitted to the World Trade Organization at this crucial time. In the midst of the turbulence, Magician has successfully weathered the slump, the perks and the uncertainties, and remained at the forefront of the industry.

In the light of the aforesaid, I am both proud and delighted to be able to report favourably to you and present in this report details of our performance in the past year.

For the year ended 31st March, 2002, we recorded a turnover of HK\$434.7 million, an increase of 7% over last year's HK\$404.5 million. Net profit attributable to shareholders was HK\$15.7 million, representing an increase of 175% over HK\$5.7 million. Basic earnings per share was HK1.81 cents (2001: HK1.12 cents).

With the Group still on its road to recovery, the board of directors has resolved not to recommend payment of any dividend for the year ended 31st March, 2002.



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The Road to Recovery

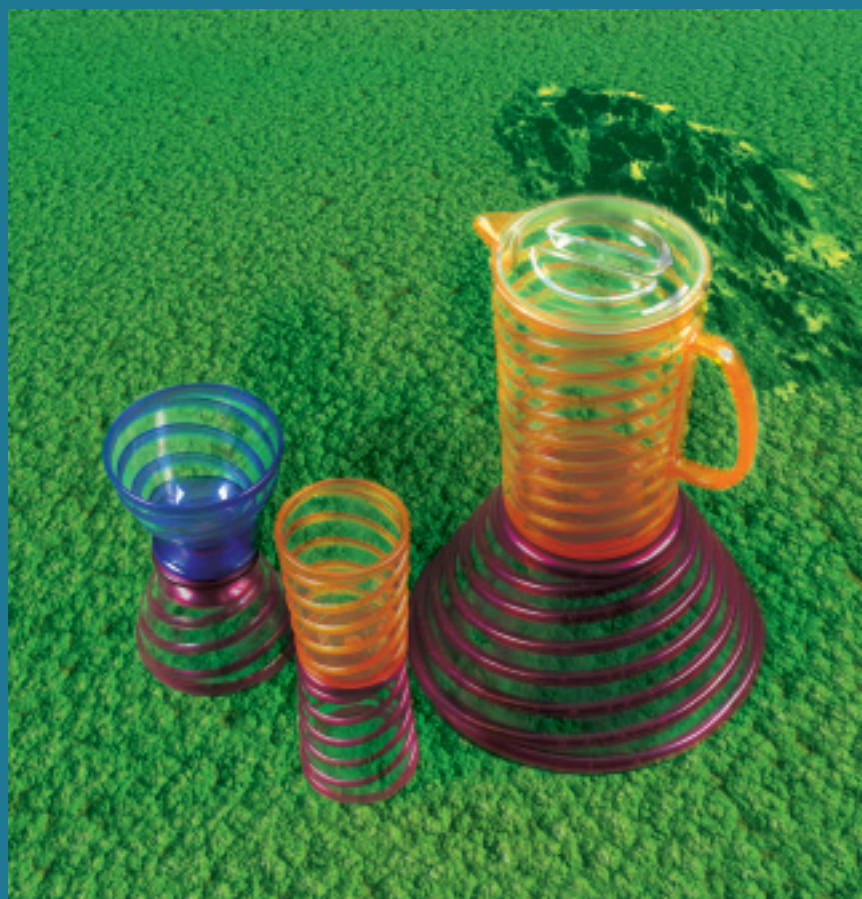
I realize that the Group's present financial state is of the utmost concern for most of our shareholders. Therefore, I would like to begin by describing the significant progresses that we have made in this respect in the course of the year under review. As I have reported to you last year, the Group entered into a 5-year self-rescue debt restructuring program in December 2000. Since then, the Group has effected all due repayments on schedule, thus making significant headway in reducing its overall debts. During the year, the two bank loan installments agreed to be payable bi-annually were both paid on time, successfully reducing the Group's 5-year term loan to HK\$87.6 million, representing a decrease of 20% from last year's HK\$109.6 million. Financing costs declined alongside with the interest rate cut of 31% during the year under review, resulting in savings of about HK\$2.0 million. Given the stream of operating profits from steadily improving businesses in the market, the Group is prudently confident that it will likely be able to repay the term loan on time, if not ahead of schedule.



Aftermath of the September 11 Incident

For a short spell during the first couple of months following the September 11 attacks, businesses from the United States decreased slightly, but orders started to flow in again immediately after Christmas. In fact, we are now witnessing the emergence of a trend that points upwardly with sustainable levels of growth.

According to industry reports, the September 11 incident has unexpectedly resulted in changes in the mentality and lifestyle of the American people in general. A great majority of them have since been enthusiastically embracing the concept of "Back to the Basics", with a corresponding shift of attention to their homes. As an increasing number of people spent more of their time



at home, sales of home-related goods began to flourish. In 2001, despite an overall economic downturn, sales of housewares in the United States recorded a modest increase of 1.2%. The effects became more obvious as home-related retailers reported stronger sales growth in the first quarter of 2002. We aim to work even closer with our U.S. customers to reap the benefits of this shift in consumer focus.

Value-Added Products and Services

In the past, Hong Kong manufacturing enterprises thrived on the supply of cheap labour in the PRC, which allowed them an edge over competitive pricing in the world market. This advantage has now been gradually weakened by the rise of local PRC manufacturing companies who are able to offer equally if not more competitive prices. Today, competitive pricing alone is not enough to guarantee success. Technological advances such as the development of the Internet has

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Magician has already established an R&D team for the development of new products many years ago. One of the direct results of this move, I am happy to report today, is that we have been able to launch a program for a new line of products called the “Disposable Storage Box” which comes in 9 variety styles catering to different markets. Given its huge popularity since launch in early 2002, we expect its annual sales volume to reach 72,000,000 sets. The idea of this line of products is a simple one, but the products themselves are innovative both in efficiency and features, and they can be offered at very affordable prices, thanks to the joint efforts of our marketing team and the R&D staff.

We have also aimed at being more technology-focused in our manufacturing process, so that hopefully the Group will be able to prosper on wider profit margins by tapping the higher-end of the market. We provide in our budget for a reasonable amount of investments in development of new products in the coming financial year.



enabled multinational firms to easily adopt global sourcing and direct merchandising policies in order to reduce their costs, ultimately affecting the profit margins of manufacturers. Consequently, in order to stay competitive, Magician has been actively providing its customers with more value-added products. For example, instead of being an OEM partner to foreigner buyers, the Group has also taken up ODM jobs, providing customers with more innovative designs and better functioning products.

R&D Focus

To further increase its competitive edge, the manufacturing industry in Hong Kong would be wise to spend more of its efforts and resources in research and development, as well as the employment of a larger number of skilled professionals. Investments in these respects will, we believe, be essential for long-term growth.

Brand Name Creation and Promotion

I believe that the creation of recognized brand names is also very important to the development of a successful industry. Well-known brand names have known to become synonymous with value.

Since 1994, the Group has embarked on the creation and promotion of its brand name “NICOLE design” in the PRC. As a household product manufacturer, one of our goals is to have our own outstanding household brand names which not only bring customers to our shelves in retail outlets but also prompt more retailers to join hands with us in selling our products owing to the strong demands attracted by our brand names. Our strategy in this respect is shown in our proactive measures, which included promotional activities and advertisements in selected locations across Guangdong Province as well as a few other large cities in the PRC.

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An Award to me with Credit due to Magician staff at large

In March 2002, I was given an award of Associateship by the Professional Validation Council of Hong Kong Industries. This Award is meant to give recognition to the professionalism as well as achievements of the awardee, and serves to encourage the awardee to continue making contributions to the industry that he belongs. For my part, I would reckon that this Award is due to the extraordinary diligence and dedication of our staff at Magician, rather than my own personal achievement. I would like to take this opportunity to extend my deepest gratitude for their commitment and unrelenting efforts.

Lastly, I would like to thank our colleagues and shareholders who have always stood by the Group over the past years as we went through some of the most difficult times in the history of our company. Their dedication to Magician has put us back on track toward a brighter and more prosperous future.

Kong Yick Ming
Chairman

Hong Kong
24th June, 2002

The Road Ahead

Despite the general shift of manufacturing operations to the mainland in the last twenty years, I believe that manufacturing industries will always play a vital role in the territory's economic development and will have the ability to evolve with the changing times. I believe that the three areas of developments that I have high-lighted above, namely, Value-Added Products and Services, R&D Focus, and Brand Name Creation and Promotion, are the three major critical success factors that will give further advancement to the Hong Kong manufacturing industries. It is in these directions that Magician will continue to improve itself.

Overall, I believe that the strong foundation, core competence and great potential of the Hong Kong manufacturing industries will continue to develop and make significant contributions to enable themselves to flourish. As I witness the growth of Magician alongside the manufacturing industries in the territory as a whole, I am reminded of our resilience and strength as a company with a will and dedication to grow further. I have no doubt that this strong spirit of ours will always stay on, for the benefit of our shareholders as well as the Hong Kong community as a whole.

