

Dear Shareholders,

The Group's performance in the year under review continued to be adversely affected by the ever-escalating raw material prices. In common with many manufacturing businesses, the Group's profit margins were undermined by drastic increase in the price level of key raw materials such as plastic and steel, whose prices are at their highest levels in ten years. Also faced by companies in the manufacturing industry in general, the Group fell victim to climbing wage level, shortage of labour and unstable electricity supply in the mainland China.

As a result of the PRC Government's macroeconomic control measures, tax rebates were cut down and raw material prices increased severely. Oil and steel prices reached new heights during the year. It further worsened the overall operating environment of the manufacturing industry.

With its inherent reliance on heavy consumption of raw materials, Magician's performance inevitably declined during the year under review. For the year ended 31 March 2006, the Group reported a loss for the year of HK\$47.0 million, compared to HK\$176 million for the last year. The cause of this improvement was the Group's stringent cost control measures despite hikes in prices of two of our major raw materials - plastics and steel. For the year under review, the impairment loss reduced substantially as compared to the last year and there was a reversal of impairment loss. The Group's turnover dropped by 47.5%, from HK\$445.8 million recorded last year to HK\$233.9 million, owing to the Group's policy in focusing on products and customers with better returns. Basic loss per share was HK5.41 cents (2005: HK20.25 cents).

The board of directors has resolved not to recommend any final dividend for the year ended 31 March 2006.

CLEAR BUSINESS STRATEGIES

In face of fierce competition and ever-climbing raw material costs, the Group continues to shift

the focus of our client base to higher-margin products and customers. The Group is determined to further develop the OEM market. The high-margin OEM customers are willing to invest in tailor-made products that fit their specific requirements. At the same time, these OEM products are protected by patents and copyrights, which shield the Group from competition from other companies.

Building on the success of the silicone products developed by our R&D staff last year, the Group aimed at putting more emphasis on these higher-margin products and added values to them. The Group had already received considerable sales orders for value-packs of silicone bakeware and kitchen tools.

In view of rapidly changing business environment, and being conscious of the fact that, now more than ever, Magician values new product development and has begun gearing up our research and development effort. For the first time, the Group has signed up a large pet product company, "8 in 1", in the US market to produce innovative pet accessories. The Group realized that household products in the market are increasingly sophisticated. As an enterprise specialized in the production of a most comprehensive range of household and related specialty products, Magician will take full advantage of this competitive edge to grasp every business opportunities lying ahead.

COST CONTROL

The Group has adopted a series of measures to cut cost. Instead of running direct sales offices, the Group now concentrates on playing the role of a manufacturer. Also, the Group has imposed tight control on the headcounts of all departments. Follows by these policies, the number of employees has decreased from 3,540 last year to 2,025 this year.

On the other hand, the Group will strive to negotiate better prices with the key raw material suppliers and logistic services providers. The Group is continuously sourcing better quality raw materials and trading products with lower cost from new

Chairman's Statement

vendors. Besides, Magician will monitor the trends of raw material prices to ensure prompt adoption of corresponding measures.

NEW DIRECTORSHIP

A new management team has been lined up during the year under review. Being an experienced entrepreneur who has been running manufacturing and trading of plastic and metal household products business for over 10 years, I am optimistic about the company's future in spite of present difficult business environment in the manufacturing industry. I truly believe that with the Group's well-established brand name and position in the industry and its expertise, together with the new thoughts brought in by the professionals of the senior management, the Groups will ultimately overcome the challenges and improve its profitability under the leadership of this new management team.

APPRECIATION

Magician will continue to face challenges from the high cost of raw materials. However, with the stringent costs control measures, clear business focus and strong product development capabilities, I have every confidence Magician will be well-prepared in overcoming any unfavorable market conditions in the future, and in a stronger position in enhancing its profitability and business prospects.

On behalf of the Board, I would like to thank our customers, suppliers, business partners and shareholders for their continuous support during this difficult time. Last but not least, I would also like to take this opportunity to express my heartfelt gratitude and pride in having an outstanding workforce at Magician. We shall work hard in order to overcome current market challenges and deliver improved results.

Xu Jin
Chairman

Hong Kong
26 July 2006