

With the uncertainty of the US economy during the year under review, our turnover in this principal market inevitably shrank, thus lowering the Group's total turnover and operating profit margin. The Group's turnover for the period was HK\$404.5 million, representing an 18% decrease compared with continuing operations of the previous year. Nevertheless, by significantly reducing net loss in our interim period and persistently employing cost-saving measures during the year, the Group managed to turn the loss of continuing operations back to profit. Under tough market conditions, the Group was able to achieve a net profit of HK\$5.7 million. To further improve this situation, the Group will concentrate more on developing the lucrative PRC market as well as implementing an improved and cost-effective overseas market expansion strategy at the same time.

Since the Group is still implementing its recovery plan, the board of directors does not recommend payment of a final dividend.

STEADY IMPROVEMENT IN FINANCIAL SITUATION

The restructure of approximately HK\$337 million of debts due to major banks (the "bank indebtedness") was one of the principal management tasks during the reporting period. Had this issue not been resolved properly, it would have adversely affected the Group's financial situation and our operation. Fortunately, with the wholehearted support of our bankers and investors, the Group executed agreements for a five-year self-rescue debt restructure program on 15th December, 2000.

I am pleased to report the following progress in relation to the bank indebtedness: Under a debt compromise, the Group repaid HK\$10.8 million to its creditors, in full and final settlement of HK\$53.4 million in the Group's debts. Another approximately HK\$109.6 million in debt was substituted by a five-year secured term loan bearing interest at three-month HIBOR (Hong Kong Inter Bank Offer Rate) plus 1%. The remaining part of the bank indebtedness in the principal sum of HK\$174

million was replaced by secured convertible bonds maturing in 5 years, of which 32.8% or HK\$57.1 million bears interest at 4% per annum payable in arrears every 6 months while the balance is interest-free. From the latter, approximately HK\$86.9 million worth of bonds were converted to capital through a share offer to existing shareholders on 22nd January, 2001.

With the finalization of the debt restructure program in December 2000, the Group now has a clear picture of the way ahead. It will focus on reducing debt and repaying on time, retaining the confidence of suppliers and customers, and making all due efforts in developing its core business. The Group is confident that it will be able to meet the five-year debt repayment schedule as agreed.

Looking ahead, with an expected gradual recovery in the Group's core business, we foresee a steady improvement in our financial situation.

STRIVING FOR THE BEST UNDER TOUGH MARKET CONDITIONS

Even though the Group's plastic and metal household products are generally less affected by adverse macro economic conditions, our overall sales have still been slowed down and staggered considerably by weak consumer sentiment. For the year ended 31st March, 2001, sales to the North American market were HK\$246.1 million, representing a 21% drop compared with last year. The European market was also seriously affected, leading to a 52% decline in sales there.

As a result of ever-increasing keen competition, especially from mainland China, customers' requirements towards price,

service, quality and designs of products are more stringent than ever. In order to achieve the best results, the Group has accommodated, so far as possible and in permissible instances, requests for reduction of price, not by offering inferior products, but by effective measures in supply-chain management, sourcing of reasonably-priced good quality raw materials and cuttings in overheads. Special efforts have been made for improvement in services to our customers and the creation of a lot more innovative and quality products.

The PRC is the Group's second most important market following that of North America. During the year under review, the PRC contributed HK\$124.3 million to the Group's turnover, representing a slight 3% decrease compared with the previous year. Of this total, approximately HK\$3.9 million came from Lanzhou, Guiyang and Changchun combined, three markets newly tapped during the year under review, vividly proving that the Group's expansion strategy has produced and will continue to produce a good payback.

In China, we have launched a large variety and wide range of products which have generated good consumer responses. We have continued to build, enhance and exploit our "NICOLE Design" ("N'n") brand name. This name has undoubtedly become one of the most popular household product brands in China. Our sales network stretches from Guangzhou in the southern part of China, to Harbin in the north, and has recently expanded to such inland China cities as Lanzhou to the West. As a result, N'n products are now available from more than 3,000 sales outlets in China.

Our strategy of establishing direct links with major retail operators has reduced our dependence upon intermediates, and thus decreased transaction charges and overheads. Our list of renowned retail customers in China includes Wal-Mart, Carrefour and Park'N Shop.



With our vast presence in 28 prominent cities and as supported by major retailers throughout the country, the Group's products have penetrated the huge consumer market in China.

CONSOLIDATION OF OPERATIONS

During the period from the end of December 2000 to the beginning of January 2001, we relocated our metal factory, which had hitherto been operated on separate factory premises, to our main factory compound at Shatou, Shenzhen. In consequence, there have been considerable savings in rent, manpower, factory overheads and transportation charges; centralized and more cost-effective inventory storage has been put in place; factory security has been enhanced; and the overall management in respect of both plastic and metal products have been rendered much more efficient. There will be additional measures towards the same goal which will be implemented gradually.

IMPORTANT LESSONS LEARNT FROM PAST DIFFICULTIES

The difficulties that we faced before have helped us form our development strategy, which was and will continuously be based on good financial discipline, with



a focus on recovery and prudent growth. Good financial discipline includes professional management of the Group's debt levels and structure as well as tight cost control. With the self-rescue debt restructure program in place, the Group's debt burden will be gradually lightened and eventually removed. Further expansions in future will be prudent and well-planned.

PROSPECTS

The trend toward globalization and the expected increase in PRC consumer purchasing power will pose both challenges and opportunities for Magician. Along with tougher competition, more new markets will emerge. Facing this inevitable trend, companies will need to embrace all opportunities in efficient and effective ways in order to excel. The management will focus efforts on the core business of Magician, which will no doubt be supported by its competitive capability, built and strengthened over the past years, to explore international markets and tap further from the PRC market. We shall act as a production partner for major international household product brands and shall carefully choose quality retail operators in new markets, both in China and all over the world.

INTERNATIONAL MARKETS

Backed by the Group's strong production facilities in Shatou, Shenzhen, Magician will team up with famous brand-name customers who have worldwide distribution networks and act as their production arm. We believe this is a more economical and efficient way to approach the mature overseas market. Giants of the industry have developed full-fledged distribution networks and enjoy a strong market presence, so it is extremely difficult to introduce a new regional or overseas brand. The natural choice is to find quality partners, allowing the Group to play the role of an outsourcer.

PRC MARKET

The imminent accession of China to the World Trade Organization, the gradual implementation of the 10th Five-Year Plan by the PRC government, and the roll-out of the West China Development Plan, will combine to create a favorable atmosphere for NICOLE Design to further expand in the PRC.

The Group will expand only prudently, and minimize inventory and accounts receivable risks by choosing quality retail customers. For the current financial year ending 31st March, 2002, we intend to develop two new PRC sales offices, one in Guangdong and one in Hebei, which offer great opportunities due to the surging purchasing power of local customers.

The past few years have been particularly difficult for the Group. I am deeply impressed by the forbearance, loyalty and support of our directors and staff. The Group is fortunate to have such a quality team. With your continued support and dedication, I am confident that the Group will continue to recover and grow.

Kong Yick Ming
Chairman

Hong Kong
13th July, 2001