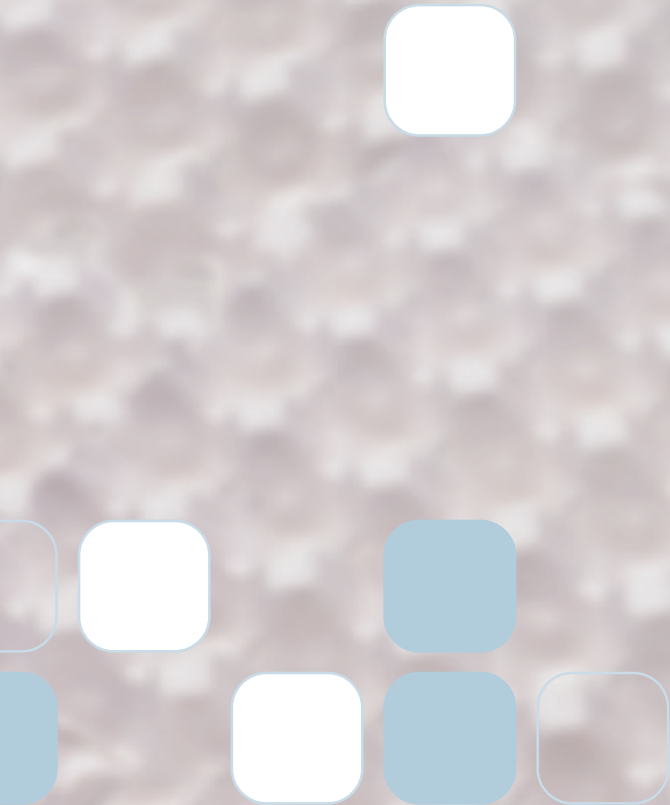


REPORT OF THE DIRECTORS





The directors are pleased to present their report and the audited financial statements of Magician Industries (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are the manufacturing and trading of plastic and metal household products.

SEGMENTAL INFORMATION

An analysis of the Group's turnover by products and geographical markets for the year ended 31st March, 2001 is as follows:

By products:

Continuing operations:

General houseware
Kitchen ware
Gift items
Bathroom accessories
Others

Discontinued operations:

Plastic packaging materials and related products

Turnover	
2001	2000
HK\$'000	HK\$'000
197,124	266,192
165,267	161,388
22,665	33,662
17,762	31,714
1,672	1,569
404,490	494,525
–	87,741
404,490	582,266

By geographical markets:

Continuing operations:

North America:
United States of America
Canada

The People's Republic of China ("PRC"):

Hong Kong
Mainland China

Europe
Others

Discontinued operations:

Mainland China

Turnover	
2001	2000
HK\$'000	HK\$'000
222,621	287,766
23,444	23,711
40,648	48,692
83,676	79,675
20,905	43,658
13,196	11,023
404,490	494,525
–	87,741
404,490	582,266



SEGMENTAL INFORMATION (continued)

Contributions to profit from operating activities by products and geographical markets have not been presented as the contributions to profit from operating activities from each product and market are substantially in line with the overall Group's ratio of profit from operating activities to turnover.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2001 are set out on page 35 of the financial statements.

The directors do not recommend the payment of a dividend, and recommend that the accumulated losses of HK\$132,103,000 at 31st March, 2001 be carried forward.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 62. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in Note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Group's principal subsidiaries and associate as at 31st March, 2001 are set out in Notes 16, 17 and 34 to the financial statements, respectively.

BANK LOANS, OVERDRAFTS AND OTHER LOANS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group are set out in Notes 20 and 23 to the financial statements.

ISSUE OF CONVERTIBLE BONDS

Details of the convertible bonds issued during the year, together with the reasons therefor, are set out in Note 25 to the financial statements.

INTEREST CAPITALISED

Interest expense capitalised in respect of the Group's construction-in-progress was HK\$1,741,000 (2000 – HK\$2,743,000).

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in Notes 26 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the Companies Act 1981 of Bermuda (as amended), which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st March, 2001, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of HK\$158,398,000 (2000 – HK\$158,398,000) is available for distribution, subject to certain conditions as described in Note 28 to the financial statements. The Company's share premium account of HK\$282,049,000 (2000 – HK\$238,612,000) as at 31st March, 2001 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the current year, sales to the Group's five largest customers accounted for 40% (2000 – 45%) of the total sales for the year and sales to the largest customer included therein amounted to 29% (2000 – 25%). Purchases from the Group's five largest suppliers accounted for 30% (2000 – 46%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 11% (2000 – 13%).

None of the directors of the Company, or any of their associates, or any shareholders (which, to the best of the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were:

Executive directors:

Mr. Kong Yick Ming (*Chairman*)

Mr. Ku Ling Yu, John

(appointed on 25th September, 2000)

Non-executive directors:

Dr. Choy Chung Wai, Louis

(resigned on 2nd January, 2001)

Mr. Seghin, Bruno

(resigned on 30th June, 2000)

Mr. Chan Chun Hung, Vincent

(resigned on 28th August, 2000)

Mr. Wong Kwong Chi, Simon

(appointed on 14th January, 2000)

Ms. Mak Yim Chee

(alternate director to

Mr. Chan Chun Hung, Vincent)

(resigned on 8th June, 2000)

Mr. Ku Ling Yu, John

(appointed on 10th July, 2000 and resigned on 25th September, 2000)

(alternate director to

Mr. Chan Chun Hung, Vincent)

(appointed on 8th June, 2000 and resigned on 28th August, 2000)

(alternate director to

Mr. Seghin Bruno)

(appointed on 9th June, 2000 and resigned on 30th June, 2000)

Mr. Ku Yee Hong, Derek

(appointed on 10th July, 2000)

Mr. Woo Chin Pang, Adrian

(alternate director to

Dr. Choy Chung Wai, Louis)

(appointed on 20th September, 2000 and resigned on 2nd January, 2001)

Mr. Keung Sau Tim, Bill

(appointed on 25th September, 2000)



DIRECTORS (continued)

Independent non-executive directors:

Mr. Lau Leung Yin, Anthony	(resigned on 9th October, 2000)
Mr. Tsui Sing Kee, Rawdon	(appointed on 21th June, 2000)
Mr. Cheung Sun Lung, Ricky	(appointed on 27th July, 2000)
Mr. Ng Wai Lung, Allan	(appointed on 27th July, 2000)

In accordance with the provisions of the Company's bye-laws, Mr. Wong Kwong Chi, Simon and Mr. Tsui Sing Kee, Rawdon, retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Based on the terms defined in the Company's bye-laws, all directors, except Chairman, are subject to retirement by rotation and offer themselves for re-election.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' emoluments and of the five highest paid employees of the Group are set out in Notes 9 and 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Mr. Ku Ling Yu, John, has a service contract with the Company for a period of two years commencing 3rd October, 2000, which can be terminated by either party by giving not less than six months' notice in writing to the other party.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2001, the interests of the directors, chief executives, or their associates in the shares of the Company, or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Nature of interests	Number of issued ordinary shares of HK\$0.10 each in the Company
Mr. Kong Yick Ming (<i>note 1</i>)	Corporate	286,984,000
Mr. Ku Ling Yu, John (<i>note 2</i>)	Corporate	150,991,777

Note 1: Mr. Kong Yick Ming is deemed to have a beneficial interest in 286,984,000 ordinary shares of the Company through Concept Developments Limited, the entire issued share capital of which is owned by Topwell International Limited ("Topwell"). Rainbow Pacific Limited ("Rainbow") holds 336 A shares in Topwell, representing 33.6% of the issued share capital of Topwell. Rainbow is a company wholly-owned by Centre Trustees (C.I.) Limited, as a trustee for a discretionary trust, The Rainbow Trust, the beneficiaries of which are the family members of Mr. Kong Yick Ming.

Note 2: Mr. Ku Ling Yu, John is deemed to have a beneficial interest in 150,991,777 ordinary shares of the Company through Primewell Investment Limited, the entire issued share capital of which is beneficially owned by Mr. Ku Ling Yu, John.

DIRECTORS' INTERESTS IN SHARES (continued)

The interests of the directors in the share options of the Company are disclosed below in the section "Directors' right to acquire shares".

Save as disclosed above, none of the directors, chief executives, or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, details of which are set out in Note 27 to the financial statements, certain directors were granted share options in prior years to subscribe for shares at an initial exercise price of HK\$1.68 per share, subject to adjustment as stipulated in the scheme. The options are exercisable at any time during the year and up to 6th October, 2001. During the year, no directors exercised their options to subscribe for shares. Movements of the options issued to the directors are as follows:

Name of director	Number of share options outstanding at 31st March, 2000	Number of share options surrendered during the year	Number of share options lapsed during the year	Number of share options outstanding at 31st March, 2001
Mr. Kong Yick Ming	1,000,000	–	–	1,000,000

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the Company's directors, chief executives or their associates, their respective spouses or children under 18 years of age, to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section "Directors' interests in shares" above, as at 31st March, 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of substantial shareholders required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Transpac Nominees Pte Ltd.	213,279,577	24.6%
Concept Developments Limited	286,984,000	33.0%
Primewell Investment Limited	150,991,777	17.4%

Save as disclosed above, no person had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

INVESTIGATION OF POSSIBLE MISFEASANCE

Details of the investigation undertaken and the results thereof during the year are set out in Note 36 to the financial statements.



SUSPENSION OF TRADING

Trading in the shares of the Company was suspended with effect from 24th December, 1999 at the request of the directors and was resumed on 20th October, 2000.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the 'Listing Rules') issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st March, 2001, except that:

- (a) until 21st June, 2000, the Company had not complied with Rule 3.10 of the Listing Rules, which requires the Company to appoint at least two independent non-executive directors throughout the year. A second independent non-executive director, Mr. Tsui Sing Kee, Rawdon, was appointed to the Board on 21st June, 2000;
- (b) the independent non-executive directors of the Company are not appointed for specific terms. The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's bye-laws; and
- (c) the Company had not established an audit committee in accordance with paragraph 14 of the Code of Best Practice before 30th August, 2000. An audit committee was established on 30th August, 2000 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

AUDIT COMMITTEE

The Company set up an Audit Committee of the Board of Directors on 30th August, 2000. The current committee members comprise two independent non-executive directors, Mr. Tsui Sing Kee, Rawdon and Mr. Ng Wai Lung, Allan; and one non-executive director, Mr. Keung Sau Tim, Bill. The Audit Committee has met three times since its formation and up to the date of this report (two of the meetings were with the external auditors) to consider the nature and scope of audit reviews and financial reporting matters (including the interim and annual financial statements).

OTHER MATTER

On 10th November, 2000, the Group entered into a legally binding Debt Restructuring Deed ("DRD") with eighteen bankers of the Group (the "Bank Group") to restructure the outstanding bank indebtedness of the Group. Details of the restructuring plan are set out in Note 4 to the financial statements.

The debt restructuring plan was completed on 15th December, 2000. As a result of the debt restructuring, a gain on forgiveness of debt of approximately HK\$30,060,000, after deduction of the related direct expenses, was recognised in the consolidated income statement for the year.

Pursuant to the Share Offer Agreement dated 15th December, 2000, the agent acting on behalf of the Bank Group, by way of Share Sale, converted HK\$86,873,344 Zero Coupon Secured Convertible Bonds into shares at HK20 cents per share. Based on the terms defined in the DRD, the qualifying shareholders of the Company acquired 434,366,720 shares from the Bank Group at HK5 cents per share.

AUDITORS

The financial statements for the financial year ended 31st March, 1998 were audited by Messrs. Deloitte Touche Tohmatsu. The financial statements for the financial years ended 31st March, 1999 and 31st March, 2000 were audited by Messrs. Ernst & Young. The Company's former auditors resigned during the year and the directors appointed Arthur Andersen & Co to fill the casual vacancy.

The financial statements have been audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Kong Yick Ming

Chairman

Hong Kong
13th July, 2001

