



REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited financial statements of Magician Industries (Holdings) Limited (hereinafter as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31st March, 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing and trading of household products. Other activities and particulars of the Group's principal subsidiaries are set out in Note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2002 are set out on page 33 of the financial statements.

The directors do not recommend the payment of a dividend and recommend that the accumulated losses of approximately HK\$116,413,000 at 31st March, 2002 be carried forward.

5-YEAR FINANCIAL SUMMARY

A summary of the Group's consolidated results for each of the last 5 years and the consolidated assets and liabilities as at 31st March of each of the respective years is set out on page 68. This summary does not form part of the audited financial statements.

FIXED ASSETS

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

SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31st March, 2002 are set out in Note 34 to the financial statements.

ASSOCIATE

Particulars of the Group's associate as at 31st March, 2002 are set out in Note 17 to the financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 26 to the financial statements.



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SHARE OPTIONS

Details of share options of the Company are set out in Note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision 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.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in Note 25 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in Notes 20 and 22 to the financial statements.

INTEREST CAPITALISED

Interest expense capitalised in respect of the Group's construction-in-progress during the year was approximately HK\$61,000 (2001: HK\$1,741,000).

DISTRIBUTABLE RESERVES

As at 31st March, 2002, 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 approximately HK\$158,398,000 (2001: 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 approximately HK\$282,049,000 (2001: HK\$282,049,000) as at 31st March, 2002 may be distributed in the form of fully paid bonus shares.



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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2002, the aggregate amount of turnover attributable to the Group's five largest customers represented approximately 40% (2001: 40%) of the Group's total turnover and the sales to the largest customer included therein accounted for approximately 29% (2001: 29%).

The largest supplier for the year ended 31st March, 2002 represented approximately 8% (2001: 11%) of the Group's total purchases, and the combined total of the five largest suppliers accounted for approximately 25% (2001: 30%) of the Group's total purchases for the year.

At no time during the year did any of the directors, their associates or any shareholders of the Company who to the knowledge of the directors owns more than 5% of the Company's share capital have any interests in the major customers or suppliers of the Group.

DIRECTORS

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

Executive directors:

Kong Yick Ming (*Chairman*)

Ku Ling Yu, John

Non-executive directors:

Wong Kwong Chi

Ku Yee Hong, Derek

Keung Sau Tim

Independent non-executive directors:

Tsui Sing Kee, Rawdon

Cheung Sun Lung

Ng Wai Lung

In accordance with the provisions of the Company's Bye-laws, Mr. Ku Ling Yu, John and Mr. Ku Yee Hong, Derek, retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Based on the terms defined in the Company's Bye-laws, all directors, except the Chairman, are subject to retirement by rotation and offer themselves for re-election.



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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

No director has an unexpired service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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 SECURITIES

As at 31st March, 2002, the interests of the directors and the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies 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 | 117,491,777 |

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 117,491,777 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.

The interests of the directors in the share options of the Company are disclosed below in the section "Share Option Scheme".

Save as disclosed above, none of the directors, chief executive 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.

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SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 20th September, 1995, pursuant to which options may be granted to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for ordinary shares in the Company. As at 31st March, 2002, the particulars in relation to the share option scheme of the Company (the "Scheme"), as required under Rules 17.07 and 17.09 of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Summary of movements of share option:

| Type of grantee | Date of grant | Exercise period | Exercise price per share | Number of share options | |
|--------------------|-------------------|---|-----------------------------|-------------------------------------|--------------------------------------|
| | | | | Balance as at 1st April, 2001 | Balance as at 31st March, 2002 |
| Executive director | | | | | |
| Mr. Kong Yick Ming | 7th October, 1996 | 7th October, 1996 to 6th October, 2001 | HK\$1.68 | 1,000,000 | - |

All share options lapsed during the year.

No share options were granted or cancelled upon termination of employment during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18 has any right to subscribe for the securities of the Company, or had exercised any such right during the year.

(b) Summary of details of the Scheme:

| | | |
|---|---|--|
| Participants | : | Full-time employees (including executive directors) of the Company or any of its subsidiaries |
| Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of annual report | : | 71,873,344 ordinary shares (8.27% of the issued share capital) |
| Maximum entitlement of each participant | : | Shall not exceed 25% of the aggregate number of ordinary shares issued and issuable under the Scheme |
| Period within which the securities must be taken up under an option | : | No option will be exercisable later than 10 years after its date of grant |



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| | | |
|--|---|---|
| Minimum period for which an option must be held before it can be exercised | : | Not applicable |
| Period within which payments/calls/loans must be made/repaid | : | Not applicable |
| Basis of determining the exercise price | : | Determined by the Board of Directors and will not be less than 80% of the average closing price of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer or the nominal value of the shares, whichever is higher. |
| The remaining life of the share option scheme | : | The Scheme remains in force until 20th September, 2005 |

(c) The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1st September, 2001. Any option to be granted under the Scheme shall be subject to the new rules which include, inter alia, the following:

- (i) The maximum number of shares issuable upon the exercise of the options granted to each eligible participant, except directors, chief executive, substantial shareholders and their respective associates, within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting;
- (ii) The exercise price of the share options is determined by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant;
- (iii) The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the schemes. Options lapsed in accordance with the terms of the schemes will not be counted for the purpose of calculating the 10% limit. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting; and
- (iv) The total number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section "Directors' interests in securities" above, as at 31st March, 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the



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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 | 117,491,777 | 13.5% |

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

RETIREMENT SCHEME

Particulars of retirement scheme are set out in Note 33 to the financial statements.

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 Listing Rules issued by the Stock Exchange throughout the year ended 31st March, 2002, except that the independent non-executive directors are not appointed for specific terms.

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 and one non-executive director, Mr. Keung Sau Tim. The Audit Committee has met six times for the year ended 31st March, 2002 (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 before recommending them to the Board of Directors for approval).

AUDITORS

The financial statements for the financial years ended 31st March, 1999 and 31st March, 2000 were audited by Messrs. Ernst & Young. The financial statements for the financial years ended 31st March, 2001 and 31st March, 2002 were audited by Arthur Andersen & Co.

Our auditors, Arthur Andersen & Co, will combine their practice with Messrs. PricewaterhouseCoopers and a resolution to appoint Messrs. PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

On behalf of the Board

Kong Yick Ming
Chairman

Hong Kong, 24th June, 2002.

