



# *Letter to Shareholders & Management Discussion and Analysis*





**Kong Yick Ming**  
Chairman

Dear Shareholders,

The year under review was one with considerable turbulence, but fortunately Magician was able to sail through smoothly with steady progress.

Over this time, while the aftermath of September 11 had not faded out completely, there were frequent fluctuations in crude oil price as well as raw material costs, mainly due to the war in Iraq. However, supported by a dedicated management and staff, Magician was able to overcome the difficulties and achieved encouraging results.

The most serious blow came at the end of the financial year, which was the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong in late March, resulting in the cancellation of most trade shows held locally, in addition to discouraging customers from taking business trips to Hong Kong as much as they used to do before. The significant drop in the number of visitors to the Magician's factory and showrooms since May has certainly affected its business, although, I am relieved to report, the situation has improved at this time when I am writing to you.

In the midst of all the uncertain factors, it is my firm belief that Magician, with its solid structure, sound management, skilled staff, vast experience and development potential, as well as a dedication for higher achievements both as a manufacturer and as a provider of high quality household goods and related products, has a competitive edge and a unique position in the market. It has always been our goal to stand out among all other household-product manufacturers in quality and service. In order to succeed in an increasingly competitive environment like what we now have in every part of the world, we need to stress that Magician not only sells products of the best quality, but also offers ideas and services to its customers in enhancement of their businesses and profits. Magician's products are geared towards a combination of both innovative design and functionality, with a view to meeting consumers' needs and strengthening their confidence and loyalty.

Motivated by this customer-driven approach, Magician was able to register another year of encouraging results. For the year ended 31st March, 2003, the Group recorded a turnover of HK\$523.4 million, a 20% increase over last year's HK\$434.7 million. Net profit attributable to shareholders was HK\$18.1 million, a 15% increase over the HK\$15.7 million recorded in the previous year. Basic earnings per share were HK2.09 cents (2002: HK1.81 cents).

In order to retain capital for consolidation of strength and to prepare for challenges ahead, the board of directors has resolved not to recommend any final dividend for the year ended 31st March, 2003.

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### REDUCED LOAN BURDEN

During the year under review, Magician was able to make the two committed semi-annual payments on schedule, and thereby reduced the Group's term loan by 25% from HK\$87.6 million to HK\$65.6 million. Financing costs dropped by 33%, owing to the prevailing low interest rates and reduction of the principal. Barring unforeseen circumstances, we expect Magician will be able to make its scheduled term-loan payments punctually in the coming year.

### INNOVATIVE RESEARCH & DEVELOPMENT

Magician has not relied solely on competitive pricing in promotion of its products, but has, more importantly, also provided creativity in its products through innovative research and development, in order to meet the needs of its customers and keep an edge ahead of its competitors. Previously, our R&D team created very popular items such as "Re-usable disposable storage box" and innovative non-stick bakeware. This year it has come up with microwaveable metal bakeware, silicone kitchen tools and stainless steel cookware, all of which generated good results.

### SERVICE EXCELLENCE

Magician has worked hard to upgrade its services in order to maintain strong ties with customers. In this connection, a successful example may be quoted. From discussions with customers, we discovered that retailers always found it a tedious and time-consuming job to unpack goods on their arrival at destination and to have such goods placed on shelves one by one. Seeing that there was a need for a more convenient way to tackle this logistic problem, Magician devised a special display unit and placed its goods on that unit, all to be packed together

for transportation, such that when they reached the retailer they could be unpacked and put on display at once without the need for any additional work – a one-stop solution for our customers. To make sure that the products would stay in place during shipment, repeated tests were carried out under simulated conditions. Magician was a pioneer in offering such service, which met with excellent responses.

### INDUSTRY AWARD RECOGNIZES SUPERIOR PRODUCTION BASE

In January 2003, Magician was granted ISO 9001: 2000 international standards accreditation for its production base in China. This award recognizes professional management as well as the attainment of international quality standards in our factory, where the latest technology and state-of-the-art machinery are employed. We will continue to upgrade our standards and our production facilities to keep Magician an industry leader.

### CHALLENGES AHEAD

We have always paid heed to the vigorous competition in our line of trade. The key to success lies in our ability to produce goods of the highest quality and to service our customers in the best way they wish. To achieve these is not only our constant goal, but also an incessant challenge that we know we face every day. The SARS epidemic in Hong Kong and Mainland China cast a cloud of uncertainty over our business. While scientists around the world work to develop a fast, definitive cure for SARS along with the appropriate treatment, Magician has already implemented all necessary precautions to protect the health of our staff and in turn to look after its shareholders' interests. I have every confidence that Magician will be able to tide over this period of difficulty and come out of this fierce



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but temporary storm proven to be a strong and durable enterprise.

On a personal note, I cannot end this letter without extending my deepest sympathy to the families and friends of those who have died as result of SARS, in particular the medical workers amongst them, who deserve our highest respect.

As the saying goes, every cloud has a silver lining. Hong Kong people have, through the misfortune of the SARS incident, manifested their will and ability to overcome calamities in an honourable way, and will survive and thrive when the tide turns.

At Magician, I am proud to be able to report that we are gradually but steadily stepping out of our past difficulties and are striding forward with stable progress. Credit for our achievements go to our management team, our staff and all our shareholders, for their unfailing support and encouragement. I would like to take this opportunity to thank all of them, and to assure you that as a committed, unified force we shall continue to work hard to bring to Magician a prosperous and fruitful future.

**Kong Yick Ming**  
Chairman

Hong Kong  
18th July, 2003

## FINANCIAL HIGHLIGHTS

### General Information

For the year ended 31st March, 2003, the Group's turnover was HK\$523.4 million, representing a 20% increase as compared to that of HK\$434.7 million recorded last year. Operating profit grew by 19%, from HK\$28 million to HK\$33.2 million. Net profit attributable to shareholders increased proportionally to turnover, and grew by 15%, from HK\$15.7 million in the financial year ended March 2002 to HK\$18.1 million in that in 2003. The Group's basic earnings per share were HK2.09 cents and diluted earnings per share were HK1.54 cents.

No principal subsidiaries or associated companies were acquired or disposed of during the year. Investments held have not materially changed from those disclosed in last year's annual report.

### Liquidity and Financial Resources

As at 31st March, 2003, the Group's net assets increased to HK\$272.1 million, for a net asset value per share of HK31 cents. The Group's total assets as at that date were valued at HK\$621.9 million, including cash and bank deposits totaling approximately HK\$59.9 million. Consolidated borrowings amounted to HK\$224.8 million. Debt-to-equity ratio has been further reduced, from 92% as at 31st March, 2002 to 83% as at 31st March, 2003. These improvements were due to the Group fulfilling its obligations under the debt-restructuring program and a decrease in bank borrowings.



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### Capital Structure

The Group's major borrowings included a five-year term loan, which had an outstanding balance of HK\$65.6 million after paying four installments totaling HK\$44 million over the last 24 months. The term loan, bearing a floating interest rate, is scheduled to be repaid completely in another 33 months.

Under the Debt Restructuring Deed dated 10th November, 2000, the Group also issued two convertible bonds, being zero coupon secured convertible bonds and 4% coupon secured convertible bonds, both maturing 15th December, 2005, which now stand at the sums of HK\$30 million and HK\$57.1 million respectively.

Since May 2002, all of the Group's borrowings have been denominated in Hong Kong dollars. In addition, all borrowings bearing interest have been made on a floating rate basis, except for the 4% coupon secured convertible bonds, which have a fixed interest rate. As a result of the stable, lower market interest rates and gradual repayment of debts, the Group's financial burden has been greatly alleviated; and finance costs for the year have dropped by 33% compared to last year. The Group's financial position is therefore sound, with sufficient credit facilities to support its operations.

### Charges on Group Assets

As at 31st March, 2003, bank borrowings were secured by the Group's assets.

### Details of Future Plans for Material Investments or Capital Assets

The Group does not have any future plans for material investments. There will, however, be a reasonable amount of expenditures on capital assets including, in particular, new machines and moulds to cope with production and market demands. Sources of funding are expected to come primarily from operating profits that the Group will generate, coupled with its banking facilities and leasing arrangements.

### Exposure on Foreign-Exchange Fluctuations

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and there has been minimal fluctuation in the Hong Kong dollar-to-Renminbi exchange rate, the Group had minor exposure to currency exchange risk.

### Segment Information

Sales distribution by geographical area has not changed significantly. The Group's biggest market was still North America 67%, followed by Mainland China 17%, Hong Kong 8%, Europe 5% and others 3%.

### Contingent Liabilities

The contingent liabilities of the Group have not changed materially from those disclosed in last year's annual report.



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### Employee Information

As at 31st March, 2003, the Group employed a workforce of 5,374 employees in its various offices and factories located in Hong Kong and Mainland China. Competitive remuneration packages were structured, commensurate with individual responsibilities, qualification, experience and performance. The Group provided management skills workshops, practical seminars for knowledge update, on-the-job training and safety training programs to its employees.

There was a share option scheme in force but no share option was granted during the year under review. No bonus has been paid other than sums, each equivalent to one additional month's salary, paid to individual staff members in December 2002 as part of agreed salary package, which applied to most of the employees.

## REVIEW OF OPERATIONS

### International Sales

Thanks to the Group's vigorous R&D-driven marketing initiatives and focus on expansion, growth in international sales for the year ended 31st March, 2003 was encouraging, with sales increase by 30%, from HK\$302 million to HK\$392.4 million. This increase was due to the excellent performance in the U.S., the Group's principal market. U.S. sales grew by 33%, from HK\$235.4 million in financial year ended March 2002 to HK\$313.7 million in financial year ended March 2003. The Canadian market also performed well, with sales at HK\$36.4 million, a 14% increase as compared to the HK\$31.8 million generated last year. The European market remained stable, with sales up 12% to reach HK\$23.8 million, from HK\$21.3 million recorded in financial year ended March 2002.

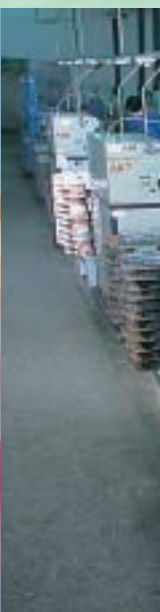
During the year under review, the most popular items sold internationally included microwaveable metal bakeware, disposable storage boxes, silicone products, kitchen utensils, non-stick bakeware, stainless steel cookware and night lights.

In addition to being able to produce and deliver high-quality goods of innovation and new designs, Magician's edge in international sales is its unique ability to provide one-stop-shopping solutions and to offer a wide variety of products. Magician has the expertise in development of products that overseas customers order on OEM terms, and is able to handle the entire process from production to delivery. In addition, the diversity of products that the Group offers allows overseas customers to purchase all the items they need with savings on time and costs.

### Mainland China Sales

For the past few years, Magician has focused on brand building and launching new products. To increase its brand-name exposure further, during the year under review the Group participated in six national trade fairs, ran TV commercials and advertised extensively, which undoubtedly contributed to the success of the Group in reaching HK\$91.6 million in sales in Mainland China. During the year, kitchen gadgets, microwave food-storage boxes, various soapbox and wall-hanger collections proved to be the most popular items.

To continue expanding its geographical coverage in Mainland China, the Group has appointed a new distributor in Xinjiang and set up a new branch in Kunming. Magician has forged closer business relationships with major customers as it progressively expands its operations in Mainland China,



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particularly in secondary cities. Its sales network now covers 30 cities spanning 20 provinces, 4 municipal cities and 3 autonomous regions, supplying to 900 retail customers who together operate approximately 4,000 sales outlets in Mainland China. Seeing that foreign-owned mega stores are flourishing in Mainland China, the Group is conducting a feasibility study on opening concept shops in order to strengthen brand-name recognition. Magician will continue to place strong emphasis on product and packaging design of the type that will appeal to Mainland China consumers' increasingly sophisticated tastes as well as their aspirations for a modern lifestyle.

### Hong Kong sales

Still affected by economic downturn, Hong Kong sales was slightly dropped during the year, with turnover decreasing from HK\$42.3 million to HK\$39.4 million. However, during the year under review, melamine dining ware and stainless steel pot set were the most popular items in Hong Kong.

### PROSPECTS

We believe our main challenge in the coming year will come from SARS and its aftermath.

Internationally, Magician will tackle this problem by continuing to adopt a three-pronged strategy: develop innovative products, foster closer links with customers and use the Internet to identify and reach new customers. We expect the U.S. to remain our major market, while achieving higher growth in Europe. Among our products, silicone bakeware and kitchen tools, with their convenience and revolutionary concept and technology, should have the greatest potential in the coming year.

Though the recent SARS epidemic may drag China's economic growth rate, its fundamentals remain strong. The Group is confident in China's economic future and is poised to benefit from its growth. With the emergence in wealth and purchasing power of the middle class in Mainland China, which is estimated to comprise over 100 million people, quality of life will become an increasingly important issue. There will be a growing demand for innovative brand-name household products in line with this trend. In anticipation of this phenomenon, the Group has since as early as 1994 been focusing on developing its own brand name, "NICOLE design". During the year under review, the Group worked even harder to promote this brand, which we believe will yield good results. Among other things, the Group has appointed a sales and distribution agent in Hohhot, capital of the Inner Mongolia Autonomous Region, thus moving Magician's business further north in Mainland China.

In Hong Kong, despite the economic downturn and historically high unemployment rate, it is expected that Magician will continue to achieve stable growth.

Looking ahead, the Group believes that with a declining financial burden and its continuous efforts to alleviate any economic damage caused by SARS, Magician will maintain its overall performance as well as being equipped to face any unforeseen challenges.



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