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Chairman's Statement



In 2003, despite the outbreak of Severe Acute Respiratory Syndrome ("SARS"), which greatly slowed down economic activity in the first half of the year, economy in Mainland China continued with its exponential growth that had taken place consecutively in the previous years, resulting in an increase of 9.1% in Gross Domestic Product. This vibrant economic development has immensely influenced the worldwide market in raw materials, especially in respect of those related to energy and infrastructure, pushing oil and steel prices to new heights.

Dear Shareholders,

The year under review was a difficult one for companies in the manufacturing industry in general, as they confronted escalating raw-material costs but were hardly able to make timely corresponding adjustments in product prices. Profit margins that had been lean already, owing to ever-increasing overheads and fierce competition, were squeezed even further.

With its inherent reliance on heavy consumption of raw materials, it was inevitable that Magician's performance could not help declining during the year under review. For the year ended 31st March, 2004, our profit attributable to shareholders decreased by 93%, from last year's HK\$18.1 million to HK\$1.3 million. A direct cause of this decrease was hikes in prices of two of our major raw materials – plastics and steel – by as much as 40%. The Group's turnover declined by 10%, from the HK\$523.4 million recorded last year to HK\$470.8 million, due mainly to the impact of SARS and the sluggish performance of the U.S. market. Basic earnings per share were HK0.15 cents (2003: HK2.09 cents).

The board of directors has resolved not to recommend any final dividend for the year ended 31st March, 2004.



EMPHASIS ON RESEARCH & DEVELOPMENT

In the midst of the above unfavorable external factors, however, the Group has made some notable achievements internally, which should benefit Magician over the long term.

In view of an increasingly competitive environment, and being conscious of the fact that now more than ever, the success of an enterprise depends not only on attractive product pricing but also on quality and service, we have begun gearing up our research and development capability several years ago. By employing revolutionary concepts and technology, our research team has created some very popular items such as the "Re-usable Disposable" storage box and many new and innovative non-stick bakeware items over the last few years. This year, our R&D staff have succeeded in developing a set of bakeware pieces compatible with both traditional and microwave ovens.

In recent years, microwave ovens have become increasingly popular in Mainland China, pushing our sales of microwavable kitchen products higher every year. Following this trend, we have initiated research

on new products for microwaves, aiming to strengthen our leading position in the home-product supplier market. After lengthy intensive and meticulous studies in microwave technology, our R&D specialists have created a new series of microwavable metal bakeware products marketed under the brand name of "TurboBake".

Conventional microwave containers are normally made of plastics and mainly used for defrosting and re-heating food, scarcely ever for baking. Our "TurboBake" pan, however, though made of metal with a special non-stick coating that can withstand heat up to 220 degree Celsius, is safe for use as a cooking utensil within a microwave oven, in addition to being compatible with traditional domestic ovens. Its state-of-the-art design enables heat to be transmitted evenly to the food under preparation while greatly reduces cooking time. In particular, for baking cookies and pizza, a "TurboBake" pan takes much lesser time than its conventional counterparts.

Inasmuch as our "TurboBake" technology and technical design represent a breakthrough in microwave bakeware, patent applications are being made worldwide; and so far we have succeeded in achieving the same in

Mainland China, Germany and Spain. "TurboBake" pan was launched in France and Mainland China in the second quarter of 2004, and immediately received overwhelming positive responses. We have also received enthusiastic enquiries from distributors in North America, Europe, Australia and Japan. Since the selling price of "TurboBake" pan can be set at a rate higher than that of the average baking pan in the market, we believe this product will contribute positively to our profits in the coming years.

FOCUS ON BRAND BUILDING

Apart from R&D, building a strong brand name has always been one of our core strategies for long-term growth. Since in as early as 1994, we had been launching series of products under the "NICOLE design" brand,



which was created specifically for customers in Mainland China. In recent years, with rising living standards and constant growth in a more wealthy middle class, especially in coastal areas and larger cities throughout the Mainland, there has been greater recognition of the value and reliability of famous brand names, which for many customers are considered as synonymous with good quality and social status. On the other hand, reports of the prevalence in Mainland China of poor quality products containing harmful ingredients have alerted the public to look for assurances in quality and integrity. Consumers are now more inclined in seeking out for reputable brand-name products.

During the year under review, after completing a feasibility study on concept stores in Mainland China, we opened a number of retail outlets, including a "Magic Home" stall and four concept-corner stalls for "NICOLE design" in a number of department stores in Shenzhen. They serve as pilot projects for the establishment of similar retail outlets in other cities in the PRC.

During the year under review, we also increased joint promotion activities with local partners in various retail outlets to boost brand awareness. This closer cooperation with distributors and retailers has not only given us a better understanding of specific characteristics of various markets, but will also help us in adjusting our product selection policy in some markets. With the invaluable insight that we have acquired into consumers tastes and preferences in general in those more prosperous coastal cities in Mainland China, there has been marked increases in the sale of our products, which stand out in the local markets on account of their sophisticated design, multi-functionality and above all, competitive prices.

BOOSTING FINANCIAL STRENGTH

Financially, there were marked improvements in Magician this year. We were able to secure a three-year

loan of HK\$100 million from the Bank of China, Shenzhen City Branch, Bao-an Sub-branch ("BOC SZ") on 27th September, 2003. On the other hand, we succeeded in obtaining trade facility of HK\$35 million from Nedbank Limited on 24th September, 2003. As a result of these new financial arrangements, the Group on 6th November, 2003 prepaid all outstanding indebtedness of approximately HK\$145.8 million under the debt restructuring deed ("DRD") completed on 10th November, 2000. Simultaneously, the Group also prepaid the entire outstanding amount of approximately HK\$15.8 million under the Working Capital Line owed to ABN•AMRO Bank. This early repayment of debts due under the DRD also had the effect of redeeming Secured Convertible Bonds held in the hands of bank creditors.

The new loan from BOC SZ has helped Magician reduce its finance costs further. Given the current low-interest environment, the interest rate for the new loan is lower than that of the 4% coupon Secured Convertible Bonds comprised in the previous DRD. This new loan arrangement will lay a more secured financial platform for Magician's stable growth in the coming years.

APPRECIATION

As a result of our persistent efforts to improve our operations during the year under review and beyond, it is my firm belief that Magician will be better prepared in overcoming any unfavorable market conditions in future, and will also be in a stronger position in enhancing its profitability and business prospects.

I would also like to express my gratitude and pride in having an outstanding workforce at Magician whose dedication and support have helped the Group improve substantially over the past few years. We shall continue



to work hard with the view to bringing better returns to our shareholders.

Kong Yick Ming

Chairman

Hong Kong

16th July, 2004