





# Chairman's Statement



Dear Shareholders,

The year under review was a harsh one for the Group. Firstly, in common with many manufacturing businesses, the Group's profit margins have been negatively affected by severely increasing prices for key raw materials such as steel and plastics. For certain materials and externally sourced components, prices are presently at their highest levels for almost ten years. Secondly, the Group fell victim to ever increasing in the wages level in the PRC and unstable electricity supply.

In recent years, the economy of the PRC has been growing rapidly and it surged to a historical high last year with Gross Domestic Product reached RMB13,651 billion in 2004, representing a year-on-year growth of 9.5%. With this rapid economic growth, China government determined to strengthen macroeconomic control measures and it resulted in cut-downs in tax rebate and a drastic increase in raw material prices. Oil and steel prices reached to new heights with about 15-20% higher than that of the same period last year and it further worsened the overall operating environment of manufacturing industry.

With its inherent reliance on heavy consumption of raw materials, which accounted for about 50% of

the production cost, it was inevitable that Magician's performance could not help declining during the year under review. For the year ended 31 March 2005, the Group reported a net loss attributable to shareholders of HK\$176 million, compared to a profit of HK\$1.3 million last year. A direct cause of this decrease was hikes in prices of two of our major raw materials – plastics and steel – which were significantly higher than that of the same period last year. The Group's turnover declined slightly by 5.3%, from HK\$470.8 million recorded last year to HK\$445.8 million, due mainly to the poor performances in the major markets except the US, which recorded a stable demand. Basic loss per share was HK20.25 cents (Basic earnings per share in 2004: HK0.15 cents).

The board of directors has resolved not to recommend any final dividend for the year ended 31 March 2005.

### **EMPHASIS ON NEW PRODUCT DEVELOPMENT**

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. Our research team created some very popular items such as the "Re-usable Disposable" storage box and the innovative "TurboBake" pan, which is compatible with both traditional and microwave ovens over last few years.

Following such success, our R&D staff has succeeded in developing a series of new products, including electric thermo plastic coolers, water bottles, silicone bakeware and kitchen tools, non-stick bakeware, and metal silicone over-mould bakeware this year.

### **CLEAR BUSINESS STRATEGIES**

In order to combat the pressure of raw material costs, the Group gradually shifted the focus of our client base to high-margin OEM customers. The Group

also recognizes the need to enhance relationships with OEM customers that are willing to invest in tailor-made products that fit their specific requirements.

During the year under review, the Group made progress in expanding its customer base by sealing contracts with three large distributors in the US, as well as some large distributors in Canada, Australia, Italy and the UK.

During the year under review, the Group has also strengthened its sales and distribution strategies by continuing to replace underperforming direct sales offices with local distributors that have a better understanding of the market and a greater determination in the PRC.

### **COST CONTROL**

In an effort to reduce production costs, the Group will strive to negotiate better prices with the key raw material suppliers and logistic services providers. The Group will focus on the task of sourcing better quality raw materials and trading products with lower cost from new vendors. Magician will monitor the moving trends of raw material prices to ensure prompt adoption of corresponding measures. In addition, the Group will impose tight control on the headcounts of all departments.

### **CHALLENGES AHEAD**

As China's manufacturing sector continues to grow rapidly, the Group sees no indication in the immediate future that the cost of raw materials will moderate. We believe that Magician will continue to face challenges from the ever-increasing cost of raw materials. However, we have always paid heed to the vigorous competition in our line of trade, and we have confidence to meet future challenge by taking advantage of the new opportunities lying ahead.

Notwithstanding that the Group has incurred a net loss during the year under review, with the stringent cost control measures, clear business focus and strong product development capabilities, I have every confidence 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.

### **APPRECIATION**

On behalf of the Board, I would like to thank our customers, suppliers, business partners and shareholders for their continuous support during this difficult time. Last but not least, I would also like to take this opportunity to express my heartfelt 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 in order to overcome current market challenges and deliver improved results.

### **Kong Yick Ming**

*Chairman*

Hong Kong

22 July 2005

