

The directors submit 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 31 March 2006.

### 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.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of dividend.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

### FIXED ASSETS

Details of the movement in fixed assets of the Group are set out in note 17 to the financial statements.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2006 are set out in note 18 to the financial statements.

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 24 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 March 2006, 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 (2005: HK\$158,398,000) is available for distribution, subject to certain conditions as described in note 25 to the financial statements. The Company's share premium account of HK\$282,049,000 (2005: HK\$282,049,000) as at 31 March 2006 may be distributed in the form of fully paid bonus shares.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

### SHARE OPTIONS

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

## Directors' Report

### DIRECTORS

The directors during the year and up to the date of this report were:

#### Executive directors:

Xu Jin (*Chairman*) (*appointed on 24 March 2006*)

Tong Cheehung, Richard  
(*appointed on 24 March 2006*)

Ho Yau Shun  
(*appointed on 23 January 2006*)

Cheung Tak Ming, Paul  
(*appointed on 26 September 2005 as Independent Non-executive Director, re-designated on 13 October 2005 as Executive Director and resigned on 23 January 2006*)

Lee Kwa Ching, Peter (*appointed on 15 March 2005 and resigned on 10 May 2005*)

Chan Chun Hing (*resigned on 19 April 2005*)

#### Non-executive directors:

Chan Ying Gi, Dorice (*appointed on 19 April 2005 as Non-executive Director, re-designated as Executive Director on 31 May 2005 and re-designated as Non-executive Director on 24 March 2006*)

Kong Yick Ming (*re-designated as Non-executive Director on 13 October 2005*)

Chan Shu Wah (*appointed on 19 October 2005*)

Lau Kin Hon (*appointed as Independent Non-executive Director on 19 April 2005 and re-designated as Non-executive Director on 31 May 2005*)

Lai Yik Yee, Andona (*appointed on 9 August 2005 and resigned on 19 October 2005*)

Lau Chi Kit, Edwin (*resigned on 17 August 2005*)

Hoon Wee Teng, Will  
(*retired on 23 September 2005*)

Zee Patrick (*retired on 23 September 2005*)

Kok Zhi Yi, Katrina (*re-designated as Non-executive Director on 19 April 2005 and resigned on 9 August 2005*)

Yau Sui Ki Christie (*resigned on 25 April 2005*)

Lee Lok Man (*resigned on 27 April 2005*)

Leung Ka Cheuk (*resigned on 27 April 2005*)

#### Independent non-executive directors:

Yeung Po Chin (*appointed on 26 September 2005*)

Ng Shiu Kwan (*appointed on 14 February 2006*)

Chan Man Sum Ivan (*appointed on 14 June 2006*)

Cheung Kiu Cho Vincent (*appointed on 14 June 2006*)

Yim Kai Pung (*appointed on 26 September 2005 and resigned on 14 June 2006*)

Leung Milton Kwan (*appointed on 13 October 2005 and resigned on 10 February 2006*)

Fok Kam Chau, Peter (*appointed on 1 April 2005 and retired on 23 September 2005*)

Wong Hui Ching, Jeffrey (*appointed on 11 April 2005 and retired on 23 September 2005*)

Tso Hon Sai, Bosco (*appointed on 31 May 2005 and retired on 23 September 2005*)

U Keng Tin (*resigned on 19 April 2005*)

Lee Kwan Hung Eddie (*resigned on 23 April 2005*)

In accordance with bye-law 87 of the Company's bye-laws, Mr Kong Yick Ming retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with bye-law 86 of the company's bye-laws, Mr Xu Jin, Mr Tong Cheehung, Richard, Mr Ho Yau Shun, Mr Chan Shu Wah, Mr Yeung Po Chin, Mr Ng Shiu Kwan, Mr Chan Man Sum Ivan and Mr Cheung Kiu Cho Vincent, having been appointed to the board after the last annual general meeting, retire at the forthcoming annual general meeting and, being eligible, offer themselves (except Mr Tong Cheehung, Richard) for re-election.

The Company has received confirmation of independence from each of the independent non-executive directors pursuant to rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

### EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' emoluments and of the five highest paid individuals of the Group are set out in notes 11 and 12 to the financial statements, respectively.

### DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") were as follows:

Name of director	Nature of interests	Number of issued ordinary shares of HK\$0.10 each in the Company	Percentage of total issued ordinary shares
Mr Xu Jin	Personal	253,837,198	29.2%

Save as disclosed herein, as at 31 March 2006, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

### Share option scheme

The company adopted a share option scheme (the "Scheme") on 8 August 2002 and the particulars of the Scheme are as follows:

*Purpose of the Scheme:*

To enable the Company to grant options to the participant who accepts the offer of the grant of the options as incentives and/or rewards for their contributions made to the Group.

*Participants:*

Full-time employees and directors (including executive, non-executive and independent non-executive directors) of any member of the Group.

*Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report:*

86,873,344 ordinary shares ("Shares") (10% of the issued share capital).

*Maximum entitlement of each participant:*

Shall not exceed 1% of the aggregate number of ordinary shares issued and issuable under the Scheme.

*Period within which the securities must be taken up as an option:*

No option will be exercisable later than 10 years after its date of grant.

*Minimum holding period before an option can be exercised:*

Will be defined by directors based on grantee's seniority and other relevant factors.

## Directors' Report

*Period within which payments or loans must be made or repaid:*

Not applicable.

*Basis of determining the exercise price:*

Determined by the Board of Directors and shall be:

- (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of offer; and
- (2) the average of closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer,

whichever is higher provided that it shall not be lower than the nominal value of the Shares.

*The remaining life of the Scheme:*

The Scheme remains in force until 8 August 2012.

No share options had been granted under the Scheme up to 31 March 2006 and there were no other options outstanding at the beginning or at the end of the year.

Saved 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 have any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of the directors and chief executives, as at 31 March 2006, the register of substantial shareholders maintained under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital

Name	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Transpac Nominees Pte Ltd.	213,279,577	24.6%
Big-Max Manufacturing Co., Limited (Note 1)	143,492,000	16.5%
Silvermark International Limited (Note 2)	55,657,926	6.4%

*Note 1:* Mr Li Li Xin is deemed to have a beneficial interest in 143,492,000 shares of the Company through Big-Max Manufacturing Co., Limited, 90% of its issued share capital is beneficially owned by Mr Li Li Xin. Ms Jin Ya Er being the spouse of Mr Li Li Xin, is deemed to have a beneficial interest in 143,492,000 shares of the Company.

*Note 2:* Ms Zhou Hui Lian is deemed to have a beneficial interest in 55,657,926 shares of the Company through Silvermark International limited, the entire issued share capital of which is beneficially owned by Ms Zhou Hui Lian.

Save as disclosed above, as at 31 March 2006, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares of the Company.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### *Purchases*

– the largest supplier	14.6%
– five largest suppliers	45.8%

#### *Sales*

– the largest customer	50.7%
– five largest customers	64.4%

None of the directors, their associate or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### 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 of the Group are set out in note 28 to the financial statements.

### SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company maintained sufficient public float at all times during the year.

### AUDITORS

The financial statements for the financial years ended 31 March 2004 and 31 March 2005 were audited by Moores Rowland Mazars.

The financial statements have been audited by Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants. 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

**Xu Jin**

*Chairman*

Hong Kong  
26 July 2006