

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st December 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. Except for the cessation of operation of the securities dealing and brokerage businesses in the Philippines, there were no changes in the nature of the Group's principal activities (which are further detailed in note 1 to the financial statements) during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operation for the year ended 31st December 2001 is set out in note 7 to the financial statements.

## FINANCIAL RESULTS

The Group's loss for the year ended 31st December 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 24 to 68.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Comment on segment information

During the year under review, the turnover of the securities brokering business accounted for over 75% of the turnover of the Group. Geographically, turnover generated by businesses in Hong Kong accounted for more than 90% of the turnover of the Group.

# Report of the Directors

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Liquidity and capital structure

The total borrowings of the Group as at 31st December 2001 amounted to HK\$98.4 million of which HK\$87.9 million were inter-company advances from the Magnum Corporation Berhad Group in Malaysia. The bank borrowings as at 31st December 2001 amounted to HK\$10.5 million, which was significantly reduced when compared to HK\$36.3 million as at 31st December 2000. The cash and cash equivalents as at 31st December 2001 were held in Hong Kong dollars, United States dollars and Philippines pesos and all bank borrowings were in Hong Kong dollars.

The Company's holding companies, including Magnum Corporation Berhad, have agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern.

Investment properties and bank deposits with carrying values of HK\$30.0 million and HK\$5.0 million respectively were charged to banks to secure the bank borrowings.

The main funding of the Group is inter-company advances. The interest rates are charged at rates lower than the interest rates charged by the banks of the Group.

Gearing ratio is calculated by dividing the long-term debts by the amount of equity. The gearing ratio at the balance sheet date was approximately negative 17.59.

### Significant investment held

The most significant investment held by the Group at 31st December 2001 was 755,000 shares of the Hong Kong Exchanges and Clearing Limited ("HKEC"). The investment has recorded unrealised loss due to the poor performance of the share price of HKEC which was in line with the Hong Kong stock market.

### Acquisition and disposal

During the year under review, there was no acquisition or disposal of any subsidiaries or associates of the Group.

# Report of the Directors

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Exposure to fluctuation in exchange rates**

Since the Group's main business is securities brokering in Hong Kong, its exposure to fluctuations in exchange rates and currencies is minimal.

### **Remuneration of employees**

As at the balance sheet date, the Group had approximately 31 full time employees who were based in Hong Kong. The Group continuously recruits new sales and marketing staff. The remuneration of employees is reviewed annually. Staff benefits include a medical scheme, provident fund, a share option scheme and discretionary bonus based on performance.

Apart from the 30,980,000 and 1,440,000 share options granted to directors and employees at the exercise prices of HK\$0.37 and HK\$0.21 respectively in the prior year, 6,000,000 share options were granted during the year to a director at an exercise price of HK\$0.10. No share option was exercised during the year under review.

# Report of the Directors

## FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and after the prior year adjustments as mentioned in note 5 to the financial statements and reclassified as considered appropriate, is set out below.

### Results

	Year ended 31st December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)	(Restated)	(Restated)
<b>TURNOVER</b>	<b>14,323</b>	<b>36,347</b>	<b>28,807</b>	<b>38,827</b>	<b>69,173</b>
<b>LOSS BEFORE TAX</b>	<b>(51,860)</b>	<b>(18,827)</b>	<b>(54,398)</b>	<b>(52,338)</b>	<b>(15,340)</b>
Tax	—	1,142	2,726	367	(1,259)
<b>LOSS BEFORE MINORITY INTERESTS</b>	<b>(51,860)</b>	<b>(17,685)</b>	<b>(51,672)</b>	<b>(51,971)</b>	<b>(16,599)</b>
Minority interests	—	—	107	35	42
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(51,860)</b>	<b>(17,685)</b>	<b>(51,565)</b>	<b>(51,936)</b>	<b>(16,557)</b>

# Report of the Directors

## FINANCIAL SUMMARY *(continued)*

### Assets and liabilities

	31st December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)	(Restated)
TOTAL ASSETS	159,074	209,251	209,915	217,696	1,016,214
TOTAL LIABILITIES	(164,287)	(183,118)	(162,391)	(116,108)	(862,905)
MINORITY INTERESTS	—	—	—	(3,109)	(3,144)
NET ASSETS	(5,213)	26,133	47,524	98,479	150,165

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements, respectively.

## BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group are set out in notes 26 to 29 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the share options during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

# Report of the Directors

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

At the balance sheet date, the Company did not have any reserves available for cash/in specie dividend distributions. However, the share premium account, in the amount of HK\$168,315,330, may be used for the issue of fully paid bonus shares.

## **RETIREMENT BENEFITS SCHEME**

Details of the Group's retirement benefits scheme and the employer's pension costs charged to the profit and loss account for the year are set in notes 4 and 9 to the financial statements.

## **MAJOR CUSTOMERS**

In the year under review, turnover attributable to the Group's five largest customers accounted 32% of the total turnover and turnover from the largest customer included therein amounted to 18%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

# Report of the Directors

## DIRECTORS

The directors of the Company who were in office during the year and those at the date of this report are:

### Executive directors

Lim Teong Leong

Cheah Yoke Phow (resigned on 16 July 2001)

Tam Cheok Wing

Ooi Sin Heng

Chan Hon Ming

### Independent non-executive directors

Lim Yee Sin (resigned on 3 October 2001)

Lim Chiew (retired on 29 May 2001)

Gan Cheong Ann (appointed on 3 October 2001)

Kwan Huey Jin (appointed on 3 October 2001)

In accordance with the Company's bye-laws, Chan Hon Ming, Gan Cheong Ann and Kwan Huey Jin will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The terms of appointment of the independent non-executive directors are such that their terms of office will expire when they are required to retire by rotation in accordance with the Company's bye-laws.

# Report of the Directors

## DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

### Executive directors

**Lim Teong Leong**, aged 48, is the executive director of Magnum Corporation Berhad, a public listed company on the Kuala Lumpur Stock Exchange, and Chairman of Magnum International Holdings Limited, a public listed company on the Stock Exchange of Hong Kong. He sits on the boards of directors of various companies in Malaysia and overseas. Mr Lim was appointed a director and Chairman of the Company in October 2000. Prior to this appointment, he was General Manager of a leading stockbroking company and was also executive director of a top car accessories manufacturer in Malaysia. Mr Lim is a graduate of the Chartered Institute of Marketing, United Kingdom.

**Tam Cheok Wing**, aged 49, was appointed a director of the Company in June 1999. He is an engineer by profession and is a member of the Malaysian Institute of Planners. He is currently the Group General Manager of Magnum Corporation Berhad, a company which is listed on the Kuala Lumpur Stock Exchange. Mr Tam holds a Bachelors' degree in Civil Engineering, a Postgraduate Diploma in Town Planning and a Masters' degree in Business Administration. Mr Tam has extensive experience in international business management and property based operation.

**Ooi Sin Heng**, aged 40, was appointed a director of the Company in August 1999. He is currently the General Manager of the Group. He has nine years of service with Magnum Corporation Berhad Group. Prior to joining Magnum Corporation Berhad Group, he was working with an international accountancy firm. Mr Ooi holds a Bachelors' degree in Accounting and is a member of the Malaysian Association of Certified Public Accountants.

**Chan Hon Ming, Alan**, aged 42, was appointed a director of the Company in August 1999. Mr Chan is also the managing director of Magnum International Securities Limited, a wholly-owned subsidiary of the Group. He holds a MBA degree majoring in Finance and has over sixteen years of working experience in the stock brokerage business. Starting as a research analyst, he worked his way up to the deputy-managing-director of a brokerage house before joining the Group.



# Report of the Directors

## DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES *(continued)*

### Independent non-executive directors

**Gan Cheong Ann**, aged 47, was appointed an independent non-executive director of the Company in October 2001. She is the Company Secretary of Magnum Corporation Berhad and has been with the Magnum Corporation Berhad Group for over 20 years. She holds a Diploma in Commerce (Accounting) from Kolej Tunku Abdul Rahman, Malaysia.

**Kwan Huey Jin**, aged 39, was appointed an independent non-executive director of the Company in October 2001. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. Ms Kwan has been working in the Magnum Corporation Berhad Group for about 6 years. Prior to that, she spent a total of 4 years in the auditing profession and 6 years in a U.S. based multi-national corporation.

### Senior management

**Wong Chun Sing, Max**, aged 31, graduated from City University of Hong Kong in 1994 with a Bachelor degree (Honours) in Accountancy. He has five years of service with the Group and is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is currently the Accounting Manager of the Group. Prior to joining the Group in 1997, he worked with an international accountancy firm.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than the statutory obligation.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES

As at 31st December 2001, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") were as follows:

Interests in shares of associated corporation	Name of director	Class of shares held	Nature of interest	No. of shares held
Magnum Corporation Berhad (Note 1)	Tam Cheok Wing	Ordinary	Personal	5,000
	Gan Cheong Ann	Ordinary	Personal	20,000
	Kwan Huey Jin	Ordinary	Personal	22,000
Leisure Management Berhad (Note 2)	Gan Cheong Ann	Ordinary	Personal	333

*Notes:*

1. Magnum Corporation Berhad ("MCB") is the Company's ultimate holding company.
2. Leisure Management Berhad is a subsidiary of MCB.

The interests of the directors in the share options of the Company or its associated corporations are separately disclosed in the sections "Share option scheme" and "Directors' rights to acquire shares" below.

Save as disclosed above, none of the directors 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.

# Report of the Directors

## SHARE OPTION SCHEME

On 30th October 1992, the Company adopted a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, and other full time employees of the Group.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the share capital of the Company in issue from time to time. At 31st December 2001, the number of shares issuable under share options granted under the Scheme was 25,840,000, which represented approximately 4.2% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme, is limited to 25% of the aggregate number of shares of the Company in issue at any time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$10 in total by the grantee. The options may be exercised at any time during the period commencing 6 months after the date of acceptance of the grant of the option (Commencement Date) and ending 2 year after the Commencement Date or 29 October 2002, whichever is the earlier.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, being (i) the nominal value of an ordinary share; or (ii) not less than 80% of the average Stock Exchange closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer, whichever is the higher.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					At 31st December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares*** At grant date of options HK\$
	At 1st January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					
<b>Directors</b>										
Lim Teong Leong	—	6,000,000	—	—	—	6,000,000	1 Jun 2001	2 Dec 2001 to 29 Oct 2002	0.10	0.10
Cheah Yoke Phow	2,000,000	—	—	(2,000,000)	—	—	22 Feb 2000	23 Aug 2000 to 22 Aug 2002	0.37	—
Tam Cheok Wing	4,000,000	—	—	—	—	4,000,000	22 Feb 2000	23 Aug 2000 to 22 Aug 2002	0.37	—
Ooi Sin Heng	2,000,000	—	—	—	—	2,000,000	22 Feb 2000	23 Aug 2000 to 22 Aug 2002	0.37	—
Chan Hon Ming	2,000,000	—	—	—	—	2,000,000	22 Feb 2000	23 Aug 2000 to 22 Aug 2002	0.37	—
<b>Other employees</b>										
In aggregate	13,260,000	—	—	(2,810,000)	—	10,450,000	22 Feb 2000	23 Aug 2000 to 22 Aug 2002	0.37	—
	1,440,000	—	—	(50,000)	—	1,390,000	11 Oct 2000	12 Apr 2001 to 29 Oct 2002	0.21	—
	24,700,000	6,000,000	—	(4,860,000)	—	25,840,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 31 to the financial statements.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model (the "Black-Scholes Model") as at the date of the grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
Lim Teong Leong	6,000,000	240,000

The Black-Scholes Model is one of the most generally accepted methodologies to calculate the value of options and is one of the recommended options pricing models as set out in Rule 17.08 of the Main Board Listing Rules. The significant valuables and assumptions used in the calculation of the theoretical values of the share options were as follows:

- Risk free rate: 3.713%, being the approximate yield 1-year Exchange Fund Note traded on 1 June 2001.
- Expected volatility: 81.8%, being the standard deviation of the weekly closing prices of the share of the Company for the latest twelve months from the date of grant of the option.

# Report of the Directors

## SHARE OPTION SCHEME *(continued)*

- Expected life of the options: 1.4 years
- Expected dividend yield: No dividend would be paid out.
- Assumptions: There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over a period of the latest twelve months from the date of grant of the option.

Using the Black-Scholes Model in assessing the value of 6,000,000 share options granted during the year, the options would have an aggregate value of approximately HK\$240,000 representing a value of HK\$0.04 per option.

It should be noted that the value of options calculated using the Black-Scholes Model is only an estimate of the value of share options granted during the year. Amongst other variables, it uses the time to expiry to determine a value based on the past performance of the share price as measured by the volatility factor. If, however, the Company's future financial and/or operating performance fluctuates, it is likely that the share price will be affected. In such case, the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

### Associated corporation

Pursuant to the employees' share option scheme of MCB, certain directors of the Company have been granted options of MCB's ordinary shares. At 31st December 2001, the interests of directors of the Company and their associates in the share options of MCB are as follows:

Name of director	Number of options held as at 31st December 2001	Date granted	Period during which options are exercisable	Exercise price per share (Malaysian Ringgit)
Lim Teong Leong	1,500,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Tam Cheok Wing	1,000,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Ooi Sin Heng	700,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Gan Cheong Ann	780,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Kwan Huey Jin	668,000	16th July 2001	16th July 2001 to 15th July 2006	1.26

The above share options are owned by the directors in person.

Apart from as disclosed under the heading "Share option scheme" and the above, at no time during the year were rights to acquire benefits by means of the acquisition of shares of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 8 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December 2001, the interests of persons, other than the directors, in 10% or more of the share capital of the Company as recorded in the register of interests of the Company required to be kept under Section 16(1) of the SDI Ordinance are as follows:

<b>Name of shareholder</b>	<b>Number of shares held</b>
Magnum (Guernsey) Limited	313,775,680

Magnum (Guernsey) Limited is a wholly-owned subsidiary of Magnum Enterprise Sdn Bhd which in turn is a wholly-owned subsidiary of MCB.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

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

## CODE OF BEST PRACTICE

The non-executive directors of the Company are not appointed for specific terms, but are subject by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.



# Report of the Directors

## **CODE OF BEST PRACTICE** *(continued)*

Since the Company has only one independent non-executive director during the period from 29th May 2001 to 2nd October 2001, an audit committee could not be formed during the aforesaid period

In the opinion of the directors, apart from the foregoing, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

## **AUDITORS**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Lim Teong Leong**

*Chairman*

Hong Kong

16th April 2002