

Report of the Directors

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The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st December 2003.

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 17 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Financial results

The Group's loss for the year ended 31st December 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 19 to 60.

Management discussion and analysis

Comment on segment information

During the year under review, the turnover of the securities brokering business accounted for over 61% of the turnover of the Group. Geographically, the turnover generated by businesses in Hong Kong accounted for all the turnover of the Group.

Liquidity and capital structure

The total borrowings of the Group as at 31st December 2003 amounted to HK\$89.8 million, of which HK\$87.9 million were intercompany advances from Magnum Corporation Berhad Group in Malaysia. The bank borrowings as at 31st December 2003 amounted to HK\$1.9 million, which were significantly reduced when compared to the amount of HK\$3.8 million as at 31st December 2002. The cash and cash equivalents as at 31st December 2003 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.

Certain investment properties and bank deposits with carrying values of HK\$26.7 million and HK\$5 million, respectively, were charged to banks to secure the above-mentioned bank borrowings.

The main funding of the Group is from intercompany advances. The interest rates are charged at rates lower than the interest rates charged by the banks of the Group.

The 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 1.89.

▶▶ 06 Report of the Directors (continued)

Management discussion and analysis (continued)

Significant investment held

The most significant investment held by the Group as at 31st December 2003 was 755,000 shares of the Hong Kong Exchanges and Clearing Limited ("HKEC"). The investment has recorded an unrealised gain due to the improved performance of the share price of HKEC which was in line with the Hong Kong stock market.

Acquisition and disposal

On 1st May 2003, Fixtron Limited, a wholly owned subsidiary of the Group, was struck-off from the register of the British Virgin Islands Companies Registry.

On 30th July 2003, Ample Profits Limited, a subsidiary of the Group, was sold to Magnum (Guernsey) Limited, the immediate holding company, according to Rule 14.24(5) of the Listing Rules of the Hong Kong Stock Exchange (the "Listing Rules").

Apart from the foregoing, there was no acquisition or disposal of any subsidiaries or associates of the Group during the year under review.

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 29 full-time employees who were all 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 a discretionary bonus based on performance.

On 11th June 2002, the Company adopted a new share option scheme and 18,228,000 and 18,900,000 share options were granted to directors and employees, respectively, on 8th July 2002 at an exercise price of HK\$0.111 per share. 15,228,000 share options granted to directors had been cancelled immediately following the approval of the shareholders at the Annual General Meeting on 10th June 2003. Apart from the above, no share option were exercised during the year under review.

Financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. The amount for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy, as detailed in note 3 to the financial statements.

RESULTS

	2003 HK\$'000	Year ended 31st December			
		2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
TURNOVER	7,826	9,920	14,323	36,347	28,807
LOSS BEFORE TAX	(11,522)	(21,839)	(51,860)	(18,827)	(54,398)
Tax	(74)	(202)	(52)	1,096	2,675
LOSS BEFORE MINORITY INTEREST	(11,596)	(22,041)	(51,912)	(17,731)	(51,723)
Minority interests	—	—	—	—	107
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(11,596)	(22,041)	(51,912)	(17,731)	(51,616)
ASSETS AND LIABILITIES					
TOTAL ASSETS	95,906	99,578	159,074	209,251	209,915
TOTAL LIABILITIES	(134,984)	(127,060)	(164,514)	(183,293)	(162,520)
NET ASSETS/(LIABILITIES)	(39,078)	(27,482)	(5,440)	25,958	47,395

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 15 and 16 to the financial statements, respectively.

▶▶ 08 Report of the Directors (continued)

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements.

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 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As 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.

Bank loans and overdrafts

Details of the bank loans and overdrafts of the Company and the Group are set out in notes 24 and 34 to the financial statements.

Major customers

In the year under review, turnover attributable to the Group's five largest customers accounted for 39% of the total turnover and turnover from the largest customer included therein amounted to 17%.

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.

Directors

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

Executive directors

Lim Teong Leong
Tam Cheok Wing
Ooi Sin Heng
Chan Hon Ming

Independent non-executive directors

Gan Cheong Ann
Kwan Huey Jin

In accordance with the Company's bye-laws, Mr Chan Hon Ming and Ms Gan Cheong Ann will retire at the forthcoming annual general meeting. Mr Chan Hon Ming, being eligible, will offer himself 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.

Directors' and senior management's biographies

Executive directors

Lim Teong Leong, aged 50, 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 51, 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.

▶▶ 10 Report of the Directors (continued)

Directors' and senior management's biographies (continued)

Executive directors (continued)

Ooi Sin Heng, aged 42, was appointed a director of the Company in August 1999. He is currently the General Manager of the Group. He has eleven 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, aged 44, 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 eighteen 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.

Independent non-executive directors

Gan Cheong Ann, aged 49, 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 41, 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 8 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 33, graduated from City University of Hong Kong in 1994 with a Bachelor degree (Honours) in Accountancy. He has seven years of service with the Group and is a fellow member of the Association of Chartered Certified Accountants and an associate member of 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.

Directors' interests and short positions in shares and underlying shares

As at 31st December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Interests in shares of associated corporation	Name of director	Class of shares held	Capacity and nature of interest	Number of shares held
Magnum Corporation Berhad (<i>Note 1</i>)	Lim Teong Leong	Ordinary	Directly beneficially owned	1,000,000
	Tam Cheok Wing	Ordinary	Directly beneficially owned	640,000
	Ooi Sin Heng	Ordinary	Directly beneficially owned	302,000
	Gan Cheong Ann	Ordinary	Directly beneficially owned	760,000
	Kwan Huey Jin	Ordinary	Directly beneficially owned	600,000
Magnum 4D Berhad (<i>Note 2</i>)	Gan Cheong Ann	Ordinary	Directly beneficially owned	555

Note 1: Magnum Corporation Berhad ("MCB") is the Company's ultimate holding company.

Note 2: Magnum 4D Berhad is a subsidiary of MCB.

Note 3: The interest in shares represents both interest in ordinary shares and interest in share options of the respective companies. The number of share options of each director is further disclosed in the following section "Directors' rights to acquire shares".

▶▶ 12 Report of the Directors (continued)

Directors' interests and short positions in shares and underlying shares (continued)

All the interests stated above represent long positions. Save as disclosed above and in note 30 to the financial statements relating to the Company's share option scheme, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares

Associated corporation:

Pursuant to the employees' share option scheme of MCB (the "MCB Share Option Scheme"), certain directors of the Company have been granted options on MCB's ordinary shares. At 31st December 2003, the interests of the directors of the Company and their associates in the share options of MCB are as follows:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options* Malaysian Ringgit	Capacity and nature of interest
	At 1st January 2003	Exercised during the year	At 31st December 2003				
Directors							
Lim Teong Leong	900,000	—	900,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Tam Cheok Wing	680,000	(80,000)	600,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Ooi Sin Heng	438,000	(166,000)	272,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Gan Cheong Ann	660,000	(50,000)	610,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
	100,000	—	100,000	27th Feb 2002	27th Feb 2002 to 15th July 2006	2.14	Directly beneficially owned
Kwan Huey Jin	598,000	(158,000)	440,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
	100,000	—	100,000	27th Feb 2002	27th Feb 2002 to 15th July 2006	2.14	Directly beneficially owned
	3,476,000	(454,000)	3,022,000				

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

Directors' rights to acquire shares (continued)

All the interests stated above represent long positions. Apart from as disclosed above and in note 30 to the financial statements relating to the Company's share option scheme, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding companies, 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.

Directors' interests in contracts

Save as disclosed in note 35 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 and fellow subsidiaries was a party during the year.

Substantial shareholders' interests and other person's interests in shares

As at 31st December 2003, the interests of persons, other than the directors, in 5% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO are as follows:

Name of shareholder	Number of shares held	Percentage of the Company's issued capital
Magnum (Guernsey) Limited	316,973,680	51.54

The 316,973,680 shares are directly held by Magnum (Guernsey) Limited which 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 or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

▶▶ 14 Report of the Directors (continued)

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.

Approval of De-minimis Concession

Introduction

On 21st July 2003, the Stock Exchange has approved the Company's application for the De-minimis Concession (as described in the Stock Exchange's announcement dated 3rd May, 2001 ("Exchange Announcement")) for the purpose of determining the "assets test" and the "consideration test" ("Relevant Tests") under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions).

Background and principal activities of the Company

The principal activities of the Company and its subsidiaries ("Group") comprise investment holding, property investment, provision of administrative services, trading of marketable securities, money lending, securities dealing and margin finance.

On 16th April 2003, the Company announced its final results for the year ended 31st December, 2002. In that announcement, the Company has disclosed that as at 31st December, 2002, it had an audited consolidated net tangible deficit of HK\$32,636,871 (HK\$32,914,315 as restated) which arose from the operational losses in the ordinary and usual course of business during the aforesaid financial year.

Reason for applying for the de-minimis concession

As a result of the negative net tangible asset value of the Group as mentioned above, the Company would be required to disclose and obtain shareholders' approval pursuant to Chapter 14 of the Listing Rules in respect of all acquisitions and disposals of assets (however negligible). This could be extremely onerous to the Company (while not at the same time bringing any material benefit to public investors). As such, the Company applied to the Stock Exchange for the De-minimis Concession which would allow the Company flexibility to carry out its business activities.

Approval of De-minimis Concession (continued)

De-minimis concession

The De-minimis Concession is such that each transaction (other than connected transaction) carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the consideration or value of the transaction does not exceed HK\$1 million, would be considered as de-minimis. In such circumstances, the "assets test" and the "consideration test" will not apply for the purpose of classifying notifiable transactions other than connected transactions and such transactions will not be subject to any disclosure or shareholders' approval requirements.

Period for which the de-minimis concession apply

The Stock Exchange's approval for the use of the De-minimis Concession will be valid from the date of the Company issuing an announcement in accordance with the condition stated in the Exchange Announcement to the publication or the due date of publication of the Company's annual report for the year ending 31st December, 2003, whichever is the earlier.

Code of Best Practice

In the opinion of the directors, the Company 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, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

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.

▶▶ 16 Report of the Directors (continued)

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
26th April 2004