

# 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 2004.

## 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 16 to the financial statements. There were no significant 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 2004 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, turnover of the securities brokering business accounted for over 65% of the turnover of the Group. All the turnover was generated by businesses in Hong Kong.

### Liquidity and capital structure

Total borrowings of the Group as at 31st December 2004 amounted to HK\$74.5 million, of which HK\$73.9 million were intercompany advances from Magnum Corporation Berhad Group in Malaysia. Bank borrowings as at 31st December 2004 amounted to HK\$0.6 million, which were significantly reduced when compared to the amount of HK\$1.9 million as at 31st December 2003. Cash and cash equivalents as at 31st December 2004 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 and not to demand for repayment of the principal amounts and the related interest payables due thereto until such time, when the Group is in a position to repay the amounts due, without impairing its liquidity position as long as the Group remains as subsidiary companies of Magnum Corporation Berhad.

Investment properties with carrying values of HK\$32.9 million 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Liquidity and capital structure (continued)

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 1.64.

### Significant investments held

The Group holds some investments in Hong Kong and Philippines listed shares. As at 31st December 2004, such investments amounted to HK\$1.4 million.

### Acquisition and disposal

There was no acquisition or disposal of any subsidiaries 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 staff performance.

On 11th June 2002, the Company adopted a 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. No share options were exercised during the year under review. As at 31st December 2004, 20,550,000 share options were outstanding.

## 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, is set out below:

#### Results

	Year ended 31st December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	8,015	7,826	9,920	14,323	36,347
LOSS BEFORE TAX	(6,231)	(11,522)	(21,839)	(51,860)	(18,827)
Tax	(27)	(74)	(202)	(52)	1,096
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(6,258)	(11,596)	(22,041)	(51,912)	(17,731)
ASSETS AND LIABILITIES					
TOTAL ASSETS	80,484	95,906	99,578	159,074	209,251
TOTAL LIABILITIES	(125,820)	(134,984)	(127,060)	(164,514)	(183,293)
NET ASSETS/(LIABILITIES)	(45,336)	(39,078)	(27,482)	(5,440)	25,958

### 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 14 and 15 to the financial statements, respectively.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options, are set out in notes 28 and 29 to the financial statements, respectively.

**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 the existing shareholders.

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 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 distribution to shareholders of the Company. However, the share premium account, in the amount of HK\$168,315,330, may be used for the issue of fully paid bonus shares of the Company.

**BANK LOANS AND OVERDRAFTS**

Details of the bank loans and overdrafts of the Company and the Group are set out in notes 23 and 33 to the financial statements respectively.

**MAJOR CUSTOMERS**

In the year under review, turnover attributable to the Group's five largest customers accounted for 35% 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.

## Report of the Directors

### DIRECTORS

The directors of the Company during the year are as follows and their brief biographical details are set out on pages 8 to 10 of the annual report.

#### Executive directors:

Lim Teong Leong, *Chairman*

Tam Cheok Wing

Ooi Sin Heng

Chan Hon Ming, Alan

#### Independent non-executive directors:

Wong Ming Shiang (appointed on 11th June 2004)

Lim Eng Ho (appointed on 20th September 2004)

Soo Tho Him Yip (appointed on 30th December 2004)

Gan Cheong Ann (retired on 10th June 2004)

Kwan Huey Jin (resigned on 30th September 2004)

In accordance with the Company's bye-laws, Mr Ooi Sin Heng, Mr Wong Ming Shiang, Mr Lim Eng Ho and Mr Soo Tho Him Yip will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received from Mr Wong Ming Shiang, Mr Lim Eng Ho and Mr Soo Tho Him Yip, independent non-executive directors of the Company, annual confirmations of their independence and as at the date of this report the Company still considers them to be independent.

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 51, is the executive director of Magnum Corporation Berhad, a public listed company on the Kuala Lumpur Stock Exchange and the ultimate holding company of the Company, and Chairman of the Company. He sits on the boards of directors of various companies in Malaysia and overseas. Mr Lim was appointed as executive director and Chairman of the Company in October 2000. Prior to this appointment, he was the 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.

**DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (continued)****Executive directors (continued)**

**Tam Cheok Wing**, aged 52, was appointed as executive 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 listed on the Kuala Lumpur Stock Exchange. Mr Tam holds a Bachelors' degree in Civil Engineering, a Postgraduate Diploma in Town Planning and a Master's degree in Business Administration. Mr Tam has extensive experience in international business management and property based operation.

**Ooi Sin Heng**, aged 43, was appointed as executive director of the Company in August 1999. He is currently the General Manager of the Group. He has twelve 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 45, was appointed as executive 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 an MBA degree majoring in Finance and has over nineteen 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**

**Wong Ming Shiang**, aged 40, was appointed as independent non-executive director of the Company on 11th June 2004. He is a member of the Malaysian Institute of Accountants as well as CPA Australia. Mr Wong commenced his career with public accounting firms and is currently a consultant. Mr Wong is also an independent non-executive director of Magnum Corporation Berhad, the ultimate holding company of the Company and Magnum 4D Berhad, a fellow subsidiary of the Company.

**Lim Eng Ho**, aged 59, was appointed as independent non-executive director of the Company on 20th September 2004. He holds a Diploma in Business Accounting & Commerce and he has more than 37 years of experience in running and managing logistic and forwarding companies. Mr Lim is also an independent non-executive director of Magnum Corporation Berhad, the ultimate holding company of the Company and Magnum 4D Berhad, a fellow subsidiary of the Company.

## Report of the Directors

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

#### Independent non-executive directors (continued)

**Soo Tho Him Yip**, aged 53, was appointed as independent non-executive director of the Company on 30th December 2004. He is a member of the Malaysian Institute of Accountants, a Fellow of the Institute of Chartered Accountants in England and Wales and also an associate of the Malaysian Institute of Taxation. Mr Soo Tho has over 20 years of experience in the commercial field and since 1999, Mr Soo Tho has been providing advisory services to corporate clients.

#### Senior management

**Wong Chun Sing, Max**, aged 34, graduated from City University of Hong Kong in 1994 with a Bachelor degree (Honours) in Accountancy. He has eight 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 Institute of Certified Public Accountants. He is currently the Accounting Manager of the Group. Prior to joining the Group in 1997, he worked for an international accountancy firm.

### DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at the general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

### 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 statutory compensation.

## Report of the Directors

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 31st December 2004, 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 Issuers (the "Model Code") were as follows:

Name of associated corporation	Name of director	Capacity and nature of Interest	Ordinary shares in the associated corporation	
			Number of shares held	Percentage figure
Magnum Corporation Berhad (Note 1)	Lim Teong Leong	Directly beneficially owned	1,000,000	0.06%
	Tam Cheok Wing	Directly beneficially owned	640,000	0.04%
	Ooi Sin Heng	Directly beneficially owned	274,000	0.02%

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

Note 2: The interest in shares represents both interest in ordinary shares and interest in share options of the association corporation. The number of share options is further disclosed in the following section "Directors' rights to acquire shares".

All the interests stated above represent long positions. Save as disclosed above, as at 31st December 2004, 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.

## Report of the Directors

### 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 2004, 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 held	Date of grant of share options	Exercise period of share options	Exercise price of share options* Malaysian Ringgit	Capacity and nature of interest
<b>Directors</b>					
Lim Teong Leong	900,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Tam Cheok Wing	600,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Ooi Sin Heng	272,000	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
	1,772,000				

\* 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.

All the interests stated above represent long positions. Apart from as disclosed above and in note 29 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 debentures 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.

## Report of the Directors

**SHARE OPTION SCHEME**

Details of the share option scheme are set out in note 29 to the financial statements.

**DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 34 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, or any of its subsidiaries and fellow subsidiaries was a party during the year.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES**

As at 31st December 2004, the following interest of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long position:**

<b>Name of shareholder</b>	<b>Capacity and nature of interest</b>	<b>Number of shares held</b>	<b>Percentage of the Company's issued capital</b>
Magnum Corporation Berhad	Attributable interest of a controlled corporation	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, as at 31st December 2004, the Company was not notified of any interests or short positions in the shares or underlying shares of the Company.

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

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

## Report of the Directors

### **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities in the Stock Exchange (the "Listing Rules") as the Company's code of conduct for dealings in securities of the Company by directors. Based on specific enquiry of the Company's directors, all directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with the Rule 3.21 of the Listing Rules applicable to the current year, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The audited financial statements for the year ended 31st December 2004 have been reviewed by the Audit Committee.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report, being latest practicable date prior to the issue of the annual report.

### **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 which was in force 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 the Code, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-laws.

### **AUDITORS**

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

**POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, on 8th April 2005:

- (a) MCB, Magnum (Guernsey) Limited ("MGL"), the immediate holding company of the Company, and Unichina Enterprises Limited ("Unichina"), an independent third party, have entered into a sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which, MGL has conditionally agreed to sell and Unichina has conditionally agreed to purchase a total of 316,973,680 issued shares of the Company, representing a 51.54% equity interest in the Company;
- (b) the Company, MCB and Unichina entered into a subscription agreement (the "Subscription Agreement"), pursuant to which, the Company has conditionally agreed to issue and Unichina has conditionally agreed to subscribe for a convertible bond with a face value of HK\$35 million to be issued by the Company. The convertible bond will mature on the 3rd anniversary of the date of its issue. The bondholder has the right to convert the whole or part of the outstanding principal amount of the convertible bond into new shares of the Company at a conversion price of HK\$0.04735 per new share up to the 3rd anniversary of the date of its issue;
- (c) the Company, MGL and Unichina entered into a compromise deed (the "Compromise Deed"), pursuant to which, the Company, MGL and Unichina have conditionally agreed that the amount due to MGL and its related interest payable totalling HK\$116,414,639 as at 8th April 2005 to be settled in the following manner:
  - (i) HK\$35 million, by subscription proceeds payable by Unichina under the Subscription Agreement;
  - (ii) HK\$65.8 million, by the issue of a secured promissory note (the "Secured Promissory Note") to MGL, which is repayable after 12 months from the date of its issue and to be secured by certain of the Group's investment properties and shares of certain subsidiaries of the Company; and
  - (iii) HK\$15.6 million, by the issue of an unsecured promissory note (the "Unsecured Promissory Note") to MGL, which is repayable after six months from the date of its issue.
- (d) The Company proposed to implement the Capital Reduction in which the par value of each share will be reduced to HK\$0.001 from HK\$0.10 and the issued share capital will be reduced from HK\$61,502,418 to HK\$615,024;

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### POST BALANCE SHEET EVENT (continued)

- (e) The Company also proposed to increase the authorized share capital from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 900,000,000 new ordinary shares of HK\$0.001 each; and
- (f) Immediately follow the completion of the Sale and Purchase Agreement completion, Unichina and parties acting in concert with it will be the holder of 316,973,680 shares, representing approximately 51.54% of the issued share capital of the Company. Under Rule 26.1 and Rule 13 of the Hong Kong Code on Takeovers and Mergers, Unichina is required to make a mandatory unconditional cash offer for all the issued shares and to make a comparable offer for all the outstanding options. The offer price for the issued shares and shares options are HK\$0.04735 per share and HK\$0.001 per share option, respectively.

Pursuant to the Compromise Deed, as long as the Secured Promissory Note and Unsecured Promissory Note remain outstanding, and the Company is unable to raise additional funds or secure third party borrowings, Unichina has agreed (i) to provide funding to the Company, at an interest rate no higher than the interest rate presently payable on the amounts due to MGL; (ii) to provide the Company with, on demand, working capital for its day-to-day normal and usual business operations; and (iii) to ensure full repayment of the amounts owing under the secured Promissory Note and Unsecured Promissory Note.

The completion of the Sale and Purchase Agreement, the Subscription Agreement and the Compromise Deed (collectively the "Agreements") is subject to the fulfillment of certain terms and conditions and is expected to be completed on or before 31st July 2005. Details of the Agreements, including the terms and conditions, are set out in the announcement dated 8th April 2005 jointly issued by the Company and Unichina.

ON BEHALF OF THE BOARD

**Lim Teong Leong**

*Chairman*

Hong Kong

20th April 2005