

Notes to Financial Statements

31st December 2004

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- securities dealing and brokerage
- money lending
- property investment

In the opinion of the directors, the ultimate holding company is Magnum Corporation Berhad ("MCB"), which is incorporated and listed in Malaysia.

2. CORPORATE UPDATE AND BASIS OF PRESENTATION

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$6,257,667 for the year ended 31st December 2004. As at the balance sheet date, the Group had consolidated net current liabilities and a consolidated deficiency in assets of HK\$7,593,636 and HK\$45,335,735, respectively, and the amounts due to holding companies and the related interest payables were HK\$73,919,147 and HK\$40,782,725, respectively. The Company's holding companies, including MCB, 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 MCB.

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;

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2. CORPORATE UPDATE AND BASIS OF PRESENTATION (continued)

- (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; and
- (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 payables 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 propose 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.
- (e) The Company also propose to increase the authorize share capital from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 900,000,000,000 new ordinary shares of HK\$0.001 each.
- (f) Immediately follow the completion of the Sale and Purchase Agreement, 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 the issued shares and to make a comparable offer for all the outstanding options. The offer price for the issued shares and the share options are HK\$0.04735 per share and HK\$0.001 per share option, respectively.

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2. CORPORATE UPDATE AND BASIS OF PRESENTATION (continued)

Pursuant to the Compromise Deed, as long as the Secured Promissory Note and the 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 the 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.

After taking into consideration of the undertaking as mentioned above, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard of Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain equity investments and investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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31st December 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture and fixtures	20%
Motor vehicles	25%
Computers and equipment	30%–33%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

In the prior years, certain leasehold land and buildings, other than investment properties, were stated at valuation. These leasehold land and buildings were transferred to investment properties in the prior years and the corresponding revaluation reserves were frozen at the time of such transfers. Upon disposal of these assets, these revaluation reserves are realised and transferred to retained earnings as a movement in reserves.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Intangible assets, representing the eligibility right to trade on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc. are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis to write off the cost of the trading right over its estimated useful life of ten years.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- commission income on securities dealings, on a trade date basis;
- trading in securities, on the transaction date when the relevant contract notes are exchanged;

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms; and
- dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 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, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of services provided. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- The securities dealing and margin finance segment provides securities dealing services in acquiring, disposing of and subscribing for securities listed on the Stock Exchange and other overseas markets and financial accommodation to facilitate the trading of these marketable securities.
- The consumer finance segment comprises the granting of personal loans.
- The property holding segment involves in property investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

	Securities dealing and margin finance		Consumer finance		Property holding		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:								
Services provided to external customers	5,218,636	4,792,621	703,493	700,000	2,092,770	2,333,873	8,014,899	7,826,494
Other revenue	1,389,384	570,329	—	—	400	835	1,389,784	571,164
Total revenue	6,608,020	5,362,950	703,493	700,000	2,093,170	2,334,708	9,404,683	8,397,658
Segment results	(5,845,774)	(681,117)	1,438,697	(900,908)	6,052,733	(811,583)	1,645,656	(2,393,608)
Unallocated revenue and gains							48,600	65,176
Unallocated expenses							(2,335,865)	(2,808,667)
Finance costs							(641,609)	(5,137,099)
Loss before tax							(6,230,649)	(11,522,244)
Tax							(27,018)	(74,063)
Net loss from ordinary activities attributable to shareholders							(6,257,667)	(11,596,307)

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Securities dealing and margin finance		Consumer finance		Property holding		Elimination		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	44,423,597	66,906,155	18,074,840	28,158,320	34,092,474	28,065,462	(17,431,317)	(28,684,500)	79,159,594	94,445,437
Unallocated assets									1,324,358	1,460,247
Total assets	44,423,597	66,906,155	18,074,840	28,158,320	34,092,474	28,065,462	(17,431,317)	(28,684,500)	80,483,952	95,905,684
Segment liabilities	15,240,378	31,643,141	33,363,821	44,885,997	1,365,570	1,328,215	(36,048,585)	(64,077,234)	13,921,184	13,780,119
Unallocated liabilities									111,898,503	121,203,633
Total liabilities	15,240,378	31,643,141	33,363,821	44,885,997	1,365,570	1,328,215	(36,048,585)	(64,077,234)	125,819,687	134,983,752
Other segment information:										
Capital expenditures	740	5,045	—	—	21,220	—	—	—	—	—
Depreciation	99,314	229,888	—	—	109,982	164,159	—	—	—	—
Amortisation	505,910	505,910	—	—	—	—	—	—	—	—
Unrealised holding loss/ (gain) on short term investments	620,920	(5,882,151)	—	—	—	—	—	—	—	—
Provision/(Write-back of provision) for doubtful debts	389,443	(28,307)	(1,737,296)	700,000	385,339	—	—	—	—	—
Deficit/(surplus) on reevaluation of investment properties	—	—	—	—	(6,280,000)	1,120,000	—	—	—	—
Impairment of intangible assets recognised in the profit and loss account	702,055	475,352	—	—	—	—	—	—	—	—

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5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Philippines		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:								
Services provided to external customers	8,014,899	7,826,494	—	—	—	—	8,014,899	7,826,494
Other revenue	1,328,795	636,001	109,589	339	—	—	1,438,384	636,340
Total revenue	9,343,694	8,462,495	109,589	339	—	—	9,453,283	8,462,834
Other segment information:								
Segment assets	78,955,281	93,068,158	7,639,245	9,120,229	(6,110,574)	(6,282,703)	80,483,952	95,905,684
Capital expenditure	23,560	67,925	—	—	—	—	23,560	67,925

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6. TURNOVER

An analysis of turnover and other revenue and gains is as follows:

	Group	
	2004	2003
	HK\$	HK\$
Turnover		
Commission and interest income from securities dealing and margin finance	5,218,636	4,792,621
Interest income from consumer finance	703,493	700,000
Property rental income	2,092,770	2,333,873
	8,014,899	7,826,494
Other revenue and gains		
Gain on disposal of listed equity investments	1,176,500	—
Dividend income	109,589	475,963
Others	152,295	160,377
	1,438,384	636,340
	9,453,283	8,462,834

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7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Group	
	2004	2003
	HK\$	HK\$
Exchange losses, net	62,750	108,804
Depreciation	219,262	425,924
Minimum lease payments under operating leases on land and buildings	1,324,355	1,333,736
Amortisation of intangible assets*	505,910	505,910
Write-off of fixed assets	—	5,328
Loss on disposal of listed equity investments	—	15,700
Staff costs (including directors' remuneration - note 9):		
Wages and salaries	7,246,872	7,429,375
Pension scheme contributions	276,541	289,484
	7,523,413	7,718,859
Auditors' remuneration	680,000	680,000
and after crediting:		
Gross rental income	2,092,770	2,333,873
Less: Outgoings	(95,196)	(89,786)
Net rental income	1,997,574	2,244,087
Interest income	2,728,780	2,536,918
Gain on disposal of fixed assets	400	—

* The amortisation of intangible assets for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

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8. FINANCE COSTS

	Group	
	2004	2003
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	100,613	183,313
Interest expense on amounts due to holding companies and a fellow subsidiary	6,326,093	7,016,419
	6,426,706	7,199,732

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK\$	HK\$
Fees	210,000	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,895,469	1,882,666
Bonuses	354,815	354,815
Pension scheme contributions	84,963	84,963
	2,335,247	2,322,444
	2,545,247	2,322,444

During the year, directors' fee of HK\$30,000 (2003: Nil) was payable to each of the independent non-executive directors.

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9. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	8	5
HK\$1,500,001 – HK\$2,000,000	1	1
	9	6

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are set out below:

	Group	
	2004 HK\$	2003 HK\$
Salaries, allowances and benefits in kind	1,265,418	1,245,247
Bonuses	95,180	95,180
Pension scheme contributions	57,108	57,108
	1,417,706	1,397,535

The remuneration of each of the non-director, highest paid employees fell within the band of nil to HK\$1,000,000 for the two years ended 31st December 2004 and 2003.

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11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil).

	Group	
	2004 HK\$	2003 HK\$
Underprovision for Hong Kong profits tax in prior years	27,018	—
Deferred tax – note 27	—	74,063
Tax charge for the year	27,018	74,063

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2004		2003	
	HK\$	%	HK\$	%
Loss before tax	(6,230,649)		(11,522,244)	
Tax at the statutory tax rate	(1,090,364)	(17.5)	(2,016,393)	(17.5)
Current tax of previous period	27,018	0.4	—	—
Effect on opening deferred tax of increase in rate	—	—	26,011	0.2
Income not subjected to tax	(1,099,000)	(17.7)	(1,312,419)	(11.4)
Expenses not deductible for tax	1,666,943	26.9	2,164,075	18.8
Tax losses not recognised	916,528	14.7	1,212,789	10.5
Tax losses utilised from previous period	(394,107)	(6.4)	—	—
Tax charge at the Group's effective rate	27,018	0.4	74,063	0.6

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31st December 2004 dealt with in the financial statements of the Company was HK\$8,211,340 (2003: HK\$28,998,322) (note 30(b)).

Notes to Financial Statements

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13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$6,257,667 (2003: HK\$11,596,307) and 615,024,175 (2003: 615,024,175) ordinary shares in issue throughout the year.

Diluted loss per share for the years ended 31st December 2004 and 2003 have not been disclosed, as no dilutive events existed during the years.

14. FIXED ASSETS

Group

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Computers and equipment HK\$	Total HK\$
Cost:					
At beginning of year	1,718,909	1,391,821	650,000	889,325	4,650,055
Additions	13,750	7,470	—	2,340	23,560
Write-off	—	(419,403)	—	(23,973)	(443,376)
Exchange realignment	—	(11,471)	—	(675)	(12,146)
At 31st December 2004	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation:					
At beginning of year	1,548,789	1,368,943	650,000	783,545	4,351,277
Provided during the year	105,912	12,051	—	101,299	219,262
Write-off	—	(419,403)	—	(23,973)	(443,376)
Exchange realignment	—	(11,471)	—	(675)	(12,146)
At 31st December 2004	1,654,701	950,120	650,000	860,196	4,115,017
Net book value:					
At 31st December 2004	77,958	18,297	—	6,821	103,076
At 31st December 2003	170,120	22,878	—	105,780	298,778

Notes to Financial Statements

31st December 2004

15. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$	HK\$
At beginning of year, at valuation	27,010,000	28,130,000
Surplus/(deficit) on revaluation	6,280,000	(1,120,000)
At 31st December	33,290,000	27,010,000

The investment properties are all situated in Hong Kong.

At 31st December 2004, the investment properties were valued by Vigers Hong Kong Limited, an independent professionally qualified valuers, on an open market value, existing use basis, at HK\$33,290,000.

All the investment properties of the Group are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

Certain investment properties of the Group with a total carrying amount of HK\$32,940,000 (2003: HK\$26,710,000) were pledged to banks to secure banking facilities granted to the Group as further detailed in notes 23 and 33 to the financial statements.

Particulars of the investment properties are as follows:

Location	Approximate floor area	Existing use	Lease term	Group interest
a. Flat A & Flat B of 4th Floor and Roof thereto, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (76/2260th shares of and in Kwun Tong Inland Lot No. 83)	19,622 sq. ft.	Commercial	Medium	100%
b. Flat A & Flat B of 7th Floor, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (76/2260th shares of and in Kwun Tong Inland Lot No. 83)	16,818 sq. ft.	Commercial	Medium	100%

Notes to Financial Statements

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15. INVESTMENT PROPERTIES (continued)

Location	Approximate floor area	Existing use	Lease term	Group interest
c. 4th Floor of Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Hong Kong (112/3190th shares of and in Kwun Tong Inland Lot Nos. 51 and 52)	5,997 sq. ft.	Commercial	Medium	100%
d. Office 1 on 1st Floor, GITIC Centre, No. 28 Queen's Road East, Wan Chai, Hong Kong (15/1386th parts or shares of and in Sections B, C, D, E, F, G and Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 65 and Sub-sections 3 and 4 of Section A of Marine Lot No. 65)	1,188 sq. ft.	Commercial	Long	100%
e. Apartment A on 20th Floor, Car Parking Space No. 172, 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong (105/16026th shares of and in Rural Building Lot No. 1049)	1,433 sq. ft.	Residential	Long	100%
f. Car Parking Space No. 1, 1st Floor, King Yip Factory Building, No. 59 King Yip Street Kowloon, Hong Kong (1/640th share of and in Kwan Tong Inland Lot No. 70)	N/A	N/A	Medium	100%

Notes to Financial Statements

31st December 2004

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	143,919,955	143,919,955
Less: Provision for impairment	(135,378,190)	(135,378,190)
	8,541,765	8,541,765
Amounts due from subsidiaries	280,299,120	296,716,515
Less: Provisions for amounts due from subsidiaries	(253,412,533)	(248,842,157)
	26,886,587	47,874,358
Amounts due to subsidiaries	(54,493,355)	(54,665,484)
	(19,065,003)	1,750,639

The balances with subsidiaries are unsecured, interest-free and not repayable within one year.

Notes to Financial Statements

31st December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Watary Investments Limited	British Virgin Islands/Hong Kong	US\$36,000	100	—	Investment holding
Magnum International Holdings Services Limited	Hong Kong	HK\$2	—	100	Provision of administrative services
Lismore Properties Limited	British Virgin Islands/Hong Kong	US\$1	—	100	Property services and investment holding
Ongreat Properties Limited	British Virgin Islands/Hong Kong	US\$1	—	100	Property investment
Continuous Gain Limited	British Virgin Islands/Hong Kong	US\$1	—	100	Property investment
Jenpoint Limited	Hong Kong	HK\$2	—	100	Trading of marketable securities
Wolston Limited	British Virgin Islands/Hong Kong	US\$1	—	100	Property investment
Magnum International Finance Limited	Hong Kong	HK\$10,000,000	—	100	Money lending
Magnum International Securities Limited	Hong Kong	HK\$37,510,000	—	100	Securities dealing and margin finance
Magnum Financial Services Holdings Limited	British Virgin Islands/Hong Kong	US\$2	100	—	Investment holding

Notes to Financial Statements

31st December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTANGIBLE ASSETS

	Group
	HK\$
<hr/>	
Cost:	
At beginning of year	8,573,184
Exchange realignment	(96,276)
<hr/>	
At 31st December 2004	8,476,908
<hr/>	
Accumulated amortisation and impairment:	
At beginning of year	4,196,458
Impairment during the year recognised in the profit and loss account	702,055
Amortised during the year	505,910
Exchange realignment	(62,994)
<hr/>	
At 31st December 2004	5,341,429
<hr/>	
Net book value:	
At 31st December 2004	3,135,479
<hr/>	
At 31st December 2003	4,376,726
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The impairment in value of intangible assets arose from the directors' assessment of the estimated realisable value of the intangible assets with reference to the prevailing market conditions.

Notes to Financial Statements

31st December 2004

18. ACCOUNTS RECEIVABLE/ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

- (a) The credit terms provided to customers are consistent with the practice of the securities dealing industry. Details of the accounts receivable of the Group as at the balance sheet date, based on transaction date and net of provisions, are as follows:

Accounts receivable:

	Group	
	2004	2003
	HK\$	HK\$
Not yet due	3,431,749	3,213,057
0 – 30 days	1,781,972	4,078,434
	5,213,721	7,291,491

- (b) Details of the accounts payable, other payables and accruals of the Group as at the balance sheet date are as follows:

Accounts payable:

	Group	
	2004	2003
	HK\$	HK\$
Not yet due	1,586,196	3,504,927
0 – 30 days	1,442,426	1,133,503
Over 30 days	2,506,288	1,207,325
	5,534,910	5,845,755
Other payables and accruals	45,373,516	38,945,973
	50,908,426	44,791,728

Included in other payables of the Group are interest payables to holding companies and a fellow subsidiary totalling HK\$40,782,725 (2003: HK\$34,456,632) which are unsecured, interest-free and have no fixed terms of repayment.

Included in other payables of the Company are interest payables to the immediate holding company and a fellow subsidiary totalling HK\$13,917,756 (2003: HK\$11,671,810) which are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31st December 2004

19. SHORT TERM INVESTMENTS

	Group	
	2004	2003
	HK\$	HK\$
Listed equity investments, at market value:		
Hong Kong	604,420	13,321,250
Elsewhere	815,867	1,477,260
	1,420,287	14,798,510

20. CLIENT TRUST BANK ACCOUNTS

Client trust bank accounts represent clients' trust monies kept in the trust bank accounts of a subsidiary engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed by the Securities and Futures Ordinance.

21. FIXED DEPOSIT, PLEDGED

In the prior year, a bank deposit was pledged to a bank to secure a bank overdraft facility of HK\$6,000,000 granted to the Group of which HK\$307,658 had been utilised. The bank overdraft facility was cancelled during the year with the deposit pledged released.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash and bank balances which are not restricted as to use.

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Cash and bank balances	3,257,012	1,498,718	48,130	11,967
Time deposit, non-pledged	9,000,000	—	—	—
	12,257,012	1,498,718	48,130	11,967

Notes to Financial Statements

31st December 2004

23. BANK LOANS AND OVERDRAFTS, SECURED

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
The maturity of bank borrowings within one year are as follows:				
Mortgage loans	—	1,561,678	—	1,561,678
Bank overdrafts	588,573	307,658	588,573	—
	588,573	1,869,336	588,573	1,561,678

Details of the assets pledged as security for the Group's banking borrowings are set out in note 33 to the financial statements.

24. AMOUNT DUE TO A FELLOW SUBSIDIARY

As at 31st December 2003, the balance was unsecured, bore interest at rates ranging from 0.66% to 0.96% per annum and was fully settled during the year.

25. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The long term balance included in non-current liabilities is unsecured and not repayable within one year. Except for an amount of HK\$2,017,647 (2003: HK\$2,017,647) which is interest-free, the remaining balance bears interest at a rate of 7% to 8% (2003: 7%) per annum.

As at 31st December 2003, the short-term balance included in current liabilities was unsecured, bore interest at a rate of 7% per annum and was fully settled during the year.

26. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The balance is unsecured, bears interest at a rate of 6.50% (2003: 6.50% to 6.90%) per annum and is not repayable within one year.

Notes to Financial Statements

31st December 2004

27. DEFERRED TAX LIABILITIES

The movement in the Group's deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation HK\$
At 1st January 2003	277,444
Deferred tax charged to the profit and loss account during the year – note 11	74,063
At 31st December 2003, 1st January 2004 and 31st December 2004	351,507

The Group has tax losses arising in Hong Kong of HK\$168,137,000 (2003: HK\$167,977,354) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

28. SHARE CAPITAL**Shares**

	2004 HK\$	2003 HK\$
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000	100,000,000
Issued and fully paid:		
615,024,175 ordinary shares of HK\$0.10 each	61,502,418	61,502,418

There were no movements in the Company's share capital during either the current or prior years.

Share options

Details of the Company's share option scheme are included in note 29 to the financial statements.

Notes to Financial Statements

31st December 2004

29. SHARE OPTION SCHEME

On 11th June 2002, 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.

(a) A summary of the share option scheme under the Group is as follows:

The Scheme	
Purpose	Provide incentives and rewards to eligible participants.
Participants	<p>Eligible participants include:</p> <ul style="list-style-type: none"> (i) employees (whether full-time or part-time employees, including any executive directors but not any non-executive director) of the Company and its subsidiaries; (ii) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of the Group; (v) any person or entity that provides research, development or other technological support to the Group; and (vi) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

Notes to Financial Statements

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29. SHARE OPTION SCHEME (continued)

The Scheme	
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	61,502,417 ordinary shares, being 10% of the issued share capital.
Maximum entitlement of each participant	The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.
Period within which the securities must be taken up under an option	Subject to the board of directors' discretion on issuance.
Minimum period for which an option must be held before it can be exercised	Not applicable.
Amount payable on acceptance	HK\$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable.

Notes to Financial Statements

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29. SHARE OPTION SCHEME (continued)

The Scheme	
Basis of determining the exercise price	<p>Determined by the directors at their discretion and shall not be lower than the highest of:</p> <ul style="list-style-type: none"> (i) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (ii) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
The remaining life of the scheme	<p>The scheme will be valid and effective until 7th July 2012, after which no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to 7th July 2012 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the Scheme.</p>

Notes to Financial Statements

31st December 2004

29. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options			At 31st December 2004	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 2004	Granted during the year	Lapsed during the year					
Directors								
Chan Hon Ming	3,000,000	—	—	3,000,000	8th July 2002	8th July 2002 to 7th July 2012	0.111	0.104
Other employees								
In aggregate	17,550,000	—	—	17,550,000	8th July 2002	8th July 2002 to 7th July 2012	0.111	0.104
	20,550,000	—	—	20,550,000				

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

The share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At the balance sheet date, the Company had 20,550,000 share options outstanding under the Scheme. The exercise in full of these remaining share options would, under the present capital structure of the Company, result in the issue of 20,550,000 additional ordinary shares of the Company and additional share capital of HK\$2,055,000 and share premium of HK\$226,050 (before issue expenses).

30. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in the equity on page 21 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 30th October 1992, over the nominal value of the Company's shares issued in exchange therefor.

Notes to Financial Statements

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30. RESERVES (continued)

(b) Company

	Share premium account HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1st January 2003	168,315,330	95,165,446	(352,999,834)	(89,519,058)
Net loss for the year	—	—	(28,998,322)	(28,998,322)
At 31st December 2003 and 1st January 2004	168,315,330	95,165,446	(381,998,156)	(118,517,380)
Net loss for the year	—	—	(8,211,340)	(8,211,340)
At 31st December 2004	168,315,330	95,165,446	(390,209,496)	(126,728,720)

The Company's contributed surplus represents the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 30(a), over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but does not presently qualify to do so.

31. CONTINGENT LIABILITIES

As at 31st December 2003, HK\$307,658 of the banking facility granted to a subsidiary was utilised.

	Company	
	2004	2003
	HK\$	HK\$
Guarantees given to a bank in connection with facility granted to a subsidiary	—	62,000,000

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

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32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally require tenants to pay security deposits.

At 31st December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$	2003 HK\$
Within one year	1,399,500	1,921,232
In the second to fifth years, inclusive	669,600	878,000
	2,069,100	2,799,232

(b) As lessee

The Group leases certain of its office and residential properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31st December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Within one year	793,405	991,998	562,500	784,000

Notes to Financial Statements

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33. PLEDGE OF ASSETS

At the balance sheet date, the Group's investment properties situated in Hong Kong with a total carrying value of HK\$32,940,000 (2003: HK\$26,710,000) were pledged to certain banks for banking facilities granted to the Group. In the prior year, bank deposits amounting to HK\$5,000,000 were pledged to a bank for a banking facility.

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2004	2003
	HK\$	HK\$
Interest expense charged by a fellow subsidiary	—	18,823
Interest expense charged by the immediate holding company	3,059,286	3,865,146
Interest expense charged by an intermediate holding company	3,266,807	3,132,450

The interest expense charged by a fellow subsidiary, the immediate holding company and an intermediate holding company during the year arose from their respective advances, further details of which, including the terms, are disclosed in notes 24, 25 and 26, respectively.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20th April 2005.