

Report of the Directors

The directors herein present their report, corporate governance report, and the audited financial statements of the Company and the Group for the year ended 31st December 2005.

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 2005 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 32 to 98.

MANAGEMENT DISCUSSION AND ANALYSIS

Comment on segment information

During the year under review, revenue of the securities brokering business accounted for over 34% of the revenue of the Group. All the revenue was generated by businesses in Hong Kong.

Liquidity and capital structure

Total borrowings of the Group as at 31st December 2005 amounted to HK\$73.9 million, which were intercompany advances from Magnum Corporation Berhad Group in Malaysia. No bank borrowings as at 31st December 2005 when compared to the amount of HK\$0.6 million as at 31st December 2004. Cash and cash equivalents as at 31st December 2005 were held in Hong Kong dollars, United States dollars and Philippines pesos.

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.

The carrying values of investment properties as at 31st December 2005 amounted to HK\$43.9 million, of which HK\$43.6 million were subject to legal charges to banks. No bank facilities was utilised as at 31st December 2005.

Report of the Directors

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and capital structure (continued)

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 1.37.

Significant investment held

The Group holds some investments in Hong Kong and the Philippines listed shares. As at 31st December 2005, such investments amounted to HK\$1.9 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 10 full-time employees who were all based in Hong Kong. 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 3,000,000 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 2005, 11,250,000 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 and reclassified/restated as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of retrospective changes in accounting policy upon the adoption of several new and revised accounting standards as detailed in note 3.2 to the financial statements. This summary does not form part of the audited financial statements.

Results

	Year ended 31st December				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
REVENUE	12,311	21,913	8,260	10,210	16,196
LOSS BEFORE TAX	(8,431)	(6,231)	(11,522)	(21,839)	(51,860)
Tax	(325)	(113)	—	(152)	—
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(8,756)	(6,344)	(11,522)	(21,991)	(51,860)
ASSETS AND LIABILITIES					
TOTAL ASSETS	75,760	80,484	95,906	99,578	159,074
TOTAL LIABILITIES	(129,587)	(125,554)	(134,632)	(126,783)	(164,288)
NET LIABILITIES	(53,827)	(45,070)	(38,726)	(27,205)	(5,214)

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year 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 the existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) 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 OVERDRAFTS

Details of bank overdrafts of the Company and the Group are set out in note 25 to the financial statements.

MAJOR CUSTOMERS

In the year under review, revenue attributable to the Group's five largest customers accounted for 6.9% of the total revenue of securities brokering business and revenue from the largest customer included therein amounted to 3.0%.

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 9 to 10 of the annual report.

Executive directors:

Lim Teong Leong, *Chairman*

Tam Cheek Wing

Ooi Sin Heng

Chan Hon Ming, Alan

Independent non-executive directors:

Wong Ming Shiang

Lim Eng Ho

Soo Tho Him Yip

Subsequent to the balance sheet date, on 2nd March 2006, Mr Soo Tho Him Yip resigned as a director of the Company.

In accordance with the Company's bye-laws, Mr Tam Cheek Wing and Mr Chan Hon Ming, Alan 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 and Mr Lim Eng Ho, the independent non-executive directors, the 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.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive directors

Lim Teong Leong, aged 52, is the executive director of Magnum Corporation Berhad, a public listed company on the Bursa Malaysia Securities Berhad, 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.

Tam Cheok Wing, aged 53, 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 which is listed on the Bursa Malaysia Securities Berhad. 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 44, was appointed as executive director of the Company in August 1999. In view of the impending disposal of the Company by its majority shareholder, the employment contract of Mr Ooi as General Manager of the Group was terminated on 20th March 2006. He was then appointed as the Responsible Officer for Magnum International Securities Limited, a wholly-owned subsidiary of the Company on 21st March 2006. He has thirteen 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 Institute of Certified Public Accountants.

Chan Hon Ming, Alan, aged 46, was appointed as executive director of the Company in August 1999. Mr Chan was the managing director of Magnum International Securities Limited, a wholly-owned subsidiary of the Group and resigned on 30th December 2005. He holds a MBA degree majoring in Finance and has over twenty 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.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (continued)

Independent non-executive directors

Wong Ming Shiang, aged 41, 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 60, 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 38 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.

Soo Tho Him Yip, aged 54, was appointed as independent non-executive director of the Company on 30th December 2004 and resigned on 2nd March 2006. 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 21 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 35, graduated from City University of Hong Kong in 1994 with a Bachelor degree (Honours) in Accountancy. He was the Accounting Manager of the Group and resigned on 2nd February 2006 after serving nine years with the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 1997, he worked with an international accountancy firm.

Lau Ka Fung, Connie, aged 43, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She also holds a Master's degree in Business Administration. Ms Lau joined the Group in February 2006 as the Finance Manager of the Group. She has extensive experience in Hong Kong leading property investment company and multinational departmental stores.

Report of the Directors

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholder's 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 the statutory compensation.

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

As at 31st December 2005, 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	Ordinary shares in the associated corporation		
		Capacity and nature of interest	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	250,000	0.02%
	Ooi Sin Heng	Directly beneficially owned	2,000	0.00%

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

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 2005, 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 2005, the directors of the Company and their associates had no interest in the share options of MCB.

Name of category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options*	
	At 1st January 2005	Exercised during the year	At 31st December 2005			Malaysian Ringgit	Capacity and nature of interest
Director							
Lim Teong Leong	900,000	900,000	—	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Tam Cheek Wing	600,000	600,000	—	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
Ooi Sin Heng	272,000	272,000	—	16th July 2001	16th July 2001 to 15th July 2006	1.26	Directly beneficially owned
	1,772,000	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.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

Associated corporation: (continued)

Save as disclosed in note 30 to the financial statements relating to the Company's share option schemes, 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 and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 30 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 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.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2005, the Company had been notified of the following interests of 5% or more of the issued share capital of the Company:

Long position:

Name of shareholder	Capacity	Number of shares held	Percentage of the Company's issued capital
Magnum Corporation Berhad ("MCB") (Note 1)	Attributable interest of controlled corporation	316,973,680	51.54%
Magnum Enterprise Sdn Bhd ("MESB") (Note 1)	Attributable interest of controlled corporation	316,973,680	51.54%
Magnum (Guernsey) Limited ("MGL") (Note 1)	Beneficial Owner	316,973,680	51.54%

Note 1: The 316,973,680 shares are directly held by MGL which is a wholly-owned subsidiary of MESB which in turn is a wholly-owned subsidiary of MCB.

The Company also noted from the web-site of The Stock Exchange of Hong Kong Limited that the following shareholders, each has filed disclosure form in respect of its interest of 5% or more of the issued share capital of the Company:

Long position:

Name of shareholder	Capacity	Number of shares held	Percentage of the Company's issued capital
Pasmina Overseas Inc.	Beneficial Owner	66,013,175	10.73%
Yuwira International Corp.	Beneficial Owner	43,599,000	7.09%

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES (continued)

The Company has received the prescribed disclosure form from Pasmira Overseas Inc. on 13th February 2006. However, the Company did not receive the prescribed disclosure form from Yuwira International Corp. of their substantial shareholding in the Company.

Save as disclosed above, as at 31st December 2005, the Company was not notified of any interest or short position 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.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with the Rule 3.2.1 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 comprised the three independent non-executive directors of the Company during the year. Following the director resignation of Mr Soo Tho Him Yip effective from 2nd March 2006, the audit committee currently comprises two independent non-executive directors.

The summary of duties and works of the audit committee is set out in "Corporate Governance Report" in this annual report.

The audited financial statements for the year ended 31st December 2005 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 latest practicable date prior to the issue of the annual report.

Report of the Directors

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 EVENTS

Subsequent to the balance sheet date, on 30th March 2006:

- (a) Magnum Corporation Berhad ("MCB"), the ultimate holding company of the Company, Magnum (Guernsey) Limited ("MGL"), the immediate holding company of the Company, Dragon Hill Development Limited ("Dragon Hill"), an independent third party, and Mr. Lee Shing ("Mr. Lee"), the sole beneficial shareholder and director of Dragon Hill, have entered into a share sale agreement (the "Share Sale Agreement"), pursuant to which, MGL has conditionally agreed to sell and Dragon Hill has conditionally agreed to purchase a total of 316,973,680 issued shares of the Company (the "Sale Shares"), representing approximately 51.54% equity interest in the Company for a maximum cash consideration of HK\$10 million (equivalent to approximately HK\$0.03155 per Sale Share);
- (b) The Company, MCB, Dragon Hill and Mr. Lee entered into a subscription agreement (the "Subscription Agreement"), pursuant to which, the Company has conditionally agreed to issue and Dragon Hill has conditionally agreed to subscribe for the convertible preference shares (the "Convertible Preference Shares") at a subscription price of HK\$48 million.
- (c) Watary Investment Limited ("Watary") and MGL entered into a disposal agreement (the "Disposal Agreement"), pursuant to which Watary has conditionally agreed to sell and/or assign, and MGL has conditionally agreed to purchase and/or accept the entire issued share capital in and loans to Lismore Properties Limited ("Lismore"), a wholly-owned subsidiary of Watary, and its subsidiaries (collectively the "Lismore Group") for a consideration approximately HK\$56.4 million (the "Disposal Consideration");

Report of the Directors

POST BALANCE SHEET EVENTS (continued)

- (d) The Company, MGL, Magnum Enterprise Sdn Bhd ("MESB"), an intermediate holding company of the Company, Magnum Investment Limited ("MIL"), a fellow subsidiary of the Company and Dragon Hill, entered into a deed of settlement (the "Deed of Settlement"), pursuant to which, the Company, MGL, MESB and MIL have conditionally agreed that the amounts due thereto and its related interest payable (collectively the "Shareholder's Loan") shall be fully settled in the following manner:
- (i) approximately HK\$48 million, by the subscription proceeds payable by Dragon Hill under the Subscription Agreement;
 - (ii) approximately HK\$56.4 million, by the disposal consideration payable by MGL pursuant to the Disposal Agreement will be deemed to be set off against part of the Shareholder's Loan; and
 - (iii) the remaining balance of the Shareholder's Loan will be waived by MGL, MESB and MIL. If the completion of the Subscription Agreement and the Disposal Agreement does not take place on or before the date falling 2 business days after the long stop date of the Subscription Agreement and the Disposal Agreement on 31st July 2006, the Deed of Settlement shall lapse.
- (e) The Company propose to implement the Capital Reduction which will involve (i) the reduction of the par value of each share, such that the par value of each issued share will be reduced from HK\$0.10 to HK\$0.001 and the issued share capital will be reduced from HK\$61,502,418 to HK\$615,024; (ii) the transfer of the credit arising from the cancellation of paid up capital to the contributed surplus account of the Company; and (iii) the subdivision of each unissued share in the Company with the par value of HK\$0.10 into 100 new unissued share in the Company and the par value of which will be HK\$0.001; and
- (f) Immediately following the completion of the Share Sale Agreement, Dragon Hill 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, Dragon Hill is required to make mandatory cash offers for all the issued shares and the outstanding options of the Company. The offer price for the issued shares and the share options are HK\$0.03155 per share and HK\$0.001 per share option, respectively.

Report of the Directors

POST BALANCE SHEET EVENTS (continued)

The completion of the Share Sale Agreement, Subscription Agreement, Disposal Agreement and Deed of Settlement (collectively the "Agreements") is subject to fulfillment of certain items and conditions, and is expected to be completed on 31st July 2006. Details of the Agreements, including the terms and conditions, were set out in the announcement dated 30th March 2006 jointly issued by the Company and Dragon Hill.

ON BEHALF OF THE BOARD

Lim Teong Leong
Chairman

Hong Kong
25th April 2006