

---

## 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 31 December 2006.

### CHANGE OF COMPANY NAME

Pursuant to a resolution passed at the Special General Meeting of the Company held on 23 December 2006 and approved by the Registrars of Companies in Bermuda and Hong Kong, the name of the Company was changed from “Magnum International Holdings Limited” to “Dragon Hill Holdings Limited” taking effective from 15 January 2007.

The Company has adopted “俊山集團有限公司” as its Chinese name for identification purposes only with effect from 15 January 2007.

### PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 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 profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 28 to 77.

# 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. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
REVENUE	16,615	12,311	21,913	8,260	10,210
PROFIT/(LOSS) BEFORE TAX	22,085	(8,431)	(6,231)	(11,522)	(21,839)
TAX	(19)	(325)	(113)	-	(152)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	22,066	(8,756)	(6,344)	(11,522)	(21,991)
ASSETS AND LIABILITIES					
TOTAL ASSETS	71,071	75,760	80,484	95,906	99,578
TOTAL LIABILITIES	37,707	(129,587)	(125,554)	(134,632)	(126,783)
NET ASSETS/(LIABILITIES)	33,364	(53,827)	(45,070)	(38,726)	(27,205)

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

## SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE PREFERENCE SHARES

### Share Capital

Pursuant to a special resolution passed at a special general meeting of the Company on 23 May 2006, the following transactions took place on 19 June 2006:

- a reduction of the par value of each issued ordinary share of the Company from HK\$0.10 to HK\$0.001 by canceling the paid-up capital to the extent of HK\$0.099 on each issued ordinary share, resulting in a reduction of the Company's issued share capital from HK\$61,502,418 to HK\$615,024;
- a transfer of the credit arising from the cancellation of the paid-up capital in the amount of HK\$60,887,394 to the contributed surplus; and
- a subdivision of each unissued ordinary share in the Company with the par value of HK\$0.10 into 100 new unissued ordinary shares in the Company with the par value of HK\$0.001 each, resulting in an increase in authorised ordinary shares from 1,000,000,000 shares to 100,000,000,000 shares.

Pursuant to a special resolution passed at the aforesaid special general meeting of the Company on 23 May 2006, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$101,521,400 effective on 19 June 2006 by the creation of 1,521,400,000 convertible preference shares of HK\$0.001 each. Accordingly, the authorised share capital thereby comprises HK\$100,000,000 divided into 100,000,000,000 ordinary shares of HK\$0.001 each (before the share consideration as below mentioned) and HK\$1,521,400 divided into 1,521,400,000 convertible preference shares of HK\$0.001 each.

# Report of the Directors

## SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE PREFERENCE SHARES (continued)

### Share Capital (continued)

On 28 July 2006, the Company proposed to raise approximately HK\$9,700,000, before expenses, by issuing 307,512,087 ordinary shares of HK\$0.001 each (the "Rights Share") at a price of HK\$0.03155 per ordinary share by way of the rights issue (the "Rights Issue") on the basis of one Rights Share for every two ordinary shares held by the existing shareholders for the Group's general working capital. A total number of 307,512,087 ordinary shares of HK\$0.001 each were allotted and issued upon completion of the Rights Issue on 5 September 2006.

On 9 November 2006, the Company issued 123,000,000 ordinary shares of HK\$0.001 each at a price of HK\$0.0508 per share pursuant to a top-up placing and subscription arrangement. The total amount of funds raised, before expenses, amounted to HK\$6,248,400.

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 27 November 2006, the issued and unissued ordinary shares of HK\$0.001 each of the Company underwent a share consolidation exercise in which every four issued and unissued ordinary shares of HK\$0.001 each of the Company were consolidated into one ordinary share of HK\$0.004 each of the Company (the "Share Consolidation Exercise"). With effect from 27 November, 2006, the completion date of the Share Consolidation Exercise, the composition of the authorised share capital of the Company in respect of the ordinary shares of the Company amounting to HK\$100,000,000 was changed from 100,000,000,000 ordinary shares of HK\$0.001 each to 25,000,000,000 ordinary shares of HK\$0.004 each.

### Convertible Preference Shares

On 20 June 2006, the Company issued 1,521,400,000 convertible preference shares (the Convertible Preference Shares") with a nominal value of HK\$48,000,170 to Dragon Hill Development Limited ("DHDL"), the controlling shareholder of the Company. The Convertible Preference Shares are non-voting, freely transferable and not entitled to any right of participation in the profits of the Company. Holders of the Convertible Preference Shares are not entitled to any right of participation in the profits of the Company. Holders of the Convertible Preference Shares are not entitled to any dividend distribution whether in cash or otherwise. The Company does not have the right to redeem the outstanding shares or do the shareholders have the rights to sell back the shares to the Company.

The Convertible Preference Shares are convertible into the Company's ordinary shares at any time at the conversion price, which is initially HK\$0.03155 per ordinary share, subject to adjustment, of the Company at anytime immediately upon allotment and issue of the Convertible Preference Shares and until conversion of all the Convertible Preference Shares in full.

Upon completion of the Rights Issue as abovementioned on 5 September 2006, the conversion price of the Convertible Preference Shares was adjusted to HK\$0.02372 per ordinary share of HK\$0.001 each of the Company.

DHDL exercised its conversion rights attaching to the Convertible Preference Shares in full on 26 September 2006 and 11 October 2006 in which 1,300,000,000 and 723,615,935 ordinary shares of HK\$0.001 each of the Company were issued respectively to DHDL.

### Warrants

Pursuant to the ordinary resolutions passed at a special general meeting of the Company on 23 December 2006, the Company issued warrants (the "Warrants") on 29 December 2006, in the aggregate amount of HK\$49,800,000, attaching the rights to subscribe the ordinary shares of HK\$0.004 each of the Company at an initial subscription price (subject to adjustments in accordance with the warrant instrument) of HK\$0.332 per ordinary share for a period of three years commencing from the date of issue. The Warrants were issued at an issue price totaling HK\$2,400,000.

## Report of the Directors

### SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE PREFERENCE SHARES (continued)

#### Share Options

During the year, a number of 4,050,000 share options granted to the employees to subscribe for the ordinary share of HK\$0.001 each of the Company were lapsed in accordance with the terms of offer. On 13 July 2006, the remaining 7,200,000 share options granted and outstanding were tendered for cancellation at the offer price of HK\$0.001 per option made by DHDL under the mandatory unconditional offer for cancellation of all outstanding options.

As at 31 December 2006, there was no share option being granted and outstanding.

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\$228,586,349, may be used for the issue of fully paid bonus shares of the Company.

#### BORROWINGS

Details of the bank borrowings of 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 36.0% of the total revenue of securities brokering business and revenue from the largest customer included therein amounted to 12.7%.

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 page 7 of the annual report.

### Executive Directors

Mr. Lee Shing (Chairman)	(Appointed on 22 June 2006)
Ms. Liu Yaling	(Appointed on 22 June 2006)
Mr. Wang Shaohua	(Appointed on 3 August 2006)
Mr. Pei Qingrong	(Appointed on 3 August 2006)
Mr. Lim Teong Leong	(Resigned on 13 July 2006)
Mr. Tam Cheok Wing	(Resigned on 13 July 2006)
Mr. Ooi Sin Heng	(Resigned on 13 July 2006)
Mr. Chan Hon Ming	(Resigned on 13 July 2006)

### Independent Non-executive Directors

Mr. Yu Xiumin	(Appointed on 22 June 2006)
Mr. Zuo Duofu	(Appointed on 22 June 2006)
Mr. Cheng Kin Wah, Thomas	(Appointed on 22 June 2006)
Mr. Lim Eng Ho	(Resigned on 13 July 2006)
Mr. Wong Ming Shiang	(Resigned on 13 July 2006)
Mr. Soo Tho Him Yip	(Resigned on 2 March 2006)

In accordance with the Company's Bye-laws, Messrs Lee Shing, Liu Yaling, Wang Shaohua, Pei Qingrong, Yu Xiumin, Zuo Duofu and Cheng Kin Wah, Thomas will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received from Messrs Yu Xiumin, Zuo Duofu and Cheng Kin Wah, Thomas, the independent non-executive directors, the annual confirmations of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and as at the date of this report, the Company still considers the independent non-executive directors 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. The Company will enter into service contracts with independent non-executive directors for a specific term of three years following their re-election in the forthcoming annual general meeting of the Company.

## 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 or the Remuneration Committee with reference to directors' duties, responsibilities and performance as well as 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.

# Report of the Directors

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

As at 31 December 2006, the interests and short positions of the directors in the shares, underlying shares and debentures 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of director	Long Positions in ordinary shares of the Company		
	Capacity	Number of ordinary shares	Percentage of the Company's issued share capital
Lee Shing	Through controlled corporation (Note)	547,459,613	71.35%

Note: The 547,459,613 ordinary shares are owned by Dragon Hill Development Limited, a company wholly-owned by Mr Lee Shing.

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had registered an interest or short positions 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

Apart from the issue and the exercises of the Convertible Preference Shares by Dragon Hill Development Limited, a company wholly-owned by Mr Lee Shing (director of the Company), during the year as disclosed above under the section of "SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE PREFERENCE SHARES", 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 a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme (the "Scheme") adopted by the Company on 11 June 2002. Particulars of the Scheme are set out in note 30 to the financial statements. The share options granted and outstanding as at 31 December 2005, the previous reporting period, had been lapsed or cancelled during the year.

As at 31 December 2006, there was no share option being granted and outstanding under the Scheme.

## Report of the Directors

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 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 company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2006, the Company had been notified of the following substantial shareholders' interests or short positions, being interests of 5% or more of the issued share capital of the Company, which represented the same as disclosed above in respect of the directors' interests and short positions in shares and underlying shares of the Company or any associated corporations:

Name of shareholder	Long Positions in ordinary shares of the Company		
	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Dragon Hill Development Limited (Note)	Beneficial owner	547,459,613	71.35%

Note: Dragon Hill Development Limited is a company wholly-owned by Mr Lee Shing.

The Company also noted from the web-site of The Stock Exchange that the following shareholders, each has filed disclosure form in respect of its interests in the issued share capital of the Company pursuant to Section 324 of Part XV of the SFO:

Name of shareholder (Notes 1 and 2)	Long Positions held in the Company				Percentage of the Company's issued share capital (Note 3)
	Capacity	Number of ordinary shares held	Number of warrants held	Total	
Zhou Sheji	Beneficial owner / Through controlled corporation	25,579,500	75,000,000	100,579,500	10.96%
Gao Bao Development Limited	Beneficial owner	24,129,500	75,000,000	99,129,500	10.81%

Notes:

- The long positions reported by Gao Bao Development Limited was aggregated in the long positions of Mr Zhou Sheji as Gao Bao Development Limited was reported as wholly owned by Mr Zhou Sheji.
- The relevant event which gave rise to the filing of the disclosure form referring to the execution of the subscription agreement of the warrants issued by the Company as mentioned in the section "SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE PREFERENCE SHARES".
- The percentage of Company's issued share capital is calculated by assuming the warrants issued by the Company have been exercised in full by Gao Bao Development Limited and the other warrant holders.

Save as disclosed above, as at 31 December 2006, the Company was not notified of any interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of Part XV of the SFO.

## Report of the Directors

### **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 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.

Before the resignation of Mr. Soo Tho Him Yip on 2 March 2006, the Audit Committee comprised 3 independent non-executive directors namely Messrs Soo Tho Him Yip, Wong Ming Shiang and Lim Eng Ho. Subsequent to Mr. Soo Tho's resignation, the Audit Committee comprised the remaining 2 independent non-executive directors until they were replaced by the newly appointed executive and independent non-executive directors during the year.

The Audit Committee currently comprises three independent non-executive directors (including one independent non-executive director who possess the appropriate professional qualifications and accounting and related financial management expertise).

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

The audited financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.

### **SUFFICIENCY OF PUBLIC FLOAT**

As at the date of this annual report, based on information that is publicly available to the Company and to the best knowledge of the directors, the Company maintained sufficient public float being 25% of the Company's total issued share capital as required under the Listing Rules.

### **AUDITORS**

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



---

# Report of the Directors

## POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 6 March 2007, the Company announced that a framework agreement was entered into by the Company with Liuzhou Wuling Motors Company Limited (“Wuling”) and Dragon Hill Development Limited (“DHDL”) on 2 March 2007 (the “Framework Agreement”) in relation to the proposed investment by the Company in Liuzhou Wuling Motors Industrial Company Limited (“Wuling Industrial”), a wholly owned subsidiary of Wuling, the proposed transfer of 29% issued share capital of the Company by DHDL to Wuling and the proposed grant of options to subscribe for not more than 20% of the issued share capital of the Company to Wuling.

As stated in the aforementioned announcement, the Framework Agreement is subject to the entering into the formal agreements among the parties concerned. If the parties concerned fail to enter into the formal agreements within three months from the date of the Framework Agreement (or a later date to be determined by the parties concerned), the Framework Agreement will be terminated and ceased to have any effect and no party involved will have any liability upon the termination of the Framework Agreement.

ON BEHALF OF THE BOARD

**Lee Shing**

Chairman  
Hong Kong  
17 April 2007