

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st December 2002.

ADOPTION OF THE COMPANY'S CORPORATE CHINESE NAME

The Company's corporate Chinese name 《萬能國際集團有限公司》 was formally registered in Hong Kong under Part XI of the Hong Kong Companies Ordinance on 25th June 2002.

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

FINANCIAL RESULTS

The Group's loss for the year ended 31st December 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 18 to 66.

MANAGEMENT DISCUSSION AND ANALYSIS

Comment on segment information

During the year under review, the turnover of the securities brokering business accounted for over 65% of the turnover of the Group. Geographically, the turnover generated by businesses in Hong Kong accounted for all the turnover of the Group.

Liquidity and capital structure

The total borrowings of the Group as at 31st December 2002 amounted to HK\$91.7 million, of which HK\$87.9 million were intercompany advances from Magnum Corporation Berhad Group in Malaysia. The bank borrowings as at 31st December 2002 amounted to HK\$3.8 million, which were significantly reduced when compared to the amount of HK\$10.5 million as at 31st December 2001. The cash and cash equivalents as at 31st December 2002 were held in Hong Kong dollars, United States dollars and Philippines pesos and all bank borrowings were in Hong Kong dollars.

The Company's holding companies, including Magnum Corporation Berhad, have agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern.

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MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and capital structure (continued)

Investment properties and bank deposits with carrying values of HK\$27.8 million and HK\$5.0 million respectively were charged to banks to secure the above-mentioned bank borrowings.

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

The gearing ratio is calculated by dividing the long-term debts by the amount of equity. The gearing ratio at the balance sheet date was approximately negative 3.29.

Significant investment held

The most significant investment held by the Group as at 31st December 2002 was 755,000 shares of the Hong Kong Exchanges and Clearing Limited ("HKEC"). The investment has recorded an unrealised loss due to the poor performance of the share price of HKEC which was in line with the Hong Kong stock market.

Acquisition and disposal

During the year under review, there was no acquisition or disposal of any subsidiaries or associates of the Group.

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 31 full-time employees who were all based in Hong Kong. The Group continuously recruits new sales and marketing staff. The remuneration of employees is reviewed annually. Staff benefits include a medical scheme, provident fund, a share option scheme and a discretionary bonus based on performance.

On 11th June 2002, the Company adopted a new share option scheme and 18,228,000 and 18,900,000 share options were granted to directors (including executive directors and independent non-executive directors) and employees respectively at 8th July 2002 at the exercise price of HK\$0.111. However, 14,000,000 and 1,228,000 share options granted to executive directors and independent non-executive directors, respectively, were withdrawn during the year. No share options were exercised during the year under review.

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FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below.

Results

	Year ended 31st December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	9,920	14,323	36,347	28,807	38,827
LOSS BEFORE TAX	(21,839)	(51,860)	(18,827)	(54,398)	(52,338)
Tax	(152)	—	1,142	2,726	367
LOSS BEFORE MINORITY INTERESTS	(21,991)	(51,860)	(17,685)	(51,672)	(51,971)
Minority interests	—	—	—	107	35
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(21,991)	(51,860)	(17,685)	(51,565)	(51,936)

Assets, liabilities and minority interests

	31st December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TOTAL ASSETS	99,578	159,074	209,251	209,915	217,696
TOTAL LIABILITIES	(126,782)	(164,287)	(183,118)	(162,391)	(116,108)
MINORITY INTERESTS	—	—	—	—	(3,109)
NET ASSETS	(27,204)	(5,213)	26,133	47,524	98,479

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FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

At the balance sheet date, the Company did not have any reserves available for cash/in specie dividend distributions. However, the share premium account, in the amount of HK\$168,315,330, may be used for the issue of fully paid bonus shares.

MAJOR CUSTOMERS

In the year under review, turnover attributable to the Group's five largest customers accounted for 35% of the total turnover and turnover from the largest customer included therein amounted to 17%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

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DIRECTORS

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

Executive directors

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

Independent non-executive directors

Gan Cheong Ann
Kwan Huey Jin

In accordance with the Company's bye-laws, Mr. Tam Cheek Wing and Mr. Ooi Sin Heng will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The terms of appointment of the independent non-executive directors are such that their terms of office will expire when they are required to retire by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive directors

Lim Teong Leong, aged 49, is the executive director of Magnum Corporation Berhad, a public listed company on the Kuala Lumpur Stock Exchange, and Chairman of Magnum International Holdings Limited, a public listed company on the Stock Exchange of Hong Kong. He sits on the boards of directors of various companies in Malaysia and overseas. Mr Lim was appointed a director and Chairman of the Company in October 2000. Prior to this appointment, he was General Manager of a leading stockbroking company and was also executive director of a top car accessories manufacturer in Malaysia. Mr Lim is a graduate of the Chartered Institute of Marketing, United Kingdom.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (continued)

Executive directors (continued)

Tam Cheok Wing, aged 50, was appointed a director of the Company in June 1999. He is an engineer by profession and is a member of the Malaysian Institute of Planners. He is currently the Group General Manager of Magnum Corporation Berhad, a company which is listed on the Kuala Lumpur Stock Exchange. Mr Tam holds a Bachelors' degree in Civil Engineering, a Postgraduate Diploma in Town Planning and a Masters' degree in Business Administration. Mr Tam has extensive experience in international business management and property based operation.

Ooi Sin Heng, aged 41, was appointed a director of the Company in August 1999. He is currently the General Manager of the Group. He has ten years of service with Magnum Corporation Berhad Group. Prior to joining Magnum Corporation Berhad Group, he was working with an international accountancy firm. Mr Ooi holds a Bachelors' degree in Accounting and is a member of the Malaysian Association of Certified Public Accountants.

Chan Hon Ming, Alan, aged 43, was appointed a director of the Company in August 1999. Mr Chan is also the managing director of Magnum International Securities Limited, a wholly-owned subsidiary of the Group. He holds a MBA degree majoring in Finance and has over seventeen years of working experience in the stock brokerage business. Starting as a research analyst, he worked his way up to the deputy-managing-director of a brokerage house before joining the Group.

Independent non-executive directors

Gan Cheong Ann, aged 48, was appointed an independent non-executive director of the Company in October 2001. She is the Company Secretary of Magnum Corporation Berhad and has been with the Magnum Corporation Berhad Group for over 20 years. She holds a Diploma in Commerce (Accounting) from Kolej Tunku Abdul Rahman, Malaysia.

Kwan Huey Jin, aged 40, was appointed an independent non-executive director of the Company in October 2001. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. Ms Kwan has been working in the Magnum Corporation Berhad Group for about 7 years. Prior to that, she spent a total of 4 years in the auditing profession and 6 years in a U.S. based multi-national corporation.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (continued)

Senior management

Wong Chun Sing, Max, aged 32, graduated from City University of Hong Kong in 1994 with a Bachelor degree (Honours) in Accountancy. He has six years of service with the Group and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He is currently the Accounting Manager of the Group. Prior to joining the Group in 1997, he worked with an international accountancy firm.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory obligation.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

<u>Interests in shares of associated corporation</u>	<u>Name of director</u>	<u>Class of shares held</u>	<u>Nature of interest</u>	<u>Number of shares held</u>
Magnum Corporation Berhad (Note 1)	Lim Teong Leong	Ordinary	Personal	100,000
	Tam Cheok Wing	Ordinary	Personal	100,000
	Gan Cheong Ann	Ordinary	Personal	30,000
	Kwan Huey Jin	Ordinary	Personal	30,000
Magnum 4D Berhad (formerly known as Leisure Management Berhad) (Note 2)	Gan Cheong Ann	Ordinary	Personal	555

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DIRECTORS' INTERESTS IN SHARES (continued)

Notes:

1. Magnum Corporation Berhad ("MCB") is the Company's ultimate holding company.
2. Magnum 4D Berhad is a subsidiary of MCB.

The interests of the directors in the share options of the Company and its associated corporations are separately disclosed in note 32 to the financial statements and the section "Directors' rights to acquire shares" below.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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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 2002, the interests of the directors of the Company and their associates in the share options of MCB are as follows:

Name and category of participant	At 1st January 2002	Number of share options		At 31st December 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options* Malaysian Ringgit
		Granted during the year	Exercised during the year				
Directors							
Lim Teong Leong	1,500,000	—	(600,000)	900,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Tam Cheok Wing	1,000,000	—	(320,000)	680,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Ooi Sin Heng	700,000	—	(262,000)	438,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
Gan Cheong Ann	780,000	—	(120,000)	660,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
	—	100,000	—	100,000	27th Feb 2002	27th Feb 2002 to 15th July 2006	2.14
Kwan Huey Jin	668,000	—	(70,000)	598,000	16th July 2001	16th July 2001 to 15th July 2006	1.26
	—	100,000	—	100,000	27th Feb 2002	27th Feb 2002 to 15th July 2006	2.14
	4,648,000	200,000	(1,372,000)	3,476,000			

* 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.

The above share options are owned by the directors in person.

Apart from as disclosed above and in note 32 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 children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option schemes have been moved to note 32 to the financial statements.

Concerning the share options granted during the year to the directors and employees, as detailed in note 32 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the directors are of the opinion that the values of the share options calculated using theoretical models are subject to a number of assumptions of expected future performance input to the model, and certain inherent limitations of the model itself. The directors consider that such disclosure does not give additional value in view of the above-mentioned limitations surrounding these models.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 7 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, the interests of persons, other than the directors, in 10% or more of the share capital of the Company as recorded in the register of interests of the Company required to be kept under Section 16(1) of the SDI Ordinance are as follows:

Name of shareholder	Number of shares held	Percentage of the Company's issued capital
Magnum (Guernsey) Limited	313,775,680	51

Magnum (Guernsey) Limited is a wholly-owned subsidiary of Magnum Enterprise Sdn Bhd which in turn is a wholly-owned subsidiary of MCB.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Report of the Directors

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

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

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

Lim Teong Leong

Chairman

Hong Kong
15th April 2003