THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Magnum International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of Magnum International Holdings Limited for the purposes of providing information in connection with the Capital Reduction, the Share Sale Agreement, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and the bye-laws of Magnum International Holdings Limited. It does not constitute an invitation or offer to acquire, purchase or subscribe for shares in Magnum International Holdings Limited.

magnum

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

(I) CAPITAL REDUCTION;
(II) SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE DEED OF SETTLEMENT (SPECIAL DEAL AND CONNECTED TRANSACTION);
(III) DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY (SPECIAL DEAL, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION);
(IV) SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES BY DRAGON HILL DEVELOPMENT LIMITED (CONNECTED TRANSACTION);
(V) PROPOSED AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS; AND
(VI) POSSIBLE SHARE CONSOLIDATION

Financial adviser to
Magnum International Holdings Limited

東英 ORIENTAL PATRON

Oriental Patron Asia Limited

Independent financial adviser to the independent board committee of
Magnum International Holdings Limited

KINGSTON CORPORATE FINANCE LIMITED

A letter from the Board is set out on pages 7 to 36 and a letter from the Independent Board Committee is set out on pages 37 to 38 of this circular. A letter from Kingston Corporate Finance Limited containing its advice and recommendation to the Independent Board Committee is set out on pages 39 to 60 of this circular.

A notice convening a special general meeting of Magnum International Holdings Limited to be held at 10:30 a.m. on 23 May, 2006 at 27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong is set out on pages 137 to 140 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and to return the same in accordance with the instructions printed thereon as soon as possible to Magnum International Holdings Limited's branch share registrar, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

29 April 2006

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Announcement"	the joint announcement dated 30 March 2006 published by the Company and Dragon Hill in respect of the Capital Reduction, the Share Sale Agreement, the Offers, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement, the proposed amendments to the Company's memorandum of association and the bye-laws, and the possible Share Consolidation
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "Black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"Capital Reduction"	the proposal involving the reduction of the nominal value of the issued and unissued Share from HK$0.10 each to HK$0.001 each to effect a reduction of the issued share capital of the Company, and to transfer the credit arising therefrom to the Company's contributed surplus account
"CCASS"	Central Clearing and Settlement System established and operated by HKSCC
"Celestial Capital"	Celestial Capital Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to Dragon Hill
"Company"	Magnum International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange
"Completion Date"	the date of simultaneous completion of the Share Sale Agreement, the Subscription Agreement and the Disposal Agreement
"Composite Document"	the composite offer and response document to be issued jointly by Dragon Hill and the Company to the Shareholders and Optionholders in respect of the Offers as the result of the acquisition of the Sale Shares by Dragon Hill pursuant to the Share Sale Agreement

"Conversion Date"	being the business day immediately following the date of the delivery by a Convertible Preference Shareholder of the relevant conversion notice and all necessary documents in relation to the exercise of the conversion rights attaching to the Convertible Preference Shares
"Conversion Price"	the price per Share at which Shares shall be issued by the Company upon exercise of the conversion rights attaching to the Convertible Preference Shares, being initially HK$0.03155 per Share (subject to adjustment)
"Conversion Shares"	the new Shares to be issued by the Company upon exercise of the conversion rights attaching to the Convertible Preference Shares
"Convertible Preference Shares"	a total of 1,521,400,000 convertible non-redeemable preference shares of HK$0.001 each in the capital of the Company to be issued by the Company to Dragon Hill under the Subscription Agreement
"Convertible Preference Shareholder(s)"	the holder(s) of the Convertible Preference Shares
"Deed of Settlement"	the deed of settlement dated 30 March 2006 entered into between the Company, Dragon Hill, MGL, MESB and MIL in respect of the settlement of the Shareholder's Loan
"Directors"	the directors of the Company
"Disposal"	the sale and/or the assignment of the Lismore Share and the Lismore Loan by the Group pursuant to the Disposal Agreement
"Disposal Agreement"	the conditional agreement dated 30 March 2006 entered into between Watary and MGL in relation to the sale and purchase of the Lismore Share and Lismore Loan
"Disposal Completion"	completion of the Disposal Agreement
"Disposal Consideration"	an amount equivalent to the face value of the Lismore Loan (including both principal amounts and accrued interests, if any) owing by the Lismore Group as at the Completion Date plus a nominal value of HK$1 payable by MGL to Watary for the Lismore Share and the Lismore Loan pursuant to the Disposal Agreement
"Dragon Hill"	Dragon Hill Development Limited, a company incorporated in Samoa with limited liability on 1 April 2004 and the entire issued share capital of which is owned by Mr. Lee

"Escrow Date"	the date on which the Subscription Price is remitted by Dragon Hill to the solicitors of Dragon Hill to be held in escrow pending implementation of the Capital Reduction and Subscription Completion, such date shall fall on the first Business Day after fulfillment of certain conditions precedent to the Subscription Agreement as at such date
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising the two independent non-executive Directors, namely Mr. Wong Ming Shiang and Mr. Lim Eng Ho
"Independent Shareholders"	Shareholders who are not involved or interested in the Subscription Agreement, Disposal Agreement and the Deed of Settlement being Shareholders other than MGL and its associates and parties acting in concert with any of them
"Kingston"	Kingston Corporate Finance Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee
"Latest Practicable Date"	26 April 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Lismore"	Lismore Properties Limited, an indirect wholly-owned subsidiary of the Company which was incorporated in the British Virgin Islands on 12 February 1992
"Lismore Group"	Lismore and its subsidiaries, namely Ongreat Properties Limited, Continuous Gain Limited and Wolston Limited which are incorporated in the British Virgin Islands
"Lismore Loan"	(i) a shareholder's loan due from Lismore to Watary (following assignment to Watary of loans owing from members of the Lismore Group to other members of the Group on a dollar-to-dollar basis, which will become effective immediately before the Disposal Completion) and (ii) immediately before the said arrangements being effected, all obligations, liabilities and debts owing or incurred by members of the Lismore Group to Watary and other members of the Group on or at any time prior to the Disposal Completion

"Lismore Share"	1 share with a nominal value of US$1 in the share capital of Lismore, representing the entire issued share capital of Lismore as at the date of the Disposal Agreement
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MCB"	Magnum Corporation Berhad, a company incorporated in Malaysia with limited liability, the shares of which are publicly traded on Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad)
"MESB"	Magnum Enterprise Sdn Bhd, a company incorporated in Malaysia with limited liability, which is a wholly-owned subsidiary of MCB
"MGL"	Magnum (Guernsey) Limited, a company incorporated in Guernsey with limited liability, which is the immediate holding company of the Company and is wholly, beneficially and indirectly owned by MCB
"MIL"	Magnum Investment Limited, a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of MESB
"MISL"	Magnum International Securities Limited, a wholly-owned subsidiary of the Company, which is a licensed corporation under the SFO and is the holder of a trading right on the Stock Exchange
"Mr. Lee"	Mr. Lee Shing, the sole beneficial owner and the sole director of Dragon Hill
"Notional Value"	the value of HK$48,000,170 attributed to all of the Convertible Preference Shares (equivalent to HK$0.03155 for each Convertible Preference Share)
"Offers"	the Share Offer and the Option Offer
"Option(s)"	option(s) which were granted to the directors and employees of the Company pursuant to the share option scheme of the Company adopted on 11 June 2002 and remain outstanding as at the Latest Practicable Date, entitling the holders thereof to subscribe for new Shares at an exercise price of HK$0.111 per Share
"Optionholder(s)"	holders of the Option(s)
"Option Offer"	the possible mandatory cash offer for all outstanding Options to be made by Celestial Capital on behalf of Dragon Hill in accordance with the Takeovers Code

"Oriental Patron"	Oriental Patron Asia Limited, a corporation licensed to carry on, inter alia, type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Company
"PRC"	the People's Republic of China
"Properties"	the properties (as detailed in Appendix IV to this circular) held by the Lismore Group
"Remaining Group"	the Group immediately upon the Disposal Completion
"S&P Completion"	completion of the Share Sale Agreement
"Sale Share(s)"	a total of 316,973,680 Shares to be acquired by Dragon Hill pursuant to the Share Sale Agreement
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Cap. 571), Laws of Hong Kong
"SGM"	the special general meeting of the Company to be convened on 23 May 2006 to seek Independent Shareholders' approval in respect of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement (together with all transactions contemplated thereunder, including (but not limited to) the issue of the Convertible Preference Shares pursuant to the Subscription Agreement and the allotment and issue of the Conversion Shares upon conversion of the Convertible Preference Shares) and the proposed amendments to the memorandum of association and the bye-laws of the Company
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company (which, following the Capital Reduction becoming effective, shall become Share(s) of HK$0.001 each)
"Share Consolidation"	the possible consolidation of every 10 shares of HK$0.001 each in the issued and unissued share capital of the Company into one share of HK$0.01 each in the issued and unissued share capital of the Company (which is to be implemented only when the possible Offers are made upon the S&P Completion)
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholder's Loan"	all the outstanding loans or advances extended by MGL, MESB and MIL to the Group and interest thereon on the Completion Date, which amounted to approximately HK$121.20 million as at 31 December 2005

"Share Offer"	the possible mandatory cash offer for all the issued Shares not already owned or agreed to be acquired by Dragon Hill or parties acting in concert with it at HK$0.03155 per Share to be made by Celestial Capital on behalf of Dragon Hill in accordance with the Takeovers Code
"Share Sale Agreement"	the conditional share sale agreement dated 30 March 2006 entered into by Dragon Hill, MGL, MCB and Mr. Lee in relation to the sale and purchase of the Sale Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the conditional subscription agreement dated 30 March 2006 entered into among the Company, Dragon Hill, Mr. Lee and MCB in relation to the subscription by Dragon Hill of the Convertible Preference Shares to be issued by the Company
"Subscription Completion"	completion of the Subscription Agreement
"Subscription Price"	HK$48,000,170, which is the same as the aggregate Notional Value
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Watary"	Watary Investment Limited, a wholly-owned subsidiary of the Company which was incorporated in the British Virgin Islands on 24 January 1992
"Vigers"	Vigers Appraisal and Consulting Limited, an independent firm of international asset appraisal consultants
"HK$"/"HK cents"	Hong Kong dollars/Hong Kong cents, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

Executive Directors:
Mr. Lim Teong Leong
Mr. Tam Cheok Wing
Mr. Ooi Sin Heng
Mr. Chan Hon Ming

Independent Non-executive Directors:
Mr. Wong Ming Shiang
Mr. Lim Eng Ho

Head office and principal place of business:
1301A, 13/F.
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

29 April 2006

To the Shareholders and, for information purpose only, the Optionholders

Dear Sir or Madam,

(I) CAPITAL REDUCTION;
(II) SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE DEED OF SETTLEMENT (SPECIAL DEAL AND CONNECTED TRANSACTION);
(III) DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY (SPECIAL DEAL, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION);
(IV) SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES BY DRAGON HILL DEVELOPMENT LIMITED (CONNECTED TRANSACTION);
(V) PROPOSED AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS; AND
(VI) POSSIBLE SHARE CONSOLIDATION

I. INTRODUCTION

The Company and Dragon Hill jointly announced on 30 March 2006, among other things, that:

(i) Dragon Hill entered into the Share Sale Agreement with MGL, MCB and Mr. Lee, pursuant to which Dragon Hill has conditionally agreed to purchase and MGL has conditionally agreed to sell the Sale Shares for a maximum cash consideration of HK$10,000,519.60 (equivalent to approximately HK$0.03155 per Sale Share) upon and subject to the terms and conditions of the Share Sale Agreement;

(ii) the Directors intend to put forward a proposal to the Independent Shareholders to effect the Capital Reduction;

(iii) the Subscription Agreement was entered into among the Company, Dragon Hill, MCB and Mr. Lee, pursuant to which the Company has conditionally agreed to issue, and Dragon Hill has conditionally agreed to subscribe for, the Convertible Preference Shares at a Subscription Price of HK$48,000,170 (equivalent to HK$0.03155 per Convertible Preference Share);

(iv) the Disposal Agreement was entered into between Watary and MGL in respect of the disposal of the Lismore Share and the assignment of the Lismore Loan; and

(v) the Deed of Settlement was entered into among the Company, MGL and Dragon Hill in respect of the settlement of the Shareholder's Loan.

Upon S&P Completion, Dragon Hill will own approximately 51.54% of the entire issued share capital of the Company and will be required under the Takeovers Code to make the Offers. The terms of the Offers are set out in the paragraph headed "The Offers" under the section headed "II. The Share Sale Agreement" below.

Each of the Disposal Agreement and the Deed of Settlement constitutes a special deal under Rule 25 of the Takeovers Code, and therefore requires the consent of the Executive and such consent, if granted, will be conditional upon the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. Pursuant of the Listing Rules, (i) the Subscription Agreement, involving Dragon Hill which will become the controlling Shareholder upon S&P Completion, and MCB, the ultimate holding company of MGL which is the existing controlling Shareholder, constitutes a connected transaction for the Company; (ii) the Disposal Agreement constitutes a very substantial disposal for the Company, and as it involves MGL as a purchaser, the Disposal Agreement also constitutes a connected transaction for the Company; and (iii) the Deed of Settlement, involving Dragon Hill and MGL, constitutes a connected transaction for the Company. Accordingly, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement are required to be approved by the Independent Shareholders voting by way of a poll at a general meeting of the Company. As the Capital Reduction is conditional upon approval of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement by the Independent Shareholders, and the memorandum of association and bye-laws of the Company will be amended for the purpose of facilitating the allotment and issue of the Convertible Preference Shares under the Subscription Agreement, the Capital Reduction and the proposed amendments to memorandum of association and bye-laws are also required to be approved by the Independent Shareholders voting by way of a poll at a general meeting of the Company.

The Independent Board Committee comprising Messrs. Wong Ming Shiang and Lim Eng Ho, all being the independent non-executive Directors, has been established to consider, and to advise the Independent Shareholders as to, the fairness and reasonableness of the terms of (i) the Capital Reduction; (ii) the Subscription Agreement together with the issue of Convertible Preference Shares and the allotment and issue of Conversion Shares upon conversion of Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of Settlement; and (v) the proposed amendments to the memorandum of association and bye-laws of the Company. Following the S&P Completion, the Independent Board Committee will also consider the terms of the Offers and advise the Independent Shareholders and Optionholders as to the fairness and reasonableness of the terms of the Offers and whether or not to accept the Offers. The Company has retained Oriental Patron as the financial adviser in respect of the Offers. The Independent Board Committee has approved the appointment of Kingston to act as the independent financial adviser to the Independent Board Committee on the terms of (i) the Capital Reduction; (ii) the Subscription Agreement together with the issue of Convertible Preference Shares and the allotment and issue of the Conversion Shares upon conversion of Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of Settlement; and (v) the proposed amendments to the memorandum of association and bye-laws of the Company and, following the S&P Completion, the terms of the Offers.

The Company had put forward transactions in 2005 also for the purpose of settling the Shareholder's Loan ("Unichina Proposal"). Reference is made to the joint announcement of Unichina Enterprises Limited ("Unichina") and the Company dated 8 April 2005 and the circular (the "Circular") dated 20 May 2005 published by the Company to the Shareholders regarding the conditional acquisition of controlling shareholding interest in the Company by Unichina pursuant to a sale and purchase agreement entered into by Unichina and MGL, the capital reduction, the increase in authorised share capital, the settlement of Shareholder's Loan by entering into the compromise deed and the conditional subscription of convertible bond by Unichina by entering into the subscription agreement. The Board announced on 20 July 2005 that all the resolutions relating to (1) the subscription agreement, together with the issue of the convertible bond; (2) the compromise deed and the documents scheduled thereto; (3) the capital reduction; and (4) the increase in authorised share capital of the Company were not passed by the Independent Shareholders by way of poll at the general meeting held on 24 June 2005. As the conditions precedent to the sale and purchase agreement, the subscription agreement and the compromise deed were not fully fulfilled by 31 July 2005, which was the latest date for fulfillment of the conditions precedent pursuant to the sale and purchase agreement, the subscription agreement and the compromise deed, and accordingly, the sale and purchase agreement, the subscription agreement and the compromise deed became null and void and have had no further effect following 31 July 2005. The capital reduction and the increase in the authorised share capital of the Company did not proceed as stated in the Circular. As the relevant parties to the sale and purchase agreement had agreed not to proceed with the completion of the agreement, Unichina had no obligation to and did not make the offers which were announced to be made upon completion of the sale and purchase agreement.

Comparison between the structure of the Unichina Proposal and the proposed transactions as contemplated in the Announcement and this circular ("Dragon Hill Proposal"):

Unichina Proposal	**Dragon Hill Proposal**	**Key differences**
Convertible bond	Convertible Preference Shares	Convertible bond is a hybrid financing instrument which will be accounted for as a debt until conversion by its holders, whereas Convertible Preference Shares are capital funding which will improve the capital base of the Group
Promissory notes	Disposal of the Lismore Share and the assignment of the Lismore Loan	The issue of the promissory notes effectively deferred the repayment of the Shareholder's Loan by way of a new debt, whereas the Disposal Consideration will enable the Group to repay part of the Shareholder's Loan

Unichina Proposal	Dragon Hill Proposal	Key differences
Compromise deed	Deed of Settlement	Unlike the Deed of Settlement, the compromise deed did not allow a waiver of the remaining balance of the Shareholder's Loan

The purposes of this circular are (i) to provide you with further details of Share Sale Agreement, the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and bye-laws of the Company; (ii) set out the relevant advice of the Independent Board Committee and Kingston; and (iii) to give you notice of the SGM at which resolutions relating to the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and bye-laws of the Company will be proposed to seek your approval.

II. THE SHARE SALE AGREEMENT

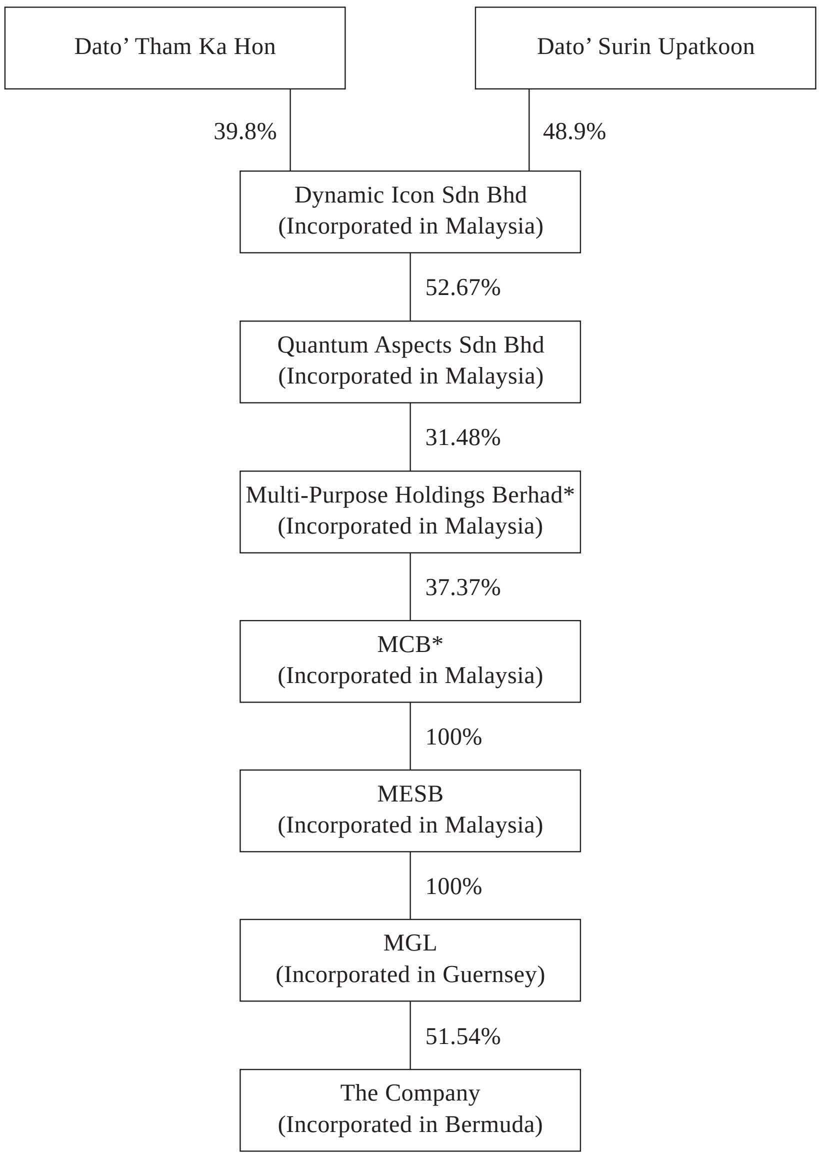
Date of and parties to the Share Sale Agreement

Date	:	30 March 2006.
Vendor	:	MGL, the existing controlling Shareholder holding approximately 51.54% shareholding interest in the Company.
Purchaser	:	Dragon Hill, a company incorporated in Samoa with limited liability which is solely and beneficially owned by Mr. Lee. Dragon Hill and Mr. Lee are (i) parties independent of and not connected with the Company or its subsidiaries, any of their respective directors, chief executive or substantial shareholders or associates of any of them; and (ii) not acting in concert with MGL and parties acting in concert with it. The biography of Mr. Lee is set out in the section headed "XII. Proposed change of composition of the Board" below.
Warrantor and guarantor (in respect of the performance of MGL's obligations under the Share Sale Agreement)	:	MCB, which indirectly owns the entire issued capital of MGL. MGL is the immediate holding company of the Company and is wholly, beneficially and indirectly owned by MCB, the Company's ultimate holding company, the shares of which are publicly traded on Bursa Malaysia Securities Berhad and is held as to approximately 37.37% by Multi-Purpose Holdings Berhad, the shares of which are also publicly traded on Bursa Malaysia Securities Berhad.
Guarantor (in respect of the performance of Dragon Hill's obligations under the Share Sale Agreement)	:	Mr. Lee.

Sale Shares

MGL has conditionally agreed to sell and Dragon Hill has conditionally agreed to purchase the Sale Shares, being 316,973,680 Shares which represent approximately 51.54% of all the Shares in issue as at the Latest Practicable Date, free from all liens, charges and encumbrances and together with all rights attaching thereto as at and after the date of the Share Sale Agreement, including all dividends and distributions that may be declared, made or paid on or after the date of the Share Sale Agreement.

Set out below is the shareholding interest in the Company held by MGL and its immediate and ultimate holding companies as at the Latest Practicable Date:



* *Listed on Bursa Malaysia Securities Berhad*

Consideration for the Sale Shares

A maximum of HK$10,000,519.60 (equivalent to approximately HK$0.03155 per Sale Share), which was negotiated and determined on an arm's length basis between Dragon Hill and MGL with reference to (i) the recent prices and trading volume of the Shares on the Stock Exchange, (ii) the audited consolidated net loss attributable to the Shareholders of approximately HK$6.3 million for the year ended 31 December 2004 and the unaudited consolidated net loss attributable to the Shareholders of approximately HK$7.9 million for the six months ended 30 June 2005, and (iii) the unaudited consolidated net deficit of the Group of approximately HK$53.2 million as at 30 June 2005. The purchase price of approximately HK$0.03155 per Sale Share represents:

(a) a discount of approximately 60.56% to the closing price of HK$0.08 per Share as quoted on the Stock Exchange on 21 March 2006, being the last trading day prior to the suspension of the trading in the Shares at 9:30 a.m. on 22 March 2006 pending the publication of the Announcement;

(b) a discount of approximately 54.93% to the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 22 March 2006 pending the publication of the Announcement, being approximately HK$0.07 per Share;

(c) a discount of approximately 54.93% to the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 22 March 2006 pending the publication of the Announcement, being approximately HK$0.07 per Share; and

(d) a discount of approximately 67.81% to the closing price of HK$0.098 as quoted on the Stock Exchange as at the Latest Practicable Date.

The consideration for the Sale Shares will be settled in the following manner:

(i) a deposit of HK5,000,000 has been paid upon signing of the Share Sale Agreement; and

(ii) the balance shall be payable on the Completion Date.

If, according to the completion accounts of the Group (excluding the Lismore Group), the consolidated net tangible asset value of the Group (excluding the Lismore Group) as at the Completion Date ("Completion Date NTAV") is less than the consolidated net tangible asset value of the Group (excluding the Lismore Group) warranted by MGL and MCB in the amount of approximately HK$15.8 million ("Warranted NTAV"), the consideration for the Sale Shares will be reduced by an amount equal to 51.54% of the difference between the Warranted NTAV and the Completion Date NTAV.

Conditions of the Share Sale Agreement

The S&P Completion is conditional upon the following conditions being fulfilled or waived (as the case may be) in full:

(A) (i) the passing by the Independent Shareholders of all necessary resolutions by way of poll at the SGM approving the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, together with the respective transactions contemplated thereunder; and

(ii) the Capital Reduction having been approved by the Independent Shareholders at the SGM by way of a special resolution in accordance with the laws of Bermuda;

(B) the grant by the Executive of his consent in relation to the Disposal Agreement and the Deed of Settlement (which are special deals under the Takeovers Code);

(C) (i) each of the licences, registrations and approvals maintained or required to be maintained by members of the Group (other than the Lismore Group) and their respective employees to carry on the business of the Group (other than the Lismore Group) pursuant to all applicable laws and regulations in force in Hong Kong not being revoked or suspended on or before the Completion Date and no member of the Group (other than the Lismore Group) not having been notified of such revocation or suspension or of any event which might lead to such revocation or suspension; and

(ii) all necessary consents and approvals for the change of ultimate substantial shareholder of MISL having been obtained from SFC and the Stock Exchange;

(D) the Subscription Agreement and the Disposal Agreement having become unconditional in accordance with the respective terms thereof (other than in connection with the S&P Completion);

(E) the Capital Reduction having become effective within two Business Days of the Escrow Date;

(F) a deed of indemnity in relation to indemnification given to Dragon Hill and the Company having been duly executed by MGL and MCB in the capacity of warrantors to the Share Sale Agreement;

(G) on or before the Escrow Date, (i) the current listing of the Shares not having been withdrawn and the Shares continuing to be traded on the Stock Exchange (save for any temporary suspension of not more than ten consecutive trading days (as defined in the Listing Rules) pending any announcement in connection with the execution of the Share Sale Agreement or the transactions contemplated thereunder); (ii) no indication having been received from the Stock Exchange or the SFC to the effect that the listing of the Shares may be withdrawn or objected to; and (iii) no other event having arisen which may adversely affect the listing status of the Company on the Stock Exchange;

(H) the warranties, representations and/or undertakings given or made by MGL and MCB in the capacity as warrantors remaining true and accurate and not misleading in any material respect as at the Escrow Date;

(I) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Share Sale Agreement having been obtained by respective parties to the Share Sale Agreement;

(J) Dragon Hill being satisfied that there has been no event, change in or effect on the Group (excluding the Lismore Group) that, individually or in the aggregate, in the reasonable opinion of Dragon Hill, has had or is reasonably expected to have a material adverse effect on the business, condition (financial or otherwise), results of operations and assets of the Group (excluding the Lismore Group) taken as a whole as at the Escrow Date;

(K) MGL and MCB in the capacity as warrantors have fulfilled all the obligations and undertakings contained in the Share Sale Agreement to the reasonable satisfaction of Dragon Hill on or before the Escrow Date; and

(L) Dragon Hill being satisfied that MISL has at least one responsible officer registered with the SFC and the Stock Exchange and no notice for termination of his service contract by such responsible officer has been given on or before the Completion Date and MISL having approved such responsible officer as may be nominated by Dragon Hill before the Completion Date.

If any of the conditions of the Share Sale Agreement are not fulfilled (conditions (A) to (E) and (I) must be fulfilled and cannot be waived), or waived (as to conditions (F) to (H) and (J) to (L) only) by written notice by Dragon Hill in its absolute discretion on or before 31 July 2006 (or such other date as the parties may agree in writing), the Share Sale Agreement shall be automatically terminated immediately and none of the parties thereto shall be bound to proceed with the sale and purchase of the Sale Shares.

The S&P Completion

The S&P Completion shall take place simultaneously with the Subscription Completion and the Disposal Completion on the Business Day following the fulfilment or waiver (as the case may be) of the conditions of the Subscription Agreement (or such other date as the parties shall agree in writing).

The shareholding structure of the Company upon the S&P Completion is set out in the section headed "VIII. Shareholding structure of the Company" below.

The Offers

Immediately following the S&P Completion, Dragon Hill and parties acting in concert with it will in aggregate own 316,973,680 Shares, representing approximately 51.54% of the total issued share capital of the Company as at the Latest Practicable Date. Under Rule 26.1 and Rule 13 of the Takeovers Code, Dragon Hill is required to make a mandatory cash offer for all the issued Shares and a comparable offer for all the outstanding Options, other than those already owned by or agreed to be acquired by Dragon Hill or parties acting in concert with it.

Celestial Capital has been appointed as the financial adviser to Dragon Hill. Following and subject to the S&P Completion, Celestial Capital will make, on behalf of Dragon Hill, (i) the Share Offer to acquire all the issued Shares other than those already owned or agreed to be acquired by Dragon Hill and parties acting in concert with it; and (ii) the Option Offer for all the outstanding Options, on the terms and subject to the conditions referred to in the Announcement and to be set out in the Composite Document. The offer price for each Share under the Share Offer will be HK$0.03155 in cash, not less than the consideration payable by Dragon Hill for each Sale Share under the Share Sale Agreement. The offer price for each Option under the Option Offer will be HK$0.001, which is equivalent to the nominal value of each Share upon the Capital Reduction becoming effective.

Shareholders, Optionholders and potential investors of the securities of the Company should note that the Offers are a possibility only. The obligation of Dragon Hill to make the Offers only arises upon S&P Completion. A further announcement will be made by the Company in respect of the Offers upon S&P Completion. Shareholders, Optionholders and potential investors of the securities of the Company should exercise caution when dealing in the securities of the Company. A copy of the Composite Document (containing the respective advice of the Independent Board Committee and Kingston) will be despatched to the Shareholders and Optionholders within seven days of fulfillment of all conditions to the Share Sale Agreement. Shareholders and Optionholders are strongly advised to wait for receipt of the Composite Document and read the contents thereof before deciding whether or not to accept the Offers.

In respect of the Offers, Rule 8.2 of the Takeovers Code provides that an offer document should normally be posted by or on behalf of the offeror within 21 days of the date of announcement of the offer. Pursuant to Note 2 to Rule 8.2 of the Takeovers Code, the Executive's consent is required if the making of an offer is subject to the prior fulfilment of a pre-condition and the pre-condition cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code and an application to the Executive has been made by Dragon Hill to extend the deadline for the despatch of the relevant offer document to within seven days of fulfillment and, if applicable, waiver of all conditions to the Share Sale Agreement. Therefore, the Composite Document setting out details of the Offers (accompanied by the acceptance and transfer form) and incorporating the respective letters of advice from the Independent Board Committee and Kingston on the Offers will be sent to the Shareholders and the Optionholders within seven days of fulfillment and, if applicable, waiver of all conditions to the Share Sale Agreement, which is expected to be around 15 June 2006.

III. THE CAPITAL REDUCTION

The proposal for the Capital Reduction

The Directors intend to put forward a proposal to the Shareholders to effect the Capital Reduction which will involve:

(a) the reduction of the par value of each Share in issue from HK$0.10 to HK$0.001 by canceling the paid up capital to the extent of HK$0.099 on each Share in issue on the date upon which the Capital Reduction becomes effective such that the par value of each issued Share will be reduced to HK$0.001 and the issued share capital of the Company of approximately HK$61,502,418 shall be reduced by approximately HK$60,887,394 to approximately HK$615,024;

(b) 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

(c) transfer the credit arising from the cancellation of paid up capital in the amount of approximately HK$60,887,394 to the contributed surplus account of the Company.

Conditions of the Capital Reduction

The implementation of the Capital Reduction is conditional on the following conditions being fulfilled:

(a) the passing by the Independent Shareholders of a special resolution to approve the Capital Reduction at the SGM;

(b) the passing by the Independent Shareholders of all necessary resolutions by way of poll at the SGM approving the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, together with the respective transactions contemplated thereunder;

(c) the Listing Committee of the Stock Exchange having grant the listing of, and permission to deal in, the Shares in issue with a par value of HK$0.001 each following the Capital Reduction becoming effective; and

(d) compliance with all applicable laws,

and will become effective upon fulfilment of all of the above conditions within two Business Days from the Escrow Date, which is estimated to be on 25 May 2006.

As the Capital Reduction is conditional upon approval of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement by the Independent Shareholders, it is also required to be approved by the Independent Shareholders voting by way of a poll at a general meeting of the Company. MGL, parties acting in concert with it and its associates will abstain from voting on the resolution in respect of the Capital Reduction at the SGM.

Impact of the Capital Reduction

As stated in the paragraph headed "The proposal for the Capital Reduction" above, the Capital Reduction will involve the reduction of the issued share capital of the Company by approximately HK$60,887,394 so that a credit of such amount will arise following the reduction in par value of the issued Shares. Such credit amount will be transferred to the contributed surplus account of the Company and as a result, the Company's contributed surplus account will increase by approximately HK$60,887,394 upon the Capital Reduction becoming effective.

Upon the Capital Reduction becoming effective but before the Subscription Completion, and on the basis of 615,024,175 Shares in issue as at the Latest Practicable Date, the share capital of the Company will be as follows:

Authorised share capital	:	HK$100,000,000 divided into 100,000,000,000 Shares of HK$0.001 each
Issued share capital	:	HK$615,024.175 divided into 615,024,175 Shares of HK$0.001 each
Unissued share capital	:	HK$99,384,975.825 divided into 99,384,975,825 shares in the Company of HK$0.001 each

Other than the expenses to be incurred in relation to the Capital Reduction itself, the implementation of the Capital Reduction will not, in itself, alter the underlying assets, business operations, management or financial position of the Company or affect the proportionate interests of the Shareholders.

Application for listing and share certificates

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares following the Capital Reduction becoming effective. All the share certificates for the Shares of existing nominal value of HK$0.10 each will continue to be accepted as valid documents of title in respect of the same number of Shares of new nominal value of HK$0.001 each for trading, settlement and registration purposes after the Capital Reduction becoming unconditional and effective. There will be no special arrangement for the exchange of share certificates or for the trading of the Shares. Subject to the Capital Reduction becoming effective, new share certificates will be issued in respect of any new Shares allotted and issued or any shares transferred after the Capital Reduction becoming effective. New share certificates for the Shares of new nominal value will be issued in the colour of reddish orange to distinguish from the existing share certificates for the Shares of existing nominal value which are light blue in colour.

Subject to the granting of listing of, and permission to deal in, the Shares following the Capital Reduction becoming effective on the Stock Exchange, the Shares following the Capital Reduction becoming effective will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares following the Capital Reduction becoming effective on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Reason for the Capital Reduction

Immediately upon the Capital Reduction becoming effective, the par value of each of the issued and unissued Shares will be reduced from HK$0.10 to HK$0.001 per Share. The closing price per Share as at the Latest Practicable Date was HK$0.098, which is lower than the existing nominal value per Share of HK$0.10. The Directors expect that the Capital Reduction will give the Company greater flexibility in pricing any issue of new Shares in future when suitable opportunities arise by taking into account the prevailing market price per Share, the majority of which has been lower than the existing nominal value of each Share since August 2005.

IV. THE SUBSCRIPTION AGREEMENT

Date of and parties to the Subscription Agreement

Date	:	30 March 2006.
Issuer	:	The Company.
Subscriber	:	Dragon Hill.
Warrantor	:	MCB.
Guarantor	:	Mr. Lee.

Convertible Preference Shares

Dragon Hill has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 1,521,400,000 Convertible Preference Shares at the Subscription Price of HK$48,000,170 (equivalent to HK$0.03155 per Convertible Preference Share), which is the same as the Notional Value of the Convertible Preference Shares. The terms, including the rights and privileges, of the Convertible Preference Shares were negotiated between the Company and Dragon Hill on an arm's length basis. Principal terms of the Convertible Preference Shares are summarised below:

Number and Notional Value of Convertible Preference Shares	:	1,521,400,000 Convertible Preference Shares with an aggregate Notional Value of HK$48,000,170 (equivalent to HK$0.03155 per Convertible Preference Share).
Dividend	:	The Convertible Preference Shareholders shall not be entitled to any dividend distribution whether in cash or otherwise.
Capital	:	On a return of capital on liquidation or otherwise (but not on conversion) the Convertible Preference Shareholders shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate Notional Value.
Redemption and purchase	:	Save as conversion into Conversion Shares, the Convertible Preference Shares are not redeemable.

		Subject to the applicable laws, rules, regulations and the memorandum of association and/or the bye-laws of the Company, the Company or any of its subsidiaries may at any time purchase any of the Convertible Preference Shares in the open market or by tender at any price. Any Convertible Preference Shares so purchased or otherwise acquired by the Company or any of its subsidiaries may not be resold and in case such Convertible Preference Shares are purchased or otherwise acquired by the Company, such Convertible Preference Shares are to be cancelled, provided it shall not prohibit transfers of Convertible Preference Shares from any subsidiary of the Company to any other subsidiary of the Company.
Conversion rights	:	Each Convertible Preference Shareholder shall have the rights to convert at any time any Convertible Preference Shares, which shall be deemed to have a value equal to the Notional Value thereof, into Shares at the Conversion Price.
Conversion Price	:	Initially HK$0.03155 per Share (subject to adjustment). The Conversion Price is subject to adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain change in the share capital of the Company including consolidation or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company. No conversion of the Convertible Preference Shares shall take place if it will result in the Conversion Shares being issued at a price below their nominal value as at the applicable Conversion Date.
Conversion period	:	At any time immediately upon allotment and issue of the Convertible Preference Shares and until conversion of all the Convertible Preference Shares into Conversion Shares in full.
Conversion Shares	:	The number of Conversion Shares to be issued on each conversion shall be determined by dividing the aggregate Notional Value of the relevant Convertible Preference Shares by the Conversion Price applicable on Conversion Date.

Assuming exercise in full of the conversion rights attaching to all of the 1,521,400,000 Convertible Preference Shares with an aggregate Notional Value of HK$48,000,170 at the initial Conversion Price of HK$0.03155 per Share, a total number of 1,521,400,000 Shares will be issued, representing approximately 247.4% and 71.2% of the Shares in issue as at the Latest Practicable Date and the total number of issued Shares as enlarged by the issue of the Conversion Shares respectively (assuming no new Share will have been issued other than the Conversion Shares).

The Conversion Shares shall rank pari passu in all respects with all other Shares in issue at the time of the issue of the Conversion Shares and shall entitle the holders thereof to all distributions paid or made on the Shares by reference to a record date falling after the relevant Conversion Date, provided that if a record date after the Conversion Date is in respect of any distribution in relation to any financial period of the Company ended prior to such Conversion Date, the holders of the Conversion Shares will not be entitled to the relevant distribution.

Transferability : The Convertible Preference Shares may be freely transferable subject to the provision of the Company's bye-laws relating to the transfer of shares and share certificates.

Meetings and voting : The Convertible Preference Shareholders shall not have the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution (the "Resolution") is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the Convertible Preference Shareholders, in which event the Convertible Preference Shareholders shall have the right to receive notice of, and to attend and vote at, that general meeting, save that they may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment and the Resolution.

Listing : No application will be made for the listing of the Convertible Preference Shares on the Stock Exchange. An application has been made to the Stock Exchange for the listing of the Conversion Shares to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares.

The initial Conversion Price of HK$0.03155 per Share (subject to adjustment), which was arrived at after arm's length negotiation between the Company and Dragon Hill, is not less than the price of each Sale Share under the Share Sale Agreement and the same as the offer price per Share under the Share Offer, and represents respective discounts to the closing price per

Share on 21 March 2006 (the last trading day prior to the suspension of the trading in the Shares on 22 March 2006 pending the publication of the Announcement), to the averages of the closing prices of the Shares as quoted on the Stock Exchange up to and including 21 March 2006, and to the closing price per Share on the Latest Practicable Date as set out in the paragraph headed "Consideration for the Sale Shares" under the section headed "II. The Share Sale Agreement" above.

The Company undertakes to the Stock Exchange that it will promptly notify the Stock Exchange upon becoming aware in the dealings in the Convertible Preference Shares by any connected persons of the Company.

The shareholding structure of the Company upon the full conversion of the Convertible Preference Shares by Dragon Hill is set out in the section headed "VIII. Shareholding structure of the Company" below.

Conditions of the Subscription Agreement

The Subscription Completion shall be subject to the satisfaction of, inter alia, the following conditions:

(A) (i) the passing by the Independent Shareholders of all necessary resolutions by way of poll at the SGM approving the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, together with the respective transactions contemplated thereunder (including the re-designation and re-classification of authorised share capital for the issue of the Convertible Preference Shares, and the issue of the Convertible Preference Shares and the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Preference Shares pursuant to the terms of the Subscription Agreement);

(ii) the Capital Reduction having been approved by the Independent Shareholders at the SGM by way of a special resolution in accordance with the laws of Bermuda; and

(iii) the amendments to the memorandum of association and bye-laws of the Company incorporating, among other things, the rights, privileges and restrictions attached to the Convertible Preference Shares having been approved and adopted by the Independent Shareholders at the SGM by way of a special resolution in accordance with the Company's existing bye-laws and the laws of Bermuda;

(B) the grant by the Executive of his consent in relation to the entering into of the Disposal Agreement and the Deed of Settlement (which are special deals under the Takeovers Code);

(C) the Stock Exchange having grant the listing of, and permission to deal in, (i) the Shares in issue with a par value of HK$0.001 each following the Capital Reduction becoming effective; and (ii) the Conversion Shares which may be issued upon the exercise of the conversion rights attaching to the Convertible Preference Shares, and such permission and listing not subsequently being revoked prior to the delivery of the certificates relating to Convertible Preference Shares;

(D) the Bermuda Monetary Authority granting permission for the issue of the Convertible Preference Shares and the Conversion Shares (or the Company having received the written advice from its Bermuda legal counsel that such permission is unnecessary);

(E) the Share Sale Agreement and the Disposal Agreement having become unconditional in accordance with the respective terms thereof (other than conditions in connection with Subscription Completion);

(F) the Capital Reduction having become effective within two Business Days of the Escrow Date;

(G) (i) the resumption of trading in Shares on the Stock Exchange pending publication of the Announcement; and (ii) the current listing of the Shares not having been withdrawn and the Shares continuing to be traded on the Stock Exchange; no indication having been received from the Stock Exchange or the SFC to the effect that the listing of the Shares may be withdrawn or objected to; and no other event having arisen which may adversely affect the listing status of the Company on the Stock Exchange (please refer to the condition (G) set out in the paragraph headed "Conditions of the Share Sale Agreement" under the section headed "II. The Share Sale Agreement" above for details);

(H) the warranties, representations and/or undertakings given or made by the Company and MCB in the capacity as warrantors to the Subscription Agreement remaining true and accurate and not misleading in any respect as at the Escrow Date and there being no event existing or having occurred and no condition being in existence which would (if after the issue of the Convertible Preference Shares) constitute a breach of such warranties, representations and/or undertakings;

(I) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Subscription Agreement having been obtained by respective parties to the Subscription Agreement; and

(J) Dragon Hill being satisfied that there has been no event, change in or effect on the Group (excluding the Lismore Group) that, individually or in the aggregate, in the reasonable opinion of Dragon Hill, has had or is reasonably expected to have a material adverse effect on the business, condition (financial or otherwise), results of operations and assets of the Group (excluding the Lismore Group) taken as a whole as at the Escrow Date.

If any of the conditions of the Subscription Agreement are not fulfilled (conditions (A) to (F) and (I) must be fulfilled and cannot be waived), or waived (as to conditions (G), (H) and (J) only) by Dragon Hill in its absolute discretion, on or before 31 July 2006 or such later date as may be agreed between Dragon Hill and the Company, the Subscription Agreement shall be automatically terminated immediately, and the parties to the Subscription Agreement shall have no claim against each other arising out of or in connection therewith (save in respect of claims arising out of any antecedent breach of the Subscription Agreement).

Subscription Completion

The Subscription Completion shall take place on the Business Day following the date of fulfilment or waiver (as the case may be) of the conditions of the Subscription Agreement in full (or such other date as the parties shall agree in writing). The Subscription Completion shall take place simultaneously with the S&P Completion and the Disposal Completion. Upon the Subscription Completion, the Company shall apply the Subscription Price to repay part of the Shareholder's Loan according to the Deed of Settlement, details of which are set out in the paragraph headed "Settlement of the Shareholder's Loan" under the section headed "VI. Deed of Settlement" below.

Dilution effect on Shareholders

In view of the future dilution of existing Shareholders on the exercise of the conversion rights attaching to the Convertible Preference Shares, the Company will keep the Shareholders informed of the level of dilution and details of conversion as follows:

(a) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the tenth Business Day following the end of each calendar month and will include the following details in a table form:

   (i) whether there is any conversion of the Convertible Preference Shares during the previous calendar month. If there is a conversion, details thereof including the conversion date, number of Conversion Shares issued and Conversion Price for each conversion. If there is no conversion during the previous calendar month, a negative statement to that effect;

   (ii) the number of outstanding Convertible Preference Shares after the conversion, if any;

   (iii) the total number of new Shares issued pursuant to other transactions during the previous calendar month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

   (iv) the total issued share capital of the Company as at the commencement and the last day of the previous calendar month; and

(b) in addition to the Monthly Announcement, if the cumulative amount of Conversion Shares issued pursuant to the conversion of the Convertible Preference Shares reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Preference Shares (as the case maybe be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Convertible Preference Shares (as the case may be) up to the date on which the total amount of Conversion Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the

Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Preference Shares (as the case may be).

Connected transaction

As Dragon Hill has conditionally agreed to acquire the Sale Shares, which represent approximately 51.54% of all the issued Shares as at the Latest Practicable Date, pursuant to the Share Sale Agreement, it will become the controlling Shareholder upon the S&P Completion and the Subscription Completion which will take place simultaneously. Mr. Lee is the sole beneficial owner and sole director of Dragon Hill. MCB is the ultimate holding company of MGL, the existing controlling Shareholder holding approximately 51.54% shareholding interest in the Company. Accordingly, the entering into the Subscription Agreement among the Company, Dragon Hill, Mr. Lee and MCB, together with the issue of the Convertible Preference Shares to Dragon Hill under the Subscription Agreement, will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules which requires the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. MGL, parties acting in concert with it and its associates will abstain from voting on the resolution in respect of the Subscription Agreement at the SGM which will be convened and held to approve, inter alia, the Subscription Agreement and the transactions contemplated thereunder.

Application for listing

Application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Conversion Shares. All necessary arrangements will be made for the Conversion Shares to be admitted into CCASS.

Subject to the granting of the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange, the Conversion Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the relevant Conversion Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

V. THE DISPOSAL AGREEMENT

Date of and parties to the Disposal Agreement

Date	:	30 March 2006.
Vendor	:	Watary, a wholly-owned subsidiary of the Company.
Purchaser	:	MGL.

Assets to be disposed of under the Disposal Agreement

Pursuant to the Disposal Agreement, (i) Watary has conditionally agreed to sell and MGL has conditionally agreed to purchase the Lismore Share, being the entire issued share capital of Lismore, an indirect wholly-owned subsidiary of the Company; and (ii) Watary has conditionally agreed to sell and assign and MGL has conditionally agreed to purchase and accept the Lismore Loan, which amounted to approximately HK$56.36 million as at 31 December 2005.

Disposal Consideration

Being an amount equal to the face value of the Lismore Loan (including both principal amounts and accrued interests, if any) as at the Completion Date plus a nominal value of HK$1. The Disposal Consideration, which is expected to be approximately HK$56.36 million, was negotiated and determined on an arm's length basis between the Company and MGL with reference to the unaudited consolidated net deficit value of the Lismore Group of approximately HK$22.84 million as at 31 December 2004 and the face value of the Lismore Loan amounted to approximately HK$56.36 million as at 31 December 2005. The audited consolidated net deficit values of the Lismore Group were approximately HK$22.84 million as at 31 December 2004 and approximately HK$12.42 million as at 31 December 2005. The audited amount of the Lismore Loan and its respective accrued interest as at 31 December 2005 were approximately HK$56.36 million and nil respectively.

The Disposal Consideration shall be deemed to have been paid and satisfied by MGL upon the Disposal Completion by way of setting-off of part of the Shareholder's Loan pursuant to the Deed of Settlement, details of which are set out in the paragraph headed "Settlement of the Shareholder's Loan" under the section headed "VI. Deed of Settlement" below.

Conditions of the Disposal Agreement

The Disposal Completion is subject to the fulfilment of the following conditions:

(a) the passing by the Independent Shareholders of all necessary resolutions by way of poll at the SGM approving the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, together with the transactions contemplated thereunder;

(b) the grant by the Executive of his consent in relation to the entering into of the Disposal Agreement and the Deed of Settlement (which are special deals under the Takeovers Code);

(c) the full release or discharge of the Properties from the mortgages over the Properties; and

(d) the simultaneous completion of the Share Sale Agreement, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement.

If the conditions precedent to the Disposal Agreement are not fulfilled on or before 31 July 2006 or such later date as may be agreed between the parties, the Disposal Agreement will lapse.

As at the Latest Practicable Date, there is no outstanding mortgage loan, and the Company does not envisage accrual of any mortgage loan before the Completion Date in relation to the Properties. The Company expects that all mortgages over the Properties will be released before the Completion Date.

Disposal Completion

The Disposal Completion shall take place simultaneously with the S&P Completion and the Subscription Completion on the Business Day following the fulfilment or waiver (as the case may be) of the conditions of the Subscription Agreement (or such other date as the parties shall agree in writing).

Information on the Lismore Group

Lismore was incorporated in the British Virgin Islands on 12 February 1992 with limited liability. Its entire issued share capital is held by Watary, a wholly-owned subsidiary of the Company. Accordingly, Lismore is an indirect wholly-owned subsidiary of the Company. Its principal activity is property and investment holding and it currently beneficially holds the entire issued share capital of three companies incorporated in the British Virgin Islands, namely Ongreat Properties Limited, Continuous Gain Limited and Wolston Limited. The only recurring source of income of the Lismore Group is property rental income.

The audited consolidated financial information of the Lismore Group for the three years ended 31 December 2005 is set out in section 10 of the accountants' report as set out in Appendix I to this circular.

The principal assets of the Lismore Group are the Properties, which are all investment properties of the Group. Particulars of the Properties are as follows:

Properties			Property Owner	Existing use
1.	(a)	Workshops A of 4th Floor and Flat Roof appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	(a) Ongreat Properties Limited	Industrial
	(b)	Workshops B of 4th Floor and Flat Roof appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	(b) Continuous Gain Limited	Industrial
2.		Seventh Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	Lismore	Industrial
3.		Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong	Wolston Limited	Commercial
4.		4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, Kwun Tong, Kowloon	Lismore	Industrial

Properties			Property Owner	Existing use
5.	(a)	Apartment A on 20th Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	(a) Lismore	Residential
	(b)	Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	(b) Lismore	N/A
6.		Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon	Lismore	N/A

Save for holding and leasing of the Properties, the Lismore Group does not have any other business or assets.

Based on the valuation report (which is set out in Appendix IV to this circular) prepared by Vigers, a property valuer independent of and not connected with the Company and its connected persons, the Properties were valued at HK$43.92 million as at 28 February 2006.

Below sets out an analysis of the relative materiality of the Lismore Group to the Group as a whole, based on the respective financial figures of the Lismore Group as a percentage to those of the Group in terms of their respective audited figures for revenue, assets and net results:

		2005	2004	2003
Revenue				
Lismore Group (HK$'000)	(a)	**2,156**	2,093	2,334
The Group (HK$'000) *(Note 1)*	(b)	**12,311**	21,913	8,260
	(a)/(b)	**17.51%**	9.55%	28.26%
Assets				
Lismore Group (HK$'000)	(c)	**45,201**	34,092	28,065
The Group (HK$'000)	(d)	**75,760**	80,484	95,906
	(c)/(d)	**59.66%**	42.36%	29.26%
Net profit/(loss) after tax (excluding revaluation surplus/deficit on investment properties) *(Note 2)*				
Lismore Group (HK$'000)	(e)	**(203)**	(377)	135
The Group (HK$'000)	(f)	**(19,386)**	(12,624)	(10,402)
	(e)/(f)	**1.05%**	2.99%	N/A
Net profit/(loss) after tax (including revaluation surplus/deficit on investment properties)				
Lismore Group (HK$'000)	(g)	**10,427**	5,903	(985)
The Group (HK$'000)	(h)	**(8,756)**	(6,344)	(11,522)
	(g)/(h)	**N/A**	N/A	8.55%

Notes:

1. The audited revenue of the Group for each of the two years ended 31 December 2003 and 31 December 2004 has been reinstated as a result of the adoption of HKAS 39 "Financial Instruments: Recognition and Measurement."

2. Revaluation surplus/(deficit) on investment properties for each of the three years ended 31 December 2003, 31 December 2004 and 2005 amounted to approximately (HK$1.12 million), HK$6.28 million and HK$10.63 million respectively.

As shown in the above analysis, the financial figures of the Lismore Group as percentage to those of the Group for each of three years ended 31 December 2005 in respect of revenue, assets, net profit/loss after tax (excluding the revaluation surplus/deficit on investment properties) and net profit/loss after tax (including the revaluation surplus/deficit on investment properties) are in the range of 9.55% to 28.26%, 29.26% to 59.66%, 1.05% to 2.99% and 8.55% respectively. Save for its relative asset size in 2004 and 2005 (in which years there were material surplus in revaluation of the investment properties), the Group will be able to maintain its existing business operations in all material aspects. According to the audited financial information of the Lismore Group, the Lismore Group made a profit for each of the two years ended 31 December 2004 and 31 December 2005 which was mainly due to the material surplus in the revaluation of the investment properties. Excluding the revaluation surplus on the investment properties, the Lismore Group was making a loss for year 2004 and a nominal profit for year 2005. Thus, the disposal of the Lismore Group will have minimal effect on the financial position of the Group.

Upon the Disposal Completion, the members of the Lismore Group will cease to be subsidiaries of the Company.

As mentioned below in the section headed "XI. Information on Dragon Hill and its intention regarding the Group", Dragon Hill intends to continue the existing businesses of the Group, which shall include its business in property investment. In addition, a more detailed review of the operations of the Group will be conducted by Dragon Hill after close of the Offers, with a view to developing a corporate strategy to enhance its existing securities dealing and brokerage and money lending businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of the businesses of the Group and the property investment business may resume if favourable opportunities arise. The Directors consider that the Disposal Agreement, which was entered into for the purpose of realising all the investment properties currently held by the Group to reduce its liabilities and borrowings, will not result in a discontinuation of the Group's business in property investment. Due to the facts that the Group is in a net deficit position and the Properties generate rental income that is less than the interest expenses, Dragon Hill does not have any objection to the transactions contemplated under the Disposal Agreement.

Special deal and connected transaction

The Disposal Agreement constitutes a special deal under Rule 25 of the Takeovers Code, and therefore requires the consent of the Executive and such consent, if granted, will be conditional upon the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. An application has been made to the Executive for their consent to the Disposal Agreement which constitutes a special deal under Rule 25 of the Takeovers Code. Pursuant to Rule 14.06 of the Listing Rules, the Disposal Agreement constitutes a very substantial disposal for the Company. As MGL is the existing immediate controlling Shareholder, the Disposal Agreement entered into between Watary and MGL constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. According to the Listing Rules, the Disposal Agreement and the transactions contemplated thereunder are required to be approved by the Independent Shareholders by way of poll at a general meeting of the Company. The SGM will be convened to approve, inter alia, the Disposal Agreement and the transactions contemplated thereunder. MGL, parties acting in concert with it and its associates will abstain from voting on the resolution in respect of the Disposal Agreement at the SGM.

VI. DEED OF SETTLEMENT

Date of and parties to the Deed of Settlement

Date	:	30 March 2006.
Parties	:	The Company; Dragon Hill; MGL*; MESB*; and MIL*.
		(all of MGL, MESB and MIL are either directly or indirectly owned by MCB, the ultimate holding company of MGL)*

Settlement of the Shareholder's Loan

As at 31 December 2005, the Shareholder's Loan due by the Group to MGL, MESB and MIL, together with the interest accrued thereon, amounted to approximately HK$121.20 million, comprising principal amount and accrued interest payable of approximately HK$73.92 million and HK$47.28 million respectively. Out of the loan principal, approximately HK$2.02 million are interest free and the balance of HK$71.9 million are interest-bearing at interest rates ranging from 6.5% to 8.09% per annum. Save for the Shareholder's Loan, as at 31 December 2005 (i) there is no other outstanding loan due by the Group, and (ii) the other audited liabilities of the Group amounted to approximately HK$8.39 million.

Pursuant to the Deed of Settlement, the Company, Dragon Hill, MGL, MESB and MIL have agreed that subject to and at the Subscription Completion and the Disposal Completion,

(i) the Subscription Price of HK$48,000,170 to be paid by Dragon Hill to MGL as part repayment of the Shareholders' Loan;

(ii) the Disposal Consideration which is expected to be approximately HK$56.36 million payable by MGL to the Company shall be deemed to be set off pro tanto against part of the Shareholder's Loan; and

(iii) upon payment of the Subscription Price by Dragon Hill referred to in (i) above and the set-off of the Disposal Consideration referred to in (ii) above, each of MGL, MESB and MIL shall be deemed to have irrevocably and unconditionally waived the balance of the Shareholder's Loan as at the Completion Date and thereafter.

If the Subscription Completion and the Disposal Completion do not take place on or before the date falling two Business Days after the long stop date of the Subscription Agreement and the Disposal Agreement on 31 July 2006, the Deed of Settlement shall lapse.

Special deal and connected transaction

The Deed of Settlement constitutes a special deal under Rule 25 of the Takeovers Code, and therefore requires the consent of the Executive and such consent, if granted, will be conditional upon the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. An application has been made to the Executive for their consent to the Deed of Settlement which constitutes a special deal under Rule 25 of the Takeovers Code. Given that MGL is the existing immediate controlling Shareholder, and Dragon Hill will become the controlling Shareholder upon the S&P Completion, the entering into of the Deed of Settlement among the Company, Dragon Hill, MGL, MESB and MIL constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, the Deed of Settlement is required to be passed by the Independent Shareholders and voted by way of a poll at a general meeting of the Company. The SGM will be convened to approve, inter alia, the Deed of Settlement. MGL, parties acting in concert with it and its associates will abstain from voting on the resolution in respect of the Deed of Settlement at the SGM.

VII. REASONS FOR THE ENTERING INTO OF THE SUBSCRIPTION AGREEMENT, THE DISPOSAL AGREEMENT AND THE DEED OF SETTLEMENT

The Group recorded net loss attributable to Shareholders for each of the seven years ended 31 December 2005, and has recorded net deficit since 31 December 2001. The total audited liabilities of the Group as at 31 December 2005 amounted to approximately HK$129.59 million, of which approximately HK$121.2 million was the Shareholder's Loan (including approximately HK$73.92 million of the principal amount of the Shareholder's Loan and approximately HK$47.28 million of the interest payable of the Shareholders' Loan) and the remaining balance of approximately HK$8.39 million was the sum of other payables, accruals and taxation. Along with the change in controlling stake in the Company from MGL to Dragon Hill upon the S&P Completion, MCB (as the ultimate controlling shareholder of MGL) has indicated that it will request the Company to settle the Shareholder's Loan. After arm's length negotiation among the relevant parties, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement were entered into pursuant to which the Company shall apply the Subscription Price and the Disposal Consideration in repayment of setting off against part of the Shareholder's Loan in order to obtain the agreement of MGL, MESB and MIL to waive the balance of the Shareholder's Loan. Based on (i) the Shareholder's Loan of approximately HK$121.20 million as at 31 December 2005, (ii) the Subscription Price of HK$48,000,170, and (iii) the Disposal Consideration which is estimated to be approximately HK$56.36 million, the balance of the Shareholder's Loan to be waived by MGL, MESB and MIL pursuant to the Deed of Settlement is estimated to be approximately HK$16.83 million as at the Completion Date. Thus, upon settlement and waiver of the Shareholder's Loan in full, the total liabilities of the Group will decrease to approximately HK$7.86 million (based on the pro forma unaudited consolidated income statement of the Remaining Group as at 31 December 2005 as if the Disposal had been completed on 1 January 2005) and as a result of such waiver of Shareholder's Loan, an estimated gain of approximately HK$16.83 million will be accounted for the year ending 31 December 2006. In addition, upon the completion of the Disposal Agreement, an estimated gain of approximately HK$12.42 million will be accounted for the year ending 31 December 2006. The Directors therefore consider that it is beneficial to and in the interest of the Company to enter into the Subscription Agreement, the Disposal Agreement and the Deed of Settlement although upon the

Disposal Completion, the Group will not have any investment in properties. The Board has considered various fund raising activities, such as bank borrowings, rights issue and open offer, to repay the Shareholder's Loan. However, the Board considers that such other methods of financing would be less preferable and effective in view of the net deficit financial position of the Group, the size of the funds to be raised, the relative higher cost and longer time involved.

Given (i) the Group's current financial position and the thin trading volume of the Shares (the average daily trading volume for March 2006 (up to and including being the last trading day of the Shares on the Stock Exchange prior to suspension of trading pending the publication of the Announcement) was approximately 0.13% of the number of Shares held by the public and approximately 0.06% of the total issued Shares as at the Latest Practicable Date, (ii) the properties investments under the Lismore Group are the assets of the Group that can be realised to settle part of the Shareholder's Loan while the assets under the securities dealing and brokerage and money lending businesses of the Group cannot be disposed of without disrupting the normal operations of such businesses, and (iii) other methods of financing would be less preferable and effective in view of the net deficit financial position of the Group, the size of the funds to be raised, the relative higher cost and longer time involved, the Directors consider that the entering into of Subscription Agreement, the Disposal Agreement and the Deed of Settlement are appropriate steps to raise funds, reduce the Group's borrowings and to improve the financial position of the Group. The Directors consider that the respective terms of the Subscription Agreement (together with the Convertible Preference Shares to be issued thereunder and the Conversion Shares to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares), the Disposal Agreement and the Deed of Settlement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VIII. SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately before the S&P Completion (assuming that no outstanding Options are exercised prior to the S&P Completion) (based on the information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date); (ii) immediately upon the S&P Completion (assuming that no outstanding Options are exercised prior to the S&P Completion and that no exercise of the conversion rights attaching to the Convertible Preference Shares); (iii) upon the full conversion of the Convertible Preference Shares by Dragon Hill; (iv) upon full conversion of the Convertible Preference Shares by Dragon Hill and full exercise of all outstanding Options:

Shareholder	**Before the S&P Completion** (note 1)		**Upon the S&P Completion** (note 2)		**Upon full conversion of the Convertible Preference Shares by Dragon Hill** (note 1)		**Upon full conversion of the Convertible Preference Shares by Dragon Hill and full exercise of all outstanding Options** (note 3)	
	(Shares)	*(%)*	*(Shares)*	*(%)*	*(Shares)*	*(%)*	*(Shares)*	*(%)*
MGL	316,973,680	51.54	—	—	—	—	—	—
Dragon Hill	—	—	316,973,680	51.54	1,838,373,680	86.05	1,838,373,680	85.76
Chan Hon Ming *(Note 4)*	—	—	—	—	—	—	3,000,000	0.14
Other employees	—	—	—	—	—	—	4,200,000	0.20
Public	298,050,495	48.46	298,050,495	48.46	298,050,495	13.95	298,050,495	13.90
Total	615,024,175	100.00	615,024,175	100.00	2,136,424,175	100.00	2,143,624,175	100.00

Notes:

1. *assuming that no outstanding Options are exercised*

2. *assuming that no outstanding Options are exercised and that no exercise of the conversion rights attaching to the Convertible Preference Shares*

3. *assuming that all outstanding Options are exercised upon the S&P Completion but before the Offers close. According to the share option scheme adopted by the Company on 11 June 2002, the Options shall lapse automatically (to the extent not already exercised) on the date on which the Option Offer closes*

4. Chan Hon Ming is an executive Director

Dragon Hill has undertaken to the Company that it will not convert or procure not to convert any part of the Convertible Preference Shares into new Shares if such conversion would result in the minimum public float of the Shares on the Stock Exchange as required under the Listing Rules not being maintained.

IX. POSSIBLE SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation (trading timetable of which is to be finalised) as soon as practicable after the close of the possible Offers under which every ten Shares of HK$0.001 each in the issued and unissued share capital of the Company be consolidated into one Share of HK$0.01 each in the issued and unissued share capital of the Company.

The proposed Share Consolidation will only be implemented if the possible Offers are made upon the S&P Completion. Upon implementation of the Share Consolidation, change will be made to the board lot size of the Shares. An announcement with full details of the Share Consolidation, change of the board lot size and trading arrangement will be made as and when appropriate.

X. INFORMATION ON THE GROUP

The Company is a company incorporated in Bermuda with limited liability and has been listed on the main board of the Stock Exchange since 23 November 1992. The Group is principally engaged in securities dealing and margin finance, money lending, and property investment.

The Group recorded an audited consolidated net loss attributable to the Shareholders for each of the two years ended 31 December 2005 of approximately HK$6.3 million and HK$8.8 million respectively. As at 31 December 2005, the audited consolidated net deficit of the Group were approximately HK$53.83 million.

As at 31 December 2005, the Shareholder's Loan due by the Group amounted to approximately HK$121.20 million. The Group has entered into the Subscription Agreement, the Disposal Agreement and the Deed of Settlement (details of which are set out below) for the purpose of settlement and wavier of the Shareholder's Loan in full. Upon the Disposal Completion and close of the Offer, the Group will not have any investment in properties.

Reference is made to the announcement of the Company dated 2 March 2006. It was mentioned in that announcement that the Board currently comprises four executive Directors and two independent non-executive Directors, and the audit committee of the Company comprises the two independent non-executive Directors. Accordingly, the Company is not able to meet the requirements of Rules 3.10(1) and 3.21 of the Listing Rules. Further announcement will be made by the Company upon appointment of an additional independent non-executive Director.

XI. INFORMATION ON DRAGON HILL AND ITS INTENTION REGARDING THE GROUP

Dragon Hill is an investment holding company incorporated in Samoa with limited liability on 1 April 2004 and its entire issued share capital is beneficially owned by Mr. Lee. Mr. Lee is also the sole director of Dragon Hill. Other than the proposed acquisition of the Sale Shares and the proposed subscription of the Convertible Preference Shares, Dragon Hill has not engaged in any other business.

None of Dragon Hill, its ultimate beneficial owner and parties acting in concert with any of them has dealt in any Shares or any options, warrants, derivatives or securities convertible into Shares during the period commencing on the date falling six months prior to the date of the Share Sale Agreement and up to the Latest Practicable Date, save for the entering into of the Share Sale Agreement, the Subscription Agreement and the Deed of Settlement by Dragon Hill.

Dragon Hill intends to continue the existing businesses of the Group and has no intention to dispose of the Group's businesses after completion of the Offers. Dragon Hill will, following the S&P Completion, conduct a more detailed review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise. However, Dragon Hill has no immediate plan of injecting any of its assets into the Group upon the S&P Completion.

Dragon Hill is independent of and not acting in concert with the previous offeror and parties acting in concert with it in relation to the possible conditional general offers for the Shares and Options which were announced lapsed by the Company and the previous offeror jointly on 20 July 2005.

XII. PROPOSED CHANGE OF COMPOSITION OF THE BOARD

It is expected that all of the existing executive Directors, namely Mr. Lim Teong Leong, Mr. Tam Cheok Wing, Mr. Ooi Sin Heng and Mr. Chan Hon Ming, and all of the existing independent non-executive Directors, namely Mr. Wong Ming Shiang and Mr. Lim Eng Ho, will resign and such resignation will take effect on the closing date of the Offers in compliance with Rule 7 of the Takeovers Code. However, Mr. Ooi (who, save for his indirect interest in the Shares held by MCB through his shareholding in MCB, does not hold any Shares and Options) will cease to be a Director and general manager of the Company as a result of change in the controlling Shareholder but he will remain as a responsible officer (as defined under the SFO) of MISL in respect of the business of MISL under a new service contract (the monthly salary payable to Mr. Ooi under the existing service contract and the new service contract will be the same). Under the existing service contract, Mr. Ooi will be entitled to a severance payment amounted to approximately HK$680,000 of which approximately HK$356,710 will be born by the Company and the remaining balance of HK$323,290 will be born by MGL. Upon the termination of the existing service contract on 21 March 2006, Mr. Ooi entered into the new service contract immediately thereafter. Under the new service contract, either party may terminate the contract by serving (i) six months' notice after the Completion Date or the long stop date referred to in the Subscription Agreement; or (ii) one month's notice when MISL has more than two responsible officers. The severance payment to Mr. Ooi under the new service contract will be payable in accordance with statutory compensation applicable in Hong Kong from time to time. Mr. Ooi is entitled to enjoy certain fringe benefits provided by MISL such as accommodation, medical benefits scheme and mandatory provident fund scheme during his term of employment. Save as the aforesaid, there is no other major new terms under the new service contract. Dragon Hill at present intends to nominate Mr. Lee as the executive Director.

Mr. Lee, aged 49, has more than 20 years' experience in trading as well as property and industrial investment in both Hong Kong and the PRC. For examples, Mr. Lee controls a PRC company in Jilin, the PRC, namely 吉林市吉山汽車部件製造有限公司 (Jilin City Jishan Car Spare Parts Manufacturing Limited), which is principally engaged in the manufacturing of car spare parts, and a Hong Kong company, namely Dragon Hill Development Limited, which has invested in a property development project in Dongguan, the PRC and which used to be engaged in trading of papers, construction materials, plastic and car spare parts. Mr. Lee is the Hong Kong representative in the Committee of The Chinese People's Political Consultative Conference of Liujiang County, Liuzhou, Guangxi Province, the PRC.

Further announcement(s) will be made by the Company and Dragon Hill jointly on further appointment of Directors. The appointment of Directors nominated by Dragon Hill will not take effect earlier than the date of posting of the Composite Document to be issued by Dragon Hill and the Company jointly in connection with the Offers in compliance with Rule 26.4 of the Takeovers Code.

XIII. LISTING STATUS OF THE COMPANY

Dragon Hill intends that the Company will remain listed on the Stock Exchange after the close of the Offers and does not intend to exercise any rights to compulsorily acquire all the Shares. The sole director of Dragon Hill and the new Directors to be appointed will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that the minimum public float requirement under the Listing Rules is complied with by the Company.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in trading of the Shares; or

(b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares. The Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Under the Listing Rules, the Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirement for new applicants as set out in the Listing Rules.

Accordingly, Shareholders and the public should exercise caution when dealing in the securities of the Company.

XIV. FUND RAISING IN THE PAST TWELVE MONTHS

The Company has not carried out any fund raising activities within the last 12 months prior to the Latest Practicable Date.

XV. AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF THE COMPANY

In order to facilitate the allotment and issue of the Convertible Preference Shares under the Subscription Agreement, a resolution will be proposed at the SGM in relation to the amendments to the memorandum of association and bye-laws of the Company incorporating, among other things, the rights, privileges and restrictions attached to the Convertible Preference Shares which have to be passed by the Independent Shareholders by way of a special resolution in accordance with the Company's existing bye-laws and the laws of Bermuda.

XVI. FINANCIAL AND TRADING PROSPECTS

Upon the S&P Completion, Dragon Hill, the new controlling Shareholder, intends to continue the existing business of the Group and will conduct a more detailed review of the operations of the Group with a view to develop a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise.

XVII. SGM

Set out on pages 137 to 140 in this circular is a notice convening the SGM which will be held at 10:30 a.m. on 23 May 2006 at 27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at which resolutions will be proposed to approve, among other things, (i) the Capital Reduction; (ii) the Subscription Agreement, together with the issue of the Convertible Preference Shares and the allotment and issue of the Conversion Shares upon conversion of the Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of Settlement; (together with the transactions contemplated under (ii) to (iv)); and (v) the proposed amendments to the memorandum of association and bye-laws of the Company. The form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and to return the same in accordance with the instructions printed thereon as soon as possible to the Company's share registrar, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so desire.

XVIII. RECOMMENDATIONS

The Directors believe that the resolutions approving (i) the Capital Reduction; (ii) the Subscription Agreement together with the issue of Convertible Preference Shares and the allotment and issue of Conversion Shares upon conversion of Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of settlement; (together with the transactions contemplated under (ii) to (iv)) and (v) the proposed amendments to the memorandum of association and bye-laws of the Company are in the interests of the Company and recommend the Independent Shareholders to vote in favour of such resolutions to be proposed at the SGM.

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Kingston and the additional information set out in the appendices in this circular.

Yours faithfully,
For and on behalf of the Board
Ooi Sin Heng
Director

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

29 April 2006

To the Independent Shareholders

Dear Sir or Madam,

(I) CAPITAL REDUCTION;
(II) SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE DEED OF SETTLEMENT (SPECIAL DEAL AND CONNECTED TRANSACTION);
(III) DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY (SPECIAL DEAL, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION);
(IV) SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES (CONNECTED TRANSACTION); AND
(V) PROPOSED AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS

As the Independent Board Committee, we have been appointed to advise you in connection with (i) the Capital Reduction; (ii) the Subscription Agreement, together with the issue of Convertible Preference Shares and the allotment and issue of Conversion Shares upon conversion of Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of Settlement; and (v) the proposed amendments to the memorandum of association and the bye-laws of the Company, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 29 April 2006 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Kingston has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect. Details of its recommendation and principal factors taken into consideration in arriving at its recommendation are set out in the letter of advice from Kingston on pages 39 to 60 of this circular.

Having considered the terms of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and bye-laws of the Company and the advice of Kingston in relation thereto, we are of the opinion that the terms of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and bye-laws of the Company are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you to vote in favour of the resolutions to be proposed at the SGM to approve (i) the Capital Reduction; (ii) the Subscription Agreement, together with the issue of Convertible Preference Shares and the allotment and issue of Conversion Shares upon conversion of Convertible Preference Shares; (iii) the Disposal Agreement; (iv) the Deed of settlement; (together with the transactions contemplated under (ii) to (iv)) and (v) the proposed amendments to the memorandum of association and bye-laws of the Company.

Yours faithfully,
The Independent Board Committee
Wong Ming Shiang **Lim Eng Ho**
Independent non-executive Directors

Set out below is the text of the letter from Kingston Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular:

KINGSTON CORPORATE FINANCE LIMITED

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

29 April 2006

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(I) CAPITAL REDUCTION;
(II) SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE DEED OF SETTLEMENT (SPECIAL DEAL AND CONNECTED TRANSACTION);
(III) DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY (SPECIAL DEAL, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION);
(IV) SUBSCRIPTION OF CONVERTIBLE PREFERENCE SHARES BY DRAGON HILL DEVELOPMENT LIMITED BY ENTERING INTO THE SUBSCRIPTION AGREEMENT (CONNECTED TRANSACTION); AND
(V) PROPOSED AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS;**

INTRODUCTION

We refer to our appointment which has been approved by the Independent Board Committee as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms and advice on voting on the respective resolutions of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed amendments to the memorandum of association and bye-laws (the "Amendments"), particulars of which are set out in the "Letter from the Board" (the "Letter") contained in the circular to the Shareholders dated 29 April 2006 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as those defined in the Circular.

On 30 March 2006, Dragon Hill entered into the Share Sale Agreement with MGL (the existing controlling Shareholder), MCB (the ultimate holding company of MGL) and Mr. Lee (the sole beneficial owner of Dragon Hill), pursuant to which Dragon Hill has conditionally agreed to purchase and MGL has conditionally agreed to sell the Sale Shares for a maximum cash consideration of HK$10,000,519.60 (equivalent to approximately HK$0.03155 per Share). Assuming (i) no Share will be issued; and (ii) the shareholding structure of the Company remains the same from the Latest Practicable Date to the S&P Completion, upon the S&P Completion, Dragon Hill and parties acting in concert with it will own an aggregate of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company. Accordingly, Dragon Hill will be required under Rule 26.1 and Rule 13 of the Takeovers Code to make mandatory unconditional cash offers for all the issued Shares and outstanding Options (other than those already owned by or agreed to be acquired by Dragon Hill or parties acting in concert with it). Details of the Share Sale Agreement are set out in the Letter.

In addition, on 30 March 2006, (i) the Company, Dragon Hill, MCB and Mr. Lee entered into the Subscription Agreement in relation to the subscription by Dragon Hill of the Convertible Preference Shares; (ii)Watary, a wholly-owned subsidiary of the Company, and MGL entered into the Disposal Agreement in relation to the sale and purchase of the Lismore Shares and the Lismore Loan; and (iii) the Company, Dragon Hill, MGL, MESB and MIL entered into the Deed of Settlement in relation to the settlement of the Shareholder's Loans.

Each of the Disposal Agreement and the Deed of Settlement constitutes a special deal under Rule 25 of the Takeovers Code, and therefore requires the consent of the Executive and such consent, if granted, will be conditional upon the approval of the Independent Shareholders voting by way of a poll at the SGM. Pursuant to the Listing Rules, (i) the entering into the Subscription Agreement between the Company, Dragon Hill, which will become the controlling Shareholder upon the S&P Completion, and MCB, which is the ultimate holding company of the existing controlling Shareholders, together with the issue of the Convertible Preference Shares to Dragon Hill constitutes a connected transaction for the Company; (ii) the Disposal Agreement constitutes a very substantial disposal for the Company, and the disposal of Lismore to MGL, a connected person of the Company, also constitutes a connected transaction for the Company; and (iii) the entering into the Deed of Settlement between the Company, Dragon Hill, MGL, MESB and MIL constitutes a connected transaction for the Company. Accordingly, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement are required to be subject to the Independent Shareholders' voting by way of poll at the SGM under Chapter 14A of the Listing Rules. As the Capital Reduction is conditional to the approval of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement by the Independent Shareholders at the SGM, it is also required to be approved by the Independent Shareholders voting by way of poll at the SGM. MGL and parties acting in concert with it and their respective its associates will abstain from voting on the resolutions in respect of the Capital Reduction, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement and the transactions contemplated thereunder at the SGM.

As stated in the Letter, in order to facilitate the allotment and issue of the Convertible Preference Shares under the Subscription Agreement, a resolution will be proposed at the SGM in relation to the Amendments incorporating, among other things, the rights, privileges and restrictions attached to the Convertible Preference Shares which have to be passed by Independent Shareholders by way of a special resolution in accordance with the Company's existing bye-laws and the laws of Bermuda.

The Independent Board Committee consisting two independent non-executive Directors, namely Mr. Wong Ming Shiang and Mr. Lim Eng Ho has been established to advise the Independent Shareholders on (i) whether the terms of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed Amendments are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the voting of the resolutions in respect of the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the Amendments to be proposed at the SGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the directors of the Company as set out in the Letter were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the management of the Company their plans for the Group and the prospects of the businesses of the Group.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the proposed Amendments and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We believe that no material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular and have no reason to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the directors of the Company which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group. We have taken all reasonable steps as required under Rule 13.80 of the Listing Rules as to the bases in providing our advice herein.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the terms of (i) the Subscription Agreement; (ii) the Disposal Agreement; (iii) the Deed of Settlement; (iv) the Capital Reduction; and (v) the Amendments, we have taken the following principal factors and reasons into consideration:

I. Background information

The Company is a company incorporated in Bermuda with limited liability and has been listed on the main board of the Stock Exchange since 23 November 1992. The Group is principally engaged in securities dealing and margin finance, money lending and property investment.

Upon review of the Company's audited consolidated accounts for the year ended 31 December 2005 as set out in Appendix I to the Circular (the "2005 Accounts"), we noted that the Group recorded an audited consolidated turnover of approximately HK$12.31 million, representing an decrease of approximately 43.82% as compared to the audited consolidated turnover for the year ended 31 December 2004 of approximately HK$21.91 million. During the year ended 31 December 2005, the Group recorded an audited net loss from ordinary activities attributable to Shareholders of approximately HK$8.76 million, representing an increase of loss of approximately 38.17%, as compared to the audited net loss from ordinary activities attributable to Shareholders for the year ended 31 December 2004 of approximately HK$6.34 million. According to the Directors, the decrease in the turnover is attributable to the fact that the Company only had limited working capital which in turn limited the size of operations, and the revenue generated was not sufficient to cover the costs and expenses that resulted in an increase in net loss.

According to the 2005 Accounts, the Group recorded an audited net deficit of approximately HK$53.83 million as at 31 December 2005, representing an increase of 19.44% in net deficit as compared to the audited net deficit of HK$45.07 million as at 31 December 2004.

According to the Directors, the Group recorded net loss attributable to the Shareholders for each of the seven years ended 31 December 2005, and has recorded net deficit since 31 December 2001. As advised by the Directors, the total borrowings of the Group as at 31 December 2005 amounted to HK$73.92 million which are intercompany advances from MCB group of companies as at 31 December 2005. The financial position of the Group has been deteriorating and the Group is in an unfavorable liquidity position with its main funding from intercompany advances.

In view of the large amount of the Group's debts which together with the interest expenses therefrom hindering the growth of the Company, we consider there is a need for the Company to proceed with a restructuring plan to relieve its debt burden. Given that the Subscription Agreement, the Disposal Agreement and the Deed of Settlement serve the purpose of clearing all the loans due from the Group, we consider that it is commercially justifiable for the Company to proceed with the said agreements with a view to improving the financial position of the Group.

II. The Subscription Agreement

1. *Reasons for the entering into the Subscription Agreement*

Given that the controlling stake in the Company will be changed from MGL to Dragon Hill upon the S&P Completion, the Company will be requested by MCB to settle the Shareholder's Loan which amounted to approximately HK$121.2 million as at 31 December 2005 upon the S&P Completion. As advised by the Directors, the Subscription Agreement was entered into between the Company, Dragon Hill, MCB and Mr. Lee on 30 March 2006 to raise fund for partial repayment of the Shareholder's Loan and that the Subscription Price of approximately HK$48 million will be applied to repay part of the Shareholder's Loan which amounted to approximately HK$121.20 million as at 31 December 2005. The Subscription Agreement is subject to, among others, the Disposal Agreement and the Deed of Settlement having become unconditional. Details of the conditions of the Subscription Agreement were set out in the Letter.

2. *Major terms of the Convertible Preference Shares*

Details of the terms of the Subscription Agreement are set out in the Letter. Some of the principal terms of the Convertible Preference Shares are extracted below for ease of reference:

Number and Notional Value of Convertible Preference Shares:	1,521,400,000 Convertible Preference Shares with an aggregate Notional Value of HK$48,000,170 (equivalent to HK$0.03155 per Convertible Preference Share).
Dividend:	The Convertible Preference Shareholders shall not be entitled to any dividend distribution whether in cash or otherwise.

Conversion Price:	Initially at HK$0.03155 per Share (subject to adjustment). The Conversion Price is subject to adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain change in the share capital of the Company including consolidation or subdivision of Shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company. No conversion of the Convertible Preference Shares shall take place if it will result in the Conversion Shares being issued at a price below their nominal value as at the applicable Conversion Date.
Conversion Shares:	The number of Conversion Shares to be issued on each conversion shall be determined by dividing the aggregate Notional Value of the relevant Convertible Preference Shares by the Conversion Price applicable on Conversion Date. Assuming exercise in full of the conversion rights attaching to all of the 1,521,400,000 Convertible Preference Shares with an aggregate Notional Value of HK$48,000,170 at the initial Conversion Price of HK$0.03155 per Share, a total number of 1,521,400,000 Shares will be issued, representing approximately 247.4% and 71.2% of the Shares in issue as at the Latest Practicable Date and the total number of issued Shares as enlarged by the issue of the Conversion Shares respectively (assuming no new Share will have been issued other than the Conversion Shares).

3. *Analysis of the terms of the Convertible Preference Shares*

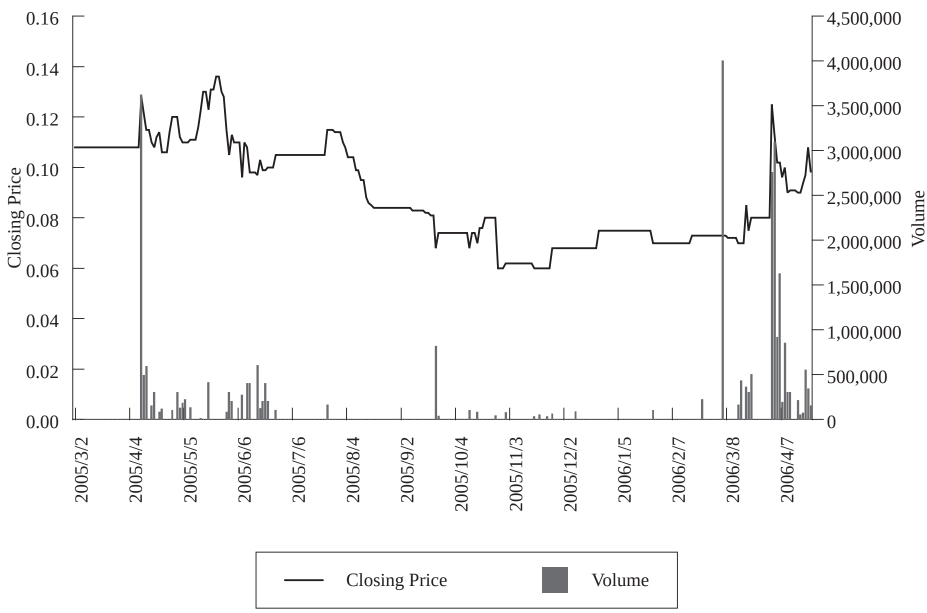
According to the Directors, the initial Conversion Price of HK$0.03155 was arrived at after arm's length negotiation between the Company and Dragon Hill and is the same as the maximum price of each Sale Share under the Share Sale Agreement which was with reference to (i) the recent prices and trading volume of the Shares on the Stock Exchange; (ii) the audited consolidated net loss attributable to the Shareholders of approximately HK$6.3 million for the year ended 31 December 2004 and the unaudited consolidated net loss attributable to the Shareholders of approximately HK$7.9 million for the six months ended 30 June 2005; and (iii) the unaudited consolidated net deficit of the Group of approximately HK$53.2 million as at 30 June 2005.

(i) *Historical Share price performance and trading liquidity*

The initial Conversion Price of HK$0.03155 (equivalent to the subscription price of each Convertible Preference Share) represents (a) a discount of approximately 60.56% to the closing price of HK$0.08 per Share as quoted on the Stock Exchange on 21 March 2006, being the last trading day prior to the suspension of the trading in the Shares at 9:30 a.m. on 22 March 2006 (the "Last Trading Day"); (b) a discount of approximately

54.93% to the average closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days prior to the Last Trading Day, being approximately HK$0.07 per Share; (c) a discount of approximately 54.93% to the average closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days prior to the Last Trading Day, being approximately HK$0.07 per Share; and (d) a discount of approximately 67.81% to the closing price of HK$0.098 per Share as quoted on the Latest Practicable Date.

The graph below illustrates the daily historical closing prices of the Shares traded on the Stock Exchange from 1 April 2005 to the Latest Practicable Date (both dates inclusive, the "Review Period").



Source: the website of Hong Kong Exchanges and Clearing Limited

The table below illustrates the highest, lowest, average daily and month/period end closing prices.

Month/period	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*	**Month/ period and closing price** *(HK$)*
2005				
April	0.128	0.106	0.114	0.12
May	0.136	0.105	0.120	0.105
June	0.113	0.096	0.103	0.105
July	0.115	0.105	0.112	0.114
August	0.114	0.084	0.093	0.084
September	0.084	0.068	0.080	0.074
October	0.080	0.060	0.073	0.060
November	0.068	0.060	0.062	0.068
December	0.075	0.068	0.070	0.075
2006				
January	0.075	0.070	0.074	0.070
February	0.073	0.070	0.071	0.073
1 March to the Last Trading Day	0.085	0.070	0.074	0.080
31 March to the Latest Practicable Date	0.125	0.090	0.099	0.098

Source: the website of Hong Kong Exchanges and Clearing Limited

Note: Trading of Shares was suspended during the periods from 8 February 2005 to 8 April 2005, from 27 June 2005 to 20 July 2005 and from 22 March 2006 to 30 March 2006.

The above table illustrates that the Shares have been traded consistently and significantly higher than the initial Conversion Price (or the subscription price of each Convertible Preference Share) during the Review Period whereas the graph above shows that the closing price of the Shares has been on an overall downward trend during the Review Period. However, during the Review Period, the prices of the Shares were trading above the initial Conversion Price (or the subscription price of each Convertible Preference Share) of HK$0.03155 per Share with the highest closing price at HK$0.136 to the lowest closing price at HK$0.060.

The following table illustrates the average daily trading volume for each month/period of the Shares during the Review Period and the average daily trading volume of the Shares for each month to the total issued Shares held by the public.

Month/period	**Total trading volume** *(Shares)*	**Number of trading days**	**Average daily trading volume** *(Shares)*	**Approximate percentage of average daily trading volume to the issued Shares held by the public (%)** *(Note 2)*
2005				
April *(Note 1)*	5,753,999	15	383,600	0.129
May	1,456,000	20	72,800	0.024
June *(Note 1)*	2,890,000	18	160,556	0.054
July *(Note 1)*	160,000	7	22,857	0.008
August	0	23	0	0.000
September	852,000	21	40,571	0.014
October	224,000	20	11,200	0.004
November	250,000	22	11,364	0.004
December	86,000	20	4,300	0.001
2006				
January	100,000	19	5,263	0.002
February	220,000	20	11,000	0.004
1 March to the Last Trading Day *(Note 1)*	5,758,000	15	383,867	0.129
31 March to the Latest Practicable Date ("Last Review Period") *(Note 1)*	11,410,000	16	713,125	0.239

Source: the website of Hong Kong Exchanges and Clearing Limited

Notes:

1. Trading of Shares was suspended during the periods from 8 February 2005 to 8 April 2005, from 27 June 2005 to 20 July 2005 and from 22 March 2006 to 30 March 2006.

2. The approximate percentage of average trading volume for each month/period are based on 298,050,495 issued Shares held by the public as at the Latest Practicable Date.

As indicated in the above table, no trading volume of the Shares was recorded in August 2005 and the highest average daily trading volume during the Review Period was 713,125 Shares in the Last Review Period, representing approximately 0.12% of the issued Shares and approximately 0.24% of the Shares held by the public. According to the website of Hong Kong Exchanges and Clearing Limited, out of the 220 trading days during the Review Period prior to the Last Trading Day (excluding the periods from 8 February 2005 to 8 April 2005, from 27 June 2005 to 20 July 2005 and from 22 March 2006 to 30 March 2006, being the dates on which trading of Shares was suspended), there were only 47 days on which trading was taken place. The trading volume of the Shares was thin during the Review Period and the average daily turnover of the Shares was constantly below 0.24% of the issued Shares held by the public.

We are of the view that notwithstanding the Shares were trading above the initial Conversion Price (or the subscription price of each Convertible Preference Share) during the Review Period, the thin trading volume of the Shares suggests that the market price of the Shares may not serve a meaningful reference to assess the fairness and reasonableness to the initial Conversion Price, particularly after taking into account the downward trend of the trading prices of the Shares during the Review Period.

The commonly used valuation models including the Black-Scholes Model and the Binomial Model in calculating the value of options take into account factors, amongst others, including expected volatility and expected dividends of the underlying securities. In the case of the Company, the trading volume of the Shares, which are the underlying securities of the Convertible Preference Shares, has been very thin for a persistent period and therefore in our opinion does not serve to generate a meaningful expected volatility value for calculating the value of the Convertible Preference Shares. In addition, the Company has been making losses for several years during which there was no distribution of dividend and accordingly it is not prudent to assume an expected dividend for the Shares for calculating the value of the Convertible Preference Shares.

(ii) *Net deficit per Share*

Based on the 2005 Accounts, the Company recorded an audited consolidated net deficit of HK$53.83 million as at 31 December 2005, equivalent to a net deficit value of approximately HK$0.09 per Share based on the total issued Shares as at the Latest Practicable Date. We discussed with the Directors and noted that such net deficit was mainly attributable to the yearly loss making operations of the Group for the past seven years. In light of the Group's persistent loss making and net deficit, we consider that in arriving at the initial Conversion Price, a discount factor should be given to the market price of the Shares.

(iii) *Comparison with other convertible preference shares issued by other listed companies listed on the Main Board of the Stock Exchange*

In view that the historical price performance of the Shares may not serve a meaningful reference to assess the fairness and reasonableness of the initial Conversion Price (or the subscription price of each Convertible Preference Share), we also conduct research on other convertible preference shares issued by other listed companies which are listed on the Main Board of the Stock Exchange. Although the comparable companies set out below are not identical to the Company in term of the business nature and financial position, the purpose of showing the comparison is to provide additional information to the Shareholders about the convertible preference shares issued by other companies listed on the Main Board of the Stock Exchange. Based on the information from the Stock Exchange website, there are only a few companies listed on the Main Board of the Stock Exchange that have issued convertible preference shares in recent years. As such, we have identified and reviewed the convertible preference shares issued by companies listed on Main Board for the past three years immediately before the date of the Announcement. The following table sets out the key terms of these market comparables (the "Comparables"):

Company name	**I-China Holdings Limited (Stock Code: 240)** *(Note 1)*	**Sun Innovation Holdings Limited (Stock Code: 547)**	**Lenovo Group Limited (Stock Code: 992)**	**Hong Kong Pharmaceutical Holdings Limited (Stock Code: 182)**	**Magnum International Holdings Limited (Stock Code: 305)**
Date of announcement of the issue of the convertible preference shares	18 December 2003	16 April 2004	30 March 2005	26 September 2005	30 March 2006
Principal amount ***(HK$' million)***	30.00	69.00	2,730	58.32	48.00
Principal business	Civil engineering network	Telecommunications business, media and content services business (including telecommunication value-added services) and property investment business	Provision of advanced information technology products and services	Wholesale and retail of Chinese and other medicines, health products and dried seafoods, property investment and provision of Chinese clinical services, production and sale of biotechnological products	Securities dealing and margin finance, money lending and property investment
Premium/(discount) of conversion price over/to the respective closing prices on the last trading day immediately prior to the date of the respective announcements (the "Respective Last Trading Days")	(99.19)%	2.27%	6.86%	(86.08)%	(60.56)%
Premium/(discount) of conversion price over/to the average closing price of the last ten trading days immediately to the Respective Last Trading Days	(99.21)%	0.00%	9.77%	(86.22)%	(54.93)%
Dividend	2%	1.00%	4.5% *(Note 3)*	5%	0%
Conversion period	7 years	4 years	7 years	5 years	No expiry date
Liquidity ***(Note 2)***	0.047%%	0.005%	0.822%	0.023%	0.059%

Source: the website of Hong Kong Exchanges and Clearing Limited

Notes:

1. I-China Holdings Limited is now known as Build King Holding Limited.

2. Liquidity is based on the average trading volume in shares for the 10 days immediately preceding the respective date of the relevant announcements over the public float as at the date of the relevant announcements.

3. If Lenovo Group Limited fails to pay cash dividends when accumulated or deemed to accumulate, the holders of the convertible preference shares will have the right to receive additional interest at the rate of 4.5% per annum on the amount of such cash dividend payment that was not paid when accumulated or deemed to accumulate.

The conversion prices of the Comparables (or the subscription prices of each respective convertible preference share of the Comparables) ranged from a discount of approximately 99.19% to a premium of approximately 6.86% over the respective closing prices on the Respective Last Trading Days (the "Last Trading Day Range") whereas the initial Conversion Price (or the subscription price of each Convertible Preference Share) of HK$0.03155 represents a discount of approximately 60.56% to the closing price of HK$0.08 per Share on the Last Trading Day. The conversion prices of the Comparables (or the subscription prices of each respective convertible preference share of the Comparables) ranged from a discount of approximately 99.21% to a premium of approximately 9.77% over the respective closing prices for the last 10 trading days up to and including the Respective Last Trading Days (the "10-day Range") whereas the initial Conversion Price (or the subscription price of each Convertible Preference Share) of HK$0.03155 represents a discount of approximately 54.93% to the average closing price of approximately HK$0.07 per Share for the last 10 consecutive trading days prior to the Last Trading Day.

The discounts on the initial Conversion Price (or the subscription price of each Convertible Preference Share) fall within the Last Trading Range and the 10-day Range of the Comparables. We are of the view that the determination of the fairness and reasonableness on the premium/discount on the conversion price to the prevailing market price should take into account altogether the factors including dividend, conversion period, and volatility of the underlying securities (each factor cannot be compared on an individual basis). However, in view that (i) there are only few listed companies having issued convertible preference shares in the past three years, resulting in a small sampling size; and (ii) variables, being the interest rate, conversion period and liquidity, that affect the determination of the initial conversion price of the convertible preference shares vary among the Comparables and the Convertible Preference Shares, we consider it is impractical to make a fair and reasonable comparison on the discount or premium of the initial conversion price to or over the closing price of the Respective Last Trading Days.

Having taken into account (i) there being no interest expense to be incurred from the Convertible Preference Shares; (ii) the continued loss making operations of the Group for the seven years ending 31 December 2005; (ii) the net deficit position of the Group; and (iii) the low trading liquidity of Shares, we consider that a discount on the initial Conversion Price (or the subscription price of each Convertible Preference Share) to the prevailing market price of the Shares is inevitable in order to attract investors (including Dragon Hill) for significant amount of the Convertible Preference Shares. As such, we consider the initial Conversion Price (or the Subscription Price) and the discount thereon are fair and reasonable.

4. ***Dilution effect on the shareholdings arising from conversion of the Convertible Preference Shares***

Upon full conversion of the Convertible Preference Shares, 1,521,400,000 Conversion Shares will be issued by the Company, representing approximately 247% and approximately 71.21% of the existing issued share capital of the Company and the enlarged issued share capital of the Company as a result of the full conversion of the Convertible Preference Shares respectively. Although Dragon Hill has undertaken to the Company that it will not convert or procure not to convert any part of the Convertible Preference Shares into Conversion Shares if such conversion would result in the public float of the Shares (the "Undertaking") below the minimum requirement of the Listing Rules, the shareholding interest of the existing public Shareholders will be reduced from approximately 48.46% to approximately 13.95% upon full conversion of the Convertible Preference Shares.

In view that the Company has continued loss making track record and net deficit position for the recent financial years, we consider that it would be difficult for the Company to procure funding by means of bank borrowings or equity issue such as open offer or rights issue where the Company is required to procure an underwriter and gather sufficient interest from the existing Shareholders to raise fund. As such, although we consider the dilution effect is substantial, given that the issue of the Convertible Preference Shares allows the Group (i) to raise fund without immediate dilution effect on the shareholding of the Company; (ii) to enlarge the capital base of the Company; (iii) to improve its net deficit position; (iv) not to pay any dividend; and (v) to procure Dragon Hill to give the Undertaking, we are of the view that the subscription of the Convertible Preference Shares by Dragon Hill is fair and reasonable.

5. ***Alternative fund raising***

According to the Directors, the Group recorded net loss attributable to Shareholders for each of the seven years ended 31 December 2005 and net deficit since 31 December 2001. The total audited liabilities of the Group as at 31 December 2005 amounted to approximately HK$129.59 million, of which approximately HK$121.20 million were the Shareholder's Loan. Along with the change in controlling stake in the Company from MGL to Dragon Hill upon the S&P Completion, MCB (the ultimate controlling shareholder of MGL) has indicated that it will request the Company to settle the Shareholder's Loan. In view of the above, we are of the view that the Group is in need of funds to repay the Shareholder's Loan and improve its financial position.

As stated in the Letter, the Board has considered various fund raising activities, such as bank borrowings, rights issue and open offer, to repay the Shareholder's Loan. However, the Board considers that such other methods of financing would be less preferable and effective in view of the net deficit financial position of the Group, the size of the funds to be raised and the relative higher cost and longer time involved.

In view that (i) obtaining further bank loan will inevitably result in additional interest expense to the Group whilst the issue of the Convertible Preference Shares will not incur any interest expense or dividend payment on the Company; and (ii) the Group will be required to repay such bank loan upon its maturity whereas the Convertible Preference Shares does not require any repayment from the Group, we consider the issue of the Convertible Preference Shares is more preferable than bank financing. As for placing new Shares, rights issue and open offer, we are of the view that it is difficult for the Group to gather sufficient interest from existing Shareholder(s) to subscribe for the new Shares and to procure suitable securities firms to act as placing agents or underwriters to place or fully underwrite the new Shares arising from placing, open offer or rights issue given the Group's unsatisfactory financial position and low share trading liquidity. In addition, as fund raising by way of convertible note will result in additional interest expense to the Company and repayment on maturity is required in the event holders of convertible note do not exercise the conversion rights, we consider fund raising by way of Convertible Preference Shares is more favorable than the convertible notes given the net deficit position of the Group.

Based on the above, we are of the view and concur with the Directors that the issue of the Convertible Preference Shares to Dragon Hill is the best fund-raising alternative available to the Company.

III. The Disposal Agreement

1. *Reasons for the entering into the Disposal Agreement*

As stated in the Letter, the Disposal Agreement was entered into for the purpose of realizing all the investment properties currently held by the Group in order to reduce its total liabilities, which amounted to approximately HK$129.59 million (including the principal amount of the Shareholder's Loan of approximately HK$73.92 million) as at 31 December 2005. Pursuant to the Deed of Settlement, the Disposal Consideration of approximately HK$56.36 million will be satisfied by MGL upon the Disposal Completion by way of setting off part of the Shareholder's Loan, which amounted to approximately HK$121.20 million (comprising principal amount and accrued interest payable of approximately HK$73.92 million and HK$47.28 million respectively) as at 31 December 2005. According to the Directors, due to the facts that the Group is in a net deficit position and the Properties held by Lismore generate rental income (being approximately HK$2.2 million for the year 2005) that is less than the interest expenses incurred by the Group (being approximately HK$6.5 million for the year 2005) and the Disposal will result in a gain of approximately HK$12.4 million to the Group, Dragon Hill does not object to the transactions contemplated under the Disposal Agreement. As advised by the Directors, although all properties currently held by the Group will be realized as a result of the Disposal in order to finance the repayment of the Shareholder's Loan, the Company will continue to identify potential investment and invest in the property market when opportunities arise in the future.

Pursuant to the Disposal Agreement, (i) Watary has conditionally agreed to sell and MGL has conditionally agreed to purchase the Lismore Share, being the entire issued share capital of Lismore, an indirect wholly-owned subsidiary of the Company; and (ii) Watary has conditionally agreed to sell and assign and MGL has conditionally agreed to purchase and accept the Lismore Loan, which amounted to approximately HK$56.36 million as at 31 December 2005.

2. *Information on Lismore Group*

As stated in the Letter, Lismore, incorporated in the British Virgin Islands on 12 February 1992 with limited liability, is principally engaged in property and investment holding. Its entire issued share capital is held by Watary, a wholly-owned subsidiary of the Company. Accordingly, Lismore is an indirect wholly-owned subsidiary of the Company. The only recurring source of income of the Lismore Group is property rental income. The principal assets of the Lismore Group are the Properties, which are all investment properties of the

Group. The following table set out the locations, existing use basis and the capital value as at 28 February 2006 (valued by an independent valuer to the Group, Vigers Appraisal & Consulting Limited) of the Properties.

Properties	**Existing use basis**	**Capital value as at 28 February 2006** *(HK$ million)*
Workshops A and B on 4th Floor and the Flat Roofs appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	Industrial	11.34
Seventh Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	Industrial	10.96
Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong	Commercial	4.05
4th Floor and Portions of Flat Roof on 4th Floor of Bock A, Chung Mei Centre, No. 15 Hing Yip Street, Kwun Tong, Kowloon	Industrial	5.72
Apartment A on 20th Floor and Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	Apartment A: Residential Car Parking Space No. 127: N/A	11.50
Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon	N/A	0.35

As mentioned above, save for holding and leasing of the Properties, the Lismore Group does not have any other business or assets. As set out in Appendix I to the Circular, (i) the audited consolidated net profit before taxation and after taxation of Lismore Group for the year ended 31 December 2004 (including revaluation surplus on investment properties) were approximately HK$6.02 million and 5.90 million respectively; and (ii) the audited consolidated net profit before taxation and after taxation of Lismore Group for the year ended 31 December 2005 (including revaluation surplus on investment properties) were HK$10.75 million and HK$10.43 million respectively. The audited consolidated net deficit value of Lismore Group as at 31 December 2004 and 2005 were approximately HK$22.84 million and HK$12.42 million respectively. The market value of the Properties owned by the Lismore Group, as valued by Vigers Appraisal & Consulting Limited, an independent valuer to the Group, on an open market value and existing use basis, was approximately HK$43.92 million as at 28 February 2006.

3. *Basis of the Disposal Consideration*

Pursuant to the Disposal Agreement, the Disposal Consideration is an amount equal to the face value of the Lismore Loan (including both principal amounts and accrued interests, if any) as at the Completion Date plus a nominal value of HK$1. According to the Directors, the Disposal Consideration, which is expected to be approximately HK$56.36 million, was negotiated and determined on an arm's length basis between the Company and MGL with reference to the unaudited consolidated net deficit value of the Lismore Group of approximately HK$23.11 million as at 31 December 2004 and the face value the Lismore Loan amounted to approximately HK$56.36 million as at 31 December 2005.

As the Properties are the only assets of the Lismore Group, we consider the open market value of the Properties at approximately HK$43.92 million as at 28 February 2006 provide a fair and reasonable indication on the consideration of acquiring the Lismore Group not only to MGL, but also to all independent purchasers. The Disposal Consideration of approximately HK$56.36 million, representing a 28.32% premium over such open market value, result in a gain of approximately HK$12.4 million on disposal from the fair market value of the Properties for the Group.

Taking into account (i) the net deficit position of the Group and the Lismore Group; (ii) the need for fund raising to repay the Shareholder's Loan upon the S&P Completion; (iii) the disposal of the Properties at a premium of more than 25% of the market value of the Properties as at 28 February 2006 as valued by an independent professional valuer; (iv) there being a readily purchaser, MGL; and (v) it being arduous for the Group to reach a purchaser to sell all the Properties at once at a consideration of more than 25% premium over the market value of the Properties before the S&P Completion under the circumstance where the best lending rate offered by the banks now stands at the highest level in recent years, we consider the Disposal Consideration is fair and reasonable and in the interest of the Shareholders and the Company as a whole especially where the bargaining power of the Company on the sale of the Lismore Group to the third parties is likely to be weak in view of its weak financial situation.

4. *Financial and Operational effects of the Disposal on the Group*

The valuation of the Properties as at 28 February 2006 was approximately HK$43.92 million. Upon the Disposal Completion, the net deficit of the Group will be improved by approximately HK$12.4 million as a result of Disposal.

Upon the Disposal Completion, the Lismore Loan will be settled and a gain on Disposal of HK$12.4 million from the fair market value of the Properties will be recorded by the Group. As such, we are of the view that the Disposal will have a positive impact on the Group's financial position.

According to the audited financial information of the Group and the Lismore Group as set out in Appendix I to the Circular, set out below is an analysis of the relative materiality of the Lismore Group to the Group as a whole in terms of revenue, assets and net results:

		2005	2004
Revenue			
Lismore Group *(HK$'000) (audited)*	(a)	2,156	2,093
The Group *(HK$'000) (audited)*	(b)	12,311	21,913
	(a)/(b)	17.51%	9.55%
Assets			
Lismore Group *(HK$'000) (audited)*	(c)	45,201	34,092
The Group *(HK$'000) (audited)*	(d)	75,760	80,484
	(c)/(d)	59.66%	42.36%
Net profit/(loss) after tax (excluding revaluation surplus on investment properties) *(Note)*			
Lismore Group *(HK$'000) (audited)*	(e)	(203)	(377)
The Group *(HK$'000) (audited)*	(f)	(19,386)	(12,624)
	(e)/(f)	1.05%	2.99%
Net profit/(loss) after tax (including revaluation surplus on investment properties) *(Note)*			
Lismore Group *(HK$'000) (audited)*	(g)	10,427	5,903
The Group *(HK$'000) (audited)*	(h)	(8,756)	(6,344)
	(g)/(h)	N/A	N/A

Note: As advised by the Directors, the revaluation surplus/(deficit) on investment properties for each of the two years ended 31 December 2004 and 2005 amounted to approximately HK$6.28 million and 10.63 million respectively.

As shown from the above table, for the two years ended 31 December 2005, the Lismore Group's revenue represents 9.55% and 17.51% respectively of the Group's revenue and the Lismore Group's asset represents 42.36% and 59.66% respectively of the Group's assets. As advised by the Directors, the increasing size of the assets of the Lismore Group is a result of the material surplus in revaluation on the investment properties in 2005, however the Disposal will not result in discontinuation of the Group's business in property investment or disrupt the normal operation of the Group's business. As mentioned in the Letter, Dragon Hill intends to continue the existing businesses of the Group, which shall include its business in property investment, by carrying out a more detailed review of the operations of the Group after close of the Offers, with a view to developing a corporate strategy to enhance its existing securities dealing and brokerage and money lending businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of the businesses of the Group and the property investment business may resume if favorable opportunities arise.

Although the Lismore Group's revenue represents approximately 17.51% of the Group's revenue, the Lismore Group recorded net loss (excluding revaluation surplus on investment properties) of approximately HK$0.38 and HK$0.20 million respectively for the two years ended 31 December 2005, representing 2.99% and 1.05% on the net loss of the Group (excluding revaluation surplus on investment properties) of approximately HK$12.62 million and HK$19.39 million respectively for the two years ended 31 December 2005. Therefore we consider the Disposal will not have an adverse impact on the Group's existing business operation.

5. ***Alternative fund raising***

As discussed in the sub-section headed "***5. Alternative fund raising***" under the section headed "**II. The Subscription Agreement**", banking and equity financing (excluding the subscription of the Convertible Preference Shares) for the Group are not considered to be preferable alternative fund raising activities.

As advised by the Directors, the properties investments under the Lismore Group are the assets of the Group that can be realised to settle part of the Shareholder's Loan while the assets under the securities dealing and brokerage and money lending businesses of the Group cannot be disposed of without disrupting the normal operations of the Group's businesses.

In view of above and taking into account that (i) the current financial position of the Group; (ii) the Disposal would not cause a dilution effect to the existing shareholding of the Company; (iii) the Properties are disposed of to MGL at a premium of more than 25% of the market value of the Properties as at 28 February 2006; and (iv) the lack of alternative means of fund raising, we consider that raising fund for the settlement of part of the Shareholder's Loan by the Disposal is fair and reasonable.

6. ***Remaining business upon the Disposal***

According to the Directors, the properties investment under the Lismore Group are the assets of the Group that can be realized to settle part of the Shareholder's Loan while the assets under the securities dealing and brokerage and money lending businesses of the Group (the "Brokerage Businesses") cannot be disposed of without disrupting the normal operations of such business. In view that there is a ready purchaser for the Lismore Group whilst, as advised by the Director, no potential purchaser has approached the Company for the Brokerage Businesses up to the date of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement and that the Group has been in a net deficit position, we consider the Disposal provides opportunities for the Group to reduce its debt. Immediately upon completion of the Disposal Agreement, the Brokerage Businesses will continue to be the business of the Group.

As set out in the Letter, Dragon Hill intends to continue the businesses of the Group and has no intention to dispose of the Group's businesses after completion of the Offers. Given the stock market sentiment in Hong Kong is experiencing an upturn which was reflected by the increasing trading volume of securities in the stock market recently, we are of the view that the existing stock market conditions provide a favorable environment for securities related businesses and therefore have a positive impact on the profitability of the Group's Brokerage Businesses.

IV. The Deed of Settlement

1. *Reasons for the entering into the Deed of Settlement*

The Group recorded net loss attributable to Shareholders for each of the seven years ended 31 December 2005, and net deficit since 31 December 2001. As at 31 December 2005, the Shareholder's Loan due from the Group to MGL, MESB and MIL, together with the interest accrued thereon, amounted to approximately HK$121.20 million, comprising principal amount and accrued interest payable of approximately HK$73.92 million and HK$47.28 million respectively. Out of the loan principal, approximately HK$2.02 million are interest free and the balance of approximately HK$71.9 million are interest-bearing at interest rates ranging from 6.5% to 8.0% per annum.

According to the Directors, the main funding of the Group is principally financed from advances from MCB and the interest rates of such funding are charged at rates lower than the normal interest rates charged by banks. In addition, the Company's holding companies, including MCB, have agreed in writing to provide adequate financial support to the Group in order 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.

Along with the change in controlling stake in the Company from MGL to Dragon Hill upon the S&P Completion, MCB (as the ultimate controlling shareholder of MGL) has indicated that it will request the Company to settle the Shareholder's Loan. After arm's length negotiation among the relevant parties, the Subscription Agreement, the Disposal Agreement and the Deed of Settlement were entered into pursuant to which the Company shall apply the Subscription Price and the Disposal Consideration in repayment of setting off against part of the Shareholder's Loan in order to obtain the agreement of MGL, MESB and MIL to waive the balance of the Shareholder's Loan which is estimated to be approximately HK$16.8 million as at the Completion Date.

2. *Major terms of the Deed of Settlement*

As stated in the Letter, pursuant to the Deed of Settlement, the Company, Dragon Hill, MGL, MESB and MIL have agreed that subject to and at the Subscription Completion and the Disposal Completion, the Shareholder's Loan shall be settled in the following manner:

(i) the Subscription Price of approximately HK$48.00 million to be paid to MGL as part repayment of the Shareholders' Loan;

(ii) the Disposal Consideration of approximately HK$56.36 million payable by MGL to the Company shall be deemed to be set off pro tanto against part of the Shareholder's Loan; and

(iii) upon payment of the Subscription Price by Dragon Hill referred to in (i) above and the setting off of the Disposal Consideration referred to in (ii) above, each of MGL, MESB and MIL shall be deemed to have irrevocably and unconditionally waived the balance of the Shareholder's Loan (the "Balance") as at the Completion Date and thereafter.

Details of the terms of the Deed of Settlement were set out in the Letter.

3. ***Analysis on the terms of the Deed of Settlement***

As discussed in the sections "**II. The Subscription Agreement**" and "**III. The Disposal Agreement**", we concur with the Directors' view that the subscription of the Convertible Preference Shares by Dragon Hill and the Disposal are fair and reasonable and both of which are among the best fund-raising alternatives available to the Company given the poor financial position of the Group and low trading liquidity of the Shares.

In view of the persistent losses and net deficit of the Group, we are of the view that (i) the waiver from MGL, MESB and MIL of the Balance without any further obligation imposed onto the Group will have a positive impact on the Group's financial position; and (ii) it would be very difficult for the Group to raise fund to repay the Shareholder's Loan by approaching an independent third parties with terms that are more favorable than those contemplated under the Deed of Settlement, and therefore we consider and concur with the Directors that the Deed of Settlement is in the interest of the Company and the Shareholders as a whole.

4. ***Benefit from the Deed of Settlement***

Based on (i) the Shareholder's Loan of approximately HK$121.20 million as at 31 December 2005, (ii) the Subscription Price of approximately HK$48.00 million, and (iii) the Disposal Consideration which is estimated to be approximately HK$56.36 million, the balance of the Shareholder's Loan to be waived by MGL, MESB and MIL pursuant to the Deed of Settlement is estimated to be approximately HK$16.8 million as at the Completion Date. Thus, upon settlement and waiver of the Shareholder's Loan in full, the the Group will change from a net deficit of approximately HK$53.83 million to net asset of approximately HK$21.49 million (based on pro forma financial information of the Group as set out in Appendix II to the Circular) and as a result of such waiver of Shareholder's Loan, an estimated gain of approximately HK$16.8 million will be accounted for the year ending 31 December 2006. We consider that it is in the interest of the Company to enter into the Subscription Agreement, the Disposal Agreement and the Deed of Settlement although upon the Disposal Completion, the Group will not have any investment in properties.

As mentioned under the sub-section headed "***1. Reasons for the entering into the Deed of Settlement***" under the section headed "**IV. The Deed of Settlement**", of approximately HK$71.9 million of the Shareholder's Loan are interest-bearing at interest rates ranging from 6.5% to 8.09% per annum. Upon completion of the Deed of Settlement, the Group no longer has to bear an interest expense of more than approximately HK$4.67 million per annum as a result of the Shareholder's Loan for the Group's financial year 2006.

Based on the audited accounts of the Group, the gearing ratio of the Group as at 31 December 2005 was approximately 97.57% (based on the ratio of the Shareholder's Loan, being the total borrowing of the Group as at 31 December 2005, to the total assets of the Group of approximately HK$75.76 million as at 31 December 2005) and save for the Shareholder's Loan, the Group has no outstanding borrowings as at the Latest Practicable Date. Assuming completion of the Deed of Settlement had taken place on 31 December 2005, the gearing ratio would have been improved from 97.57% as 31 December 2005 to nil following completion of the Deed of Settlement. In addition, upon completion of the Deed of Settlement, the liabilities of the Group will significantly ease and the total liquidity position of the Group will be improved as a whole.

Taking into consideration (i) the financial position of the Group; (ii) the above financial benefits which accrue to the Group as a result of the Deed of the Settlement and the transactions contemplated thereunder; (iii) the Group may not able to approach independent third parties for fund raising with a more favorable terms than the Deed of Settlement; and (iv) no interest expense or dividend payment were incurred on the Group under the terms of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, we concur with the Directors the terms under Subscription Agreement, the Disposal Agreement and the Deed of Settlement are fair and reasonable and in the Shareholders as a whole.

V. Capital Reduction

1. *The proposal for the Capital Reduction*

As stated in the Letter, the Directors intend to put forward a proposal to the Independent Shareholders to effect the Capital Reduction which will involve:

(a) the reduction of the par value of each Share in issue from HK$0.10 to HK$0.001 by canceling the paid up capital to the extent of HK$0.099 on each Share in issue on the date upon which the Capital Reduction becomes effective such that the par value of each issued Share will be reduced to HK$0.001 and the issued share capital of the Company of approximately HK$61,502,418 shall be reduced by approximately HK$60,887,394 to approximately HK$615,024;

(b) 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

(c) transfer the credit arising from the cancellation of paid up capital in the amount of approximately HK$60,887,394 to the contributed surplus account of the Company.

Details of the terms of and impact on the Capital Reduction were set out in the Letter.

2. *Reason for the Capital Reduction*

Immediately upon the Capital Reduction becoming effective, the par value of each of the issued and unissued Shares will be reduced from HK$0.10 to HK$0.001 per Share. The closing price per Share as at 21 March 2006 (being the last full trading date prior to the publication of this announcement) was HK$0.08, which is lower than the existing par value per Share of HK$0.10 and the prevailing market Share price has been lower than the existing par value since August 2005. We discussed with the Directors and concur with their view that the Capital Reduction will not only allow the issue of the Convertible Preference Shares as the initial Conversion Price is HK$0.03155 per Share which is below the par value, but also give the Company greater flexibility in pricing any issue of new Shares in future when suitable opportunities arise.

The Capital Reduction is inter-conditional with the Subscription Agreement. In this regard, if the Capital Reduction is not approved by the Independent Shareholders, the Subscription Agreement cannot be proceeded and the Disposal Agreement and the Deed of Settlement which are inter-conditional with the Subscription Agreement cannot be proceeded as well.

Taking into consideration the need for fund raising for the Group to settle the Shareholder's Loan and the Capital Reduction being the necessary step for completion of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, we consider the Capital Reduction is fair and reasonable to provide flexibility for the Group's equity financing. Although the Company's contributed surplus account will increase upon the Capital Reduction becoming effective, other than the expenses to be incurred in relation to the Capital Reduction itself, the implementation of the Capital Reduction will not, in itself alter the underlying assets, business operations, management or financial position of the Company or affect the proportionate interest of the Shareholders.

VI. Amendments to the Memorandum of Association and Bye-laws of the Company

The Amendments incorporating, among other things, the rights, privileges and restrictions attached to the Convertible Preference Shares are required in order to facilitate the allotment and issue of the Convertible Preference Shares under the Subscription Agreement. The Amendments are required to be passed by Independent Shareholders by way of a special resolution in accordance with the Company's existing bye-laws and the laws of Bermuda. The Amendments are inter-conditional to the Subscription Agreement.

The Amendments are inter-conditional with the Subscription Agreement. In this regard, if the Amendments are not approved by the Independent Shareholders, the Subscription Agreement cannot be proceeded and the Disposal Agreement and the Deed of Settlement which are inter-conditional with the Subscription Agreement cannot be proceeded as well. As such, we consider the Amendments are fair and reasonable and in the interest of the Company and its shareholders as a whole.

VII. Future intentions of Dragon Hill regarding the Group

Shareholders should note that the Share Sale Agreement which is subject to, among others, the Subscription Agreement and the Disposal Agreement having become unconditional will become effective following the simultaneous completion of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement and upon the S&P Completion, Dragon Hill will become the controlling Shareholder and is required to make the Offers pursuant to the Takeovers Code.

As stated in the Letter, Dragon Hill intends to continue the existing businesses of the Group and has no intention to dispose of the Group's businesses after completion of the Offers. Dragon Hill will, following the S&P Completion, conduct a more detailed review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise. However, Dragon Hill has no immediate plan of injecting any of its assets into the Group upon the S&P Completion.

Also stated in the Letter, it is expected that all of the existing executive Directors, namely Mr. Lim Teong Leong, Mr. Tam Cheok Wing, Mr. Ooi Sin Heng and Mr. Chan Hon Ming, and all of the existing independent non-executive Directors, namely Mr. Wong Ming Shiang and Mr. Lim Eng Ho, will resign and such resignation will take effect on the closing date of the Offers in compliance with Rule 7 of the Takeovers Code. However, Mr. Ooi who will cease to be a director and general manager of the Company as a result of change in the controlling Shareholder will remain as a responsible officer (as defined under the SFO) of MISL, a wholly-owned subsidiary of the Company, in respect of the business of MISL under a new service contract (the monthly salary payable to Mr. Ooi under the existing service contract and the new service contract will be the same). As stated in the Letter, Dragon Hill intends to nominate Mr. Lee as the executive Director.

In the absence of concrete information on the detailed future plans on the Group's business, we consider ourselves not in a position to opine on the impact, if any, that above intentions of Dragon Hill may have on the Group.

RECOMMENDATION

Taking into account (i) the existing net deficit position of the Group; (ii) the need for fund raising to repay the Shareholder's Loan upon the S&P Completion; (iii) the low trading liquidity of Shares; (iv) the Properties to be disposed of at a premium of more than 25% of the market value; (v) no interest expense or dividend payment to be incurred on the Group under the terms of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement; (vi) the financial benefits which accrue to the Group as a result of the Deed of the Settlement and the transactions contemplated thereunder; and (vii) it being uncertain whether the Group may be able to approach independent third parties for fund raising on a more favorable terms than the Deed of Settlement, we are of the view that the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the Amendments are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and recommend the Independent Shareholders to vote in favour of the resolutions to approve the Capital Reduction, the Subscription Agreement, the Disposal Agreement, the Deed of Settlement and the Amendments to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Kingston Corporate Finance Limited

Elton Cheung	**Gregory Ho**
Director	*Director*

ACCOUNTANTS' REPORT OF THE COMPANY FOR THE THREE YEARS ENDED 31 DECEMBER 2005

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

29 April 2006

The Board of Directors
Magnum International Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Magnum International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods"), prepared on the basis set out in Section 1 below, for inclusion in the circular (the "Circular") issued by the Company dated 29 April 2006 in connection with the proposed disposal (the "Disposal") of the Group's entire equity interests in Lismore Properties Limited and its subsidiaries (collectively the "Lismore Group") pursuant to a disposal agreement dated 30 March 2006 entered into between Watary Investment Limited ("Watary"), a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company, as vendor and Magnum (Guernsey) Limited ("MGL"), a company incorporated in Guernsey and is the immediate holding company of the Company, as purchaser. The financial information regarding the Lismore Group for the Relevant Periods is set out in Section 10 of this report.

The Company was incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda (as amended) on 24 August 1992.

During the Relevant Periods, the principal activities of the Group consist of securities dealing and brokerage, securities trading and investment holding, money lending and property investment. The principal activity of the Company is investment holding.

The Group has adopted 31 December as its financial year end date for statutory reporting purposes.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with accounting principles generally accepted in Hong Kong. We have audited the consolidated financial statements of the Group for each of the three years ended 31 December 2003, 2004 and 2005 in accordance with Statements of Auditing Standards ("SASs") and Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the Relevant Periods in accordance with the SASs and HKSAs and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The summaries of the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods and of the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004 and 2005 (the "Summaries") as set out in this report have been prepared, and are presented on the basis as set out in Section 1 below.

The Summaries together with the notes thereto are the responsibility of the directors of the Company. It is our responsibility to form an independent opinion on such information and to report our opinion solely to you.

In forming our opinion we also evaluated the overall adequacy of the presentation of the Summaries together with the notes thereto. We believe that our work provides a reasonable basis for our opinion.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003, 2004 and 2005, respectively, and of the results and cash flows of the Group for the Relevant Periods.

1. BASIS OF PRESENTATION

The Group had net current liabilities of HK$24,394,308 and a net deficiency in assets of HK$53,826,527 as at 31 December 2005. The current liabilities included interest payables to the holding companies and a fellow subsidiary aggregating HK$47,277,001, whilst the non-current liabilities included amounts due to holding companies aggregating HK$73,919,147 as at that date. The Group sustained a loss for the year attributable to equity holders of the Company of HK$8,756,390 for the year ended 31 December 2005.

The Company's holding companies, including Magnum Corporation Berhad ("MCB"), the ultimate holding company of the Company, have agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern as long as the Group remains as subsidiary companies of MCB. The Company's holding companies have also agreed 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 30 March 2006:

(a) MCB, MGL, 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, entered into a share sale agreement (the "Share Sale Agreement"), pursuant to which MGL has conditionally agreed to sell and Dragon Hill agreed to purchase a total of 316,973,680 issued shares of the Company (the "Sale Shares"), representing approximately 51.54% of the entire issued share capital of 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 convertible preference shares (the "Convertible Preference Shares") at a subscription price of HK$48 million;

(c) Watary and MGL entered into a disposal agreement (the "Disposal Agreement"), whereby 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 the Lismore Group for a consideration of approximately HK$56.4 million (the "Disposal Consideration"). The Lismore Group is the sole property holding business segment of the Group;

(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 (collectively the "Shareholder's Loan") shall be fully settled in the following manner:

    (i) the subscription price receivable (i.e., approximately HK$48 million) of the Company upon issue of the Convertible Preference Shares under the Subscription Agreement; and

    (ii) the Disposal Consideration (i.e., approximately HK$56.4 million) payable by MGL pursuant to the Disposal Agreement.

    The remaining balance of the Shareholder's Loan as at the completion date of the transactions as detailed in Sections 1(a), (b) and (c) above 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 31 July 2006, the Deed of Settlement shall lapse.

(e) The Company proposes to implement a capital reduction which will involve (i) the reduction of the par value of each share in issue from HK$0.10 to HK$0.001 by cancelling the paid up capital to the extent of HK$0.099 on each share in issue on the date upon which the capital reduction becoming effective, such that the par value of each issued share will be reduced to HK$0.001 and the issued shares of the Company of HK$61,502,418 shall be reduced by HK$60,887,394 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 shares 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 own an aggregate of 316,973,680 shares, representing approximately 51.54% of the entire 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 prices for the issued shares and the share options are HK$0.03155 per share and HK$0.001 per share option, respectively.

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 31 July 2006. Details of the Agreements, including the terms and conditions, were set out in Letter from the Board of the Circular issued by the Company.

After the completion of the above transactions, the directors of the Company expect that gains arising from the disposal of the Lismore Group and waiver of the Shareholder's Loan by MGL, MESB and MIL as set out in Sections 1(c) and (d) above, respectively, would be approximately HK$12.4 million and HK$16.8 million, respectively, before expenses, based on the financial information as at 31 December 2005. The total liabilities of the Group would be reduced from HK$129.6 million to approximately HK$7.9 million as at 31 December 2005, resulting in net current assets and net assets of approximately HK$20.7 million and HK$21.5 million, respectively, as at that date.

Mr. Lee has also confirmed in writing in respect of his willingness to provide financial support to the Group to enable the Group to operate as a going concern and to meet its liabilities as and when they fall due following the completion of the above transactions, so long as the Group is a subsidiary of Dragon Hill and Dragon Hill is owned and controlled by Mr. Lee.

In light of (i) the continuous financial support from the holding companies should the Group remains as its subsidiary companies of MCB; (ii) the improvement in the financial position and the confirmed willingness of Mr. Lee to provide financial support following the completion of the above transactions; and (iii) the continuous effort to seek support from potential investors to strengthen the Group's working capital position, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the Summaries on a going concern basis.

The Summaries have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, 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 investment properties and equity investments, which have been measured at fair value. These Summaries are presented in Hong Kong dollars.

The HKICPA has issued a number of new and revised HKFRSs which are effective for the accounting periods beginning on or after 1 January 2005. The Summaries have been prepared in accordance with the new and revised HKFRSs. The application of these new and revised HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on the current and prior year's presentation and methods of computation in the Group's and the Company's financial information:

(i) *HKAS 32 and HKAS 39 — Financial Instruments*

In prior years, the Group classified its investments in listed equity securities for trading purposes as short term investments, which were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$1,420,287 are classified as equity investments at fair value through profit or loss under the transitional provisions of HKAS 39 and are also stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purpose.

(ii) *HKAS 38 — Intangible Assets*

In prior years, the Group's intangible assets were amortised on the straight-line basis over their estimated useful lives of 10 years, less any impairment losses.

Upon the adoption of HKAS 38, the Group's eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc. are permitted to be regarded as having indefinite lives, which should not be amortised and are subject to annual impairment tests. Comparative amounts have been restated for presentation purpose.

(iii) *HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets*

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use and, accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

The HKICPA has also issued several standards and interpretations that are not yet effective as at the date of this report. The directors of the Company anticipate that the adoption of these new standards and interpretations will have no material impact to the results of operations and financial position of the Group.

Basis of consolidation

The Summaries include the financial information of the Company and its subsidiaries for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The definitions used in the Circular apply to this report unless otherwise stated.

At the date of this report, the Company had direct or indirect interests in the following principal subsidiaries, all of which are private companies, the particulars of which are set out below:

Name	Place of incorporation/ registration 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
Magnum Industries Limited	Hong Kong	HK$10	—	100	Trading of marketable securities

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the Relevant Periods 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing of an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. The intangible assets of the Group, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc., have indefinite useful lives. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases

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 income statement 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 income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as either equity investments at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Equity investments at fair value through profit or loss

Financial assets classified as held for trading are included in the category "Equity investments at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 interests 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 credits 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 credits 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 reassessed at each balance sheet date and are recognised to the extent that 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 have been exchanged;
- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial asset;
- 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.

Pension 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 income statement 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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Summaries:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amounts of investment properties at 31 December 2003, 2004 and 2005 were HK$27,010,000, HK$33,290,000 and HK$43,920,000, respectively (Section 5(b)).

4. CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of the Group for the three years ended 31 December 2003, 2004 and 2005, after making such adjustments as we consider appropriate and on the basis set out in Section 1 above:

	Notes	2003 HK$	2004 HK$	2005 HK$
REVENUE	(a)	8,259,794	21,913,149	12,310,910
Other income and gains	(a)	636,340	261,884	236,873
Cost of trading equity securities sold		(449,000)	(12,721,750)	(5,000,826)
Administrative expenses		(13,004,570)	(12,065,515)	(14,157,260)
Other operating expenses		(2,921,172)	(2,507,260)	(2,428,747)
Unrealised gains/(losses) on equity investments at fair value through profit or loss		5,929,051	(719,000)	443,365
Changes in fair value of investment properties		(1,120,000)	6,280,000	10,630,000
Write-back of/(charge to) provision for doubtful debts		(671,693)	962,514	(1,622,788)
Impairment of intangible assets		(981,262)	(1,207,965)	(2,336,028)
Finance costs	(b)	(7,199,732)	(6,426,706)	(6,506,291)
LOSS BEFORE TAX	(c)	(11,522,244)	(6,230,649)	(8,430,792)
Tax	(f)	—	(112,927)	(325,598)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(11,522,244)	(6,343,576)	(8,756,390)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(g)			
Basic		HK(1.87 cents)	HK(1.03 cents)	HK(1.42 cents)
Diluted		N/A	N/A	N/A

Notes:

(a) Revenue, other income and gains

Revenue (which is also the Group's turnover), other income and gains is analysed as follows:

	2003	2004	2005
	HK$	*HK$*	*HK$*
Revenue			
Commission and interest income from securities dealing and margin finance	4,792,621	5,218,636	4,224,393
Interest income from consumer finance	700,000	703,493	825,753
Property rental income	2,333,873	2,092,770	2,156,084
Proceeds from the sale of equity investments at fair value through profit or loss	433,300	13,898,250	5,104,680
	8,259,794	21,913,149	12,310,910
Other income			
Dividend income from listed investments	475,963	109,589	40,884
Others	160,377	152,295	140,656
	636,340	261,884	181,540
Gains			
Foreign exchange gains, net	—	—	55,333
	636,340	261,884	236,873

For the two years ended 31 December 2003 and 2004, gains arising from trading in securities was classified as other income. During the year ended 31 December 2005, the Group included trading in securities as one of its principal activities and, accordingly, the directors considered it more appropriate to reclassify its proceeds from the trading in securities and related cost under revenue and cost of trading equity securities sold, respectively, to better reflect the underlying nature of these balances and allow a more appropriate presentation of the Group's results. Accordingly, the revenue and cost of trading equity securities sold for the two years ended 31 December 2003 and 2004 have been restated.

(b) Finance costs

	2003	2004	2005
	HK$	*HK$*	*HK$*
Interest on bank overdrafts wholly repayable within five years	183,313	100,613	12,015
Interest on amounts due to holding companies and a fellow subsidiary	7,016,419	6,326,093	6,494,276
	7,199,732	6,426,706	6,506,291

(c) Loss before tax

The Group's loss before tax is arrived at after charging:

	2003 *HK$*	2004 *HK$*	2005 *HK$*
Auditors' remuneration	680,000	680,000	750,000
Depreciation	425,924	219,262	52,575
Employee benefits expense (including directors' remuneration — Section 4(d)):			
Wages and salaries	7,429,375	7,246,872	7,063,026
Pension scheme contributions	289,484	276,541	297,433
Termination benefits	—	—	236,721
	7,718,859	7,523,413	7,597,180
Foreign exchange losses, net	108,804	62,750	—
Loss on disposal of equity investments at fair value through profit or loss	15,700	—	—
Minimum lease payments under operating leases in respect of land and buildings	1,333,736	1,324,355	1,392,886
Write-off of items of property, plant and equipment	5,328	—	—
and after crediting:			
Gross rental income	2,333,873	2,092,770	2,156,084
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	(89,786)	(95,196)	(112,192)
Net rental income	2,244,087	1,997,574	2,043,892
Bank interest income	109,143	8,772	120,124
Interest income for loans receivable	2,427,775	2,720,008	2,501,438
	2,536,918	2,728,780	2,621,562
Gain on disposal of equity investments at fair value through profit or loss	—	1,176,500	103,854
Gain on disposal of items of property, plant and equipment	—	400	—

(d) Directors' remuneration

	2003 *HK$*	2004 *HK$*	2005 *HK$*
Fees	—	210,000	210,000
Other emoluments:			
Salaries, allowances and benefits in kind	1,882,666	1,895,469	2,235,320*
Fixed bonuses	354,815	354,815	354,815
Pension scheme contributions	84,963	84,963	84,963
	2,322,444	2,335,247	2,675,098
	2,322,444	2,545,247	2,885,098

* Included in the amount was termination benefits of HK$106,605 for an existing director of the Company for loss of office as a director of a wholly-owned subsidiary of the Company.

Year ended 31 December 2003

	Fees	**Salaries, allowances and benefits in kind**	**Fixed bonuses**	**Pension scheme contributions**	**Total remuneration**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors:					
Mr. Lim Teong Leong	—	—	—	—	—
Mr. Tam Cheok Wing	—	—	—	—	—
Mr. Ooi Sin Heng	—	603,406	35,000	21,000	659,406
Mr. Chan Hon Ming, Alan	—	1,279,260	319,815	63,963	1,663,038
	—	1,882,666	354,815	84,963	2,322,444
Independent non-executive directors:					
Mr. Gan Cheong Ann	—	—	—	—	—
Mr. Kwan Huey Jin	—	—	—	—	—
	—	—	—	—	—
	—	1,882,666	354,815	84,963	2,322,444

Year ended 31 December 2004

	Fees	**Salaries, allowances and benefits in kind**	**Fixed bonuses**	**Pension scheme contributions**	**Total remuneration**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors:					
Mr. Lim Teong Leong	30,000	—	—	—	30,000
Mr. Tam Cheok Wing	30,000	—	—	—	30,000
Mr. Ooi Sin Heng	30,000	616,209	35,000	21,000	702,209
Mr. Chan Hon Ming, Alan	30,000	1,279,260	319,815	63,963	1,693,038
	120,000	1,895,469	354,815	84,963	2,455,247
Independent non-executive directors:					
Mr. Wong Ming Shiang	30,000	—	—	—	30,000
Mr. Lim Eng Ho	30,000	—	—	—	30,000
Mr. Soo Tho Him Yip	30,000	—	—	—	30,000
Mr. Gan Cheong Ann	—	—	—	—	—
Mr. Kwan Huey Jin	—	—	—	—	—
	90,000	—	—	—	90,000
	210,000	1,895,469	354,815	84,963	2,545,247

Year ended 31 December 2005

	Fees	Salaries, allowances and benefits in kind	Fixed bonuses	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors:					
Mr. Lim Teong Leong	30,000	—	—	—	30,000
Mr. Tam Cheok Wing	30,000	—	—	—	30,000
Mr. Ooi Sin Heng	30,000	652,236	35,000	21,000	738,236
Mr. Chan Hon Ming, Alan	30,000	1,583,084	319,815	63,963	1,996,862
	120,000	2,235,320	354,815	84,963	2,795,098
Independent non-executive directors:					
Mr. Wong Ming Shiang	30,000	—	—	—	30,000
Mr. Lim Eng Ho	30,000	—	—	—	30,000
Mr. Soo Tho Him Yip	30,000	—	—	—	30,000
	90,000	—	—	—	90,000
	210,000	2,235,320	354,815	84,963	2,885,098

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(e) Five highest paid employees

The five highest paid employees during the Relevant Periods included two directors, details of whose remuneration are set out in Section 4(d) above. Details of the remuneration of the remaining three non-directors, highest paid employees for the Relevant Periods are set out below:

	2003	2004	2005
	HK$	*HK$*	*HK$*
Salaries, allowances and benefits in kind	1,245,247	1,265,418	1,257,467
Fixed bonuses	95,180	95,180	95,180
Pension scheme contributions	57,108	57,108	57,108
	1,397,535	1,417,706	1,409,755

The remuneration of each of the non-directors, highest paid employees fell within the band of nil to HK$1,000,000 for the three years ended 31 December 2003, 2004 and 2005.

(f) Tax

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2003. No provision for Hong Kong profits tax have been made for the two years ended 31 December 2004 and 2005 as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong during that two years.

	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Underprovision for Hong Kong profits tax in prior years	—	27,018	—
Deferred tax — Section 5(r)	—	85,909	325,598
Tax charge for the year	—	112,927	325,598

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

	2003		**2004**		**2005**	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
Loss before tax	(11,522,244)		(6,230,649)		(8,430,792)	
Tax at the statutory tax rate	(2,016,393)	17.5	(1,090,364)	17.5	(1,475,389)	17.5
Current tax of previous periods	—		27,018		—	
Income not subject to tax	(1,312,419)		(1,099,000)		(1,472,707)	
Expenses not deductible for tax	2,164,075		1,666,943		1,900,298	
Tax losses not recognised	1,164,737		1,002,437		1,382,057	
Tax losses utilised from previous periods	—		(394,107)		(8,661)	
Tax charge at the Group's effective rate	—	—	112,927	1.8	325,598	3.9

(g) Loss per share attributable to equity holders of the Company

For the three years ended 31 December 2003, 2004 and 2005, the calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company of HK$11,522,244, HK$6,343,576 and HK$8,756,390, respectively, and the weighted average number of 615,024,175 ordinary shares for the respective years, in issue during the Relevant Periods.

Diluted loss per share amounts for the three years ended 31 December 2003, 2004 and 2005 have not been disclosed, as the share options outstanding during these years had anti-dilutive effects on the basic loss per share amounts for the Relevant Periods.

(h) Dividend

No dividend has been paid or declared by the Company during the Relevant Periods.

(i) Related party transactions

(a) In addition to the transactions detailed elsewhere in the Summaries, the Group had the following material transactions with related parties during the Relevant Periods:

	Notes	2003 HK$	2004 HK$	2005 HK$
Interest expense charged by the immediate holding company	(i)	3,865,146	3,059,286	3,008,689
Interest expense charged by an intermediate holding company	(i)	3,132,450	3,266,807	3,485,587
Interest expense charged by a fellow subsidiary	(i)	18,823	—	—
Management fee income charged to a fellow subsidiary	(ii)	48,600	48,600	48,600

Notes:

(i) The interest expense charged by the immediate holding company, an intermediate holding company and a fellow subsidiary during the Relevant Periods arose from their respective advances, further details of which, including the terms, are disclosed in Sections 5(o), (p) and (q), respectively.

(ii) Management fee income was related to the administrative services provided to a fellow subsidiary of the Company. The fee was charged at a monthly rate of HK$4,050.

(b) Outstanding balances with related parties:

	Notes	2003 HK$	2004 HK$	2005 HK$
Due to the immediate holding company	(i)	71,417,961	62,409,747	65,418,436
Due to an intermediate holding company	(ii)	48,778,861	52,045,668	55,531,255
Due to a fellow subsidiary	(iii)	2,178,957	246,457	246,457

Notes:

(i) This represents interest payable and amount due to the immediate holding company, details of the terms thereof are included in Sections 5(m) and (o), respectively.

(ii) This represents interest payable and amount due to an intermediate holding company, details of the term thereof are included in Sections 5(m) and (p), respectively.

(iii) This represents interest payable and/or amount due to a fellow subsidiary, details of the terms thereof are included in Sections 5(m) and 5(q).

(c) Compensation of key management personnel of the Group:

Details of the compensation of the Group's key management personnel are disclosed in Section 4(d).

5. BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004 and 2005, after making such adjustments as we consider appropriate and on the basis as set out in Section 1 above:

Consolidated balance sheets of the Group

	Notes	2003 HK$	2004 HK$	2005 HK$
NON-CURRENT ASSETS				
Property, plant and equipment	(a)	298,778	103,076	151,189
Investment properties	(b)	27,010,000	33,290,000	43,920,000
Intangible assets	(d)	4,376,726	3,135,479	827,246
Total non-current assets		31,685,504	36,528,555	44,898,435
CURRENT ASSETS				
Loans receivable	(e)	31,312,463	19,402,017	14,969,290
Accounts receivable	(f)	7,291,491	5,213,721	1,196,327
Prepayments, deposits and other receivables	(g)	1,751,042	1,555,428	2,405,800
Equity investments at fair value through profit or loss	(h)	14,798,510	1,420,287	1,910,949
Client trust bank accounts	(i)	2,567,956	4,106,932	2,797,641
Fixed deposit, pledged	(j)	5,000,000	—	—
Cash and cash equivalents	(k)	1,498,718	12,257,012	7,581,554
Total current assets		64,220,180	43,955,397	30,861,561
CURRENT LIABILITIES				
Accounts payable	(l)	5,845,755	5,534,910	3,643,550
Other payables and accruals	(m)	38,945,973	45,373,516	51,560,285
Bank loans and overdrafts, secured	(n)	1,869,336	588,573	—
Amount due to the immediate holding company	(o)	12,067,500	—	—
Amount due to a fellow subsidiary	(q)	1,932,500	—	—
Tax payable		52,034	52,034	52,034
Total current liabilities		60,713,098	51,549,033	55,255,869
NET CURRENT ASSETS/ (LIABILITIES)		3,507,082	(7,593,636)	(24,394,308)

	Notes	2003 HK$	2004 HK$	2005 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES		35,192,586	28,934,919	20,504,127
NON-CURRENT LIABILITIES				
Amount due to the immediate holding company	(o)	42,999,147	42,999,147	42,999,147
Amount due to an intermediate holding company	(p)	30,920,000	30,920,000	30,920,000
Deferred tax liabilities	(r)	—	85,909	411,507
Total non-current liabilities		73,919,147	74,005,056	74,330,654
Net liabilities		(38,726,561)	(45,070,137)	(53,826,527)
DEFICIENCY IN ASSETS				
Issued capital	(s)	61,502,418	61,502,418	61,502,418
Reserves	(u)(i)	(100,228,979)	(106,572,555)	(115,328,945)
Net deficiency in assets		(38,726,561)	(45,070,137)	(53,826,527)

Balance sheets of the Company

	Notes	2003 HK$	2004 HK$	2005 HK$
NON-CURRENT ASSETS				
Interests in subsidiaries	(c)	1,750,639	(19,065,003)	(22,927,276)
CURRENT ASSETS				
Prepayments and deposits	(g)	229,887	229,887	229,887
Cash and cash equivalents	(k)	11,967	48,130	62,010
Total current assets		241,854	278,017	291,897
CURRENT LIABILITIES				
Other payables and accruals	(m)	12,513,277	14,918,243	17,668,296
Bank loans and overdrafts, secured	(n)	1,561,678	588,573	—
Amount due to the immediate holding company	(o)	12,067,500	—	—
Amount due to a fellow subsidiary	(q)	1,932,500	—	—
Total current liabilities		28,074,955	15,506,816	17,668,296
NET CURRENT LIABILITIES		(27,833,101)	(15,228,799)	(17,376,399)
TOTAL ASSETS LESS CURRENT LIABILITIES		(26,082,462)	(34,293,802)	(40,303,675)
NON-CURRENT LIABILITY				
Amount due to the immediate holding company	(o)	30,932,500	30,932,500	30,932,500
Net liabilities		(57,014,962)	(65,226,302)	(71,236,175)
DEFICIENCY IN ASSETS				
Issued capital	(s)	61,502,418	61,502,418	61,502,418
Reserves	(u)(ii)	(118,517,380)	(126,728,720)	(132,738,593)
Net deficiency in assets		(57,014,962)	(65,226,302)	(71,236,175)

Notes:

(a) Property, plant and equipment

Group

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Motor vehicles *HK$*	Computers and equipment *HK$*	Total *HK$*
31 December 2003					
At 1 January 2003:					
Cost	1,668,909	1,749,084	650,000	1,696,496	5,764,489
Accumulated depreciation	(1,386,759)	(1,676,801)	(650,000)	(1,388,824)	(5,102,384)
Net carrying amount	282,150	72,283	—	307,672	662,105
At 1 January 2003, net of accumulated depreciation	282,150	72,283	—	307,672	662,105
Additions	50,000	12,880	—	5,045	67,925
Write-off	—	(5,328)	—	—	(5,328)
Depreciation provided during the year	(162,030)	(56,957)	—	(206,937)	(425,924)
At 31 December 2003, net of accumulated depreciation	170,120	22,878	—	105,780	298,778
At 31 December 2003:					
Cost	1,718,909	1,391,821	650,000	889,325	4,650,055
Accumulated depreciation	(1,548,789)	(1,368,943)	(650,000)	(783,545)	(4,351,277)
Net carrying amount	170,120	22,878	—	105,780	298,778
31 December 2004					
At 1 January 2004:					
Cost	1,718,909	1,391,821	650,000	889,325	4,650,055
Accumulated depreciation	(1,548,789)	(1,368,943)	(650,000)	(783,545)	(4,351,277)
Net carrying amount	170,120	22,878	—	105,780	298,778
At 1 January 2004, net of accumulated depreciation	170,120	22,878	—	105,780	298,778
Additions	13,750	7,470	—	2,340	23,560
Depreciation provided during the year	(105,912)	(12,051)	—	(101,299)	(219,262)
At 31 December 2004, net of accumulated depreciation	77,958	18,297	—	6,821	103,076
At 31 December 2004:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	—	6,821	103,076

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Motor vehicles *HK$*	Computers and equipment *HK$*	Total *HK$*
31 December 2005					
At 1 January 2005:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	—	6,821	103,076
At 1 January 2005, net of accumulated depreciation	77,958	18,297	—	6,821	103,076
Additions	100,038	—	—	650	100,688
Depreciation provided during the year	(42,294)	(5,528)	—	(4,753)	(52,575)
At 31 December 2005, net of accumulated depreciation	135,702	12,769	—	2,718	151,189
At 31 December 2005:					
Cost	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	135,702	12,769	—	2,718	151,189

(b) Investment properties

	Group		
	2003 *HK$*	**2004** *HK$*	**2005** *HK$*
Carrying amount at 1 January	28,130,000	27,010,000	33,290,000
Net profit/(loss) from a fair value adjustment	(1,120,000)	6,280,000	10,630,000
Carrying amount at 31 December	27,010,000	33,290,000	43,920,000

The investment properties are all situated in Hong Kong and are held under the following lease terms:

	2003 *HK$*	**2004** *HK$*	**2005** *HK$*
Long term leases	9,950,000	13,140,000	4,050,000
Medium term leases	17,060,000	20,150,000	39,870,000
	27,010,000	33,290,000	43,920,000

The Group's investment properties were revalued on 31 December 2003, 2004 and 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$27,010,000, HK$33,290,000 and HK$43,920,000, respectively, on an open market, existing use basis.

All the investment properties of the Group are leased to third parties under operating leases, further summary details of which are included in Section 5(v)(i).

Certain investment properties of the Group with a total carrying amount of HK$26,710,000, HK$32,940,000 and HK$43,570,000 are subject to legal charges in favour of the Group's bankers at 31 December 2003, 2004 and 2005, respectively. No bank facilities were utilised by the Group as at 31 December 2005.

(c) Interests in subsidiaries

	Company		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	143,919,955	143,919,955	143,919,955
Less: Provision for impairment	(135,378,190)	(135,378,190)	(135,378,190)
	8,541,765	8,541,765	8,541,765
Amounts due from subsidiaries	296,716,515	280,299,120	276,857,250
Less: Provisions for amounts due from subsidiaries	(248,842,157)	(253,412,533)	(253,478,700)
	47,874,358	26,886,587	23,378,550
Amounts due to subsidiaries	(54,665,484)	(54,493,355)	(54,847,591)
	1,750,639	(19,065,003)	(22,927,276)

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

Particulars of the Group's principal subsidiaries are set out in Section 1 of this report.

(d) Intangible assets

Trading rights

	Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
At beginning of year:			
Cost	8,728,218	8,573,184	8,476,908
Provision for impairment	(3,295,664)	(4,196,458)	(5,341,429)
Net carrying amount	5,432,554	4,376,726	3,135,479
Cost at beginning of year, net of provision for impairment loss	5,432,554	4,376,726	3,135,479
Impairment during the year	(981,262)	(1,207,965)	(2,336,028)
Exchange realignment	(74,566)	(33,282)	27,795
At end of year	4,376,726	3,135,479	827,246
At end of year:			
Cost	8,573,184	8,476,908	8,675,042
Provision for impairment	(4,196,458)	(5,341,429)	(7,847,796)
Net carrying amount	4,376,726	3,135,479	827,246

The impairment of the intangible assets arose from the directors' assessment of the estimated realisable value of the intangible assets with reference to the prevailing market conditions.

(e) Loans receivable

	Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Margin clients accounts receivable	25,312,463	13,402,017	8,969,290
Consumer finance loan	6,000,000	6,000,000	6,000,000
Carrying amount at 31 December	31,312,463	19,402,017	14,969,290

The margin client accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 8%, 8% to 9% and 8% to 11% for the three years ended 31 December 2003, 2004 and 2005, respectively. No aged analysis is disclosed as, in the opinion of the directors, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

The consumer finance loan receivable is secured by the pledged properties situated in Hong Kong, bears interest at annual effective rates of 7%, 7% to 8% and 7% to 10% for the three years ended 31 December 2003, 2004 and 2005, respectively. At 31 December 2005, the open market value of the pledged properties was approximately HK$9.6 million.

(f) Accounts receivable

Details of the accounts receivable of the Group as at 31 December 2003, 2004 and 2005, based on the transaction date and net of provisions, are as follows:

	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Not yet due	3,213,057	3,431,749	1,083,493
0–30 days	4,078,434	1,781,972	112,834
	7,291,491	5,213,721	1,196,327

The accounts receivable are non-interest-bearing. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after the trade date. Overdue balances are reviewed regularly by senior management. The Group's accounts receivable relates to a large number of diversified customers, there is no significant concentration of credit risk.

(g) Prepayments, deposits and other receivables

	Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Prepayments	486,095	417,903	367,026
Deposits	819,557	736,109	1,170,251
Other receivables	445,390	401,416	868,523
	1,751,042	1,555,428	2,405,800

	Company		
	2003	2004	2005
	HK$	*HK$*	*HK$*
Prepayments	217,237	217,237	217,237
Deposits	12,650	12,650	12,650
	229,887	229,887	229,887

Other receivables are non-interest-bearing and have no fixed terms of repayment.

(h) Equity investments at fair value through profit or loss

	Group		
	2003	2004	2005
	HK$	*HK$*	*HK$*
Listed equity investments, at market value:			
Hong Kong	13,321,250	604,420	642,640
Elsewhere	1,477,260	815,867	1,268,309
	14,798,510	1,420,287	1,910,949

The above equity investments were classified as held for trading.

(i) 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.

(j) Fixed deposit, pledged

At 31 December 2003, a bank deposit was pledged to 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 ended 31 December 2004 with the pledged deposit released.

(k) Cash and cash equivalents

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

	Group		
	2003	2004	2005
	HK$	*HK$*	*HK$*
Cash and bank balances	1,498,718	3,257,012	2,581,554
Time deposit, non-pledged	—	9,000,000	5,000,000
Cash and cash equivalents	1,498,718	12,257,012	7,581,554

	Company		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Cash and bank balances	11,967	48,130	62,010

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

(l) Accounts payable

Details of the accounts payable of the Group as at the balance sheet dates are as follows:

	Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Not yet due	3,504,927	1,586,196	1,013,054
0–30 days	1,133,503	1,442,426	424,543
Over 30 days	1,207,325	2,506,288	2,205,953
	5,845,755	5,534,910	3,643,550

Accounts payable are non-interest-bearing. The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities are two days after the trade date.

(m) Other payables and accruals

	Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Interest payable to the immediate holding company	16,351,314	19,410,600	22,419,289
Interest payable to an intermediate holding company	17,858,861	21,125,668	24,611,255
Interest payable to a fellow subsidiary	246,457	246,457	246,457
Other payables	1,107,001	1,223,682	743,955
Accruals	3,382,340	3,367,109	3,539,329
	38,945,973	45,373,516	51,560,285

	Company		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Interest payable to the immediate holding company	11,425,353	13,671,299	15,866,647
Interest payable to a fellow subsidiary	246,457	246,457	246,457
Other payables	343,517	481,571	103,168
Accruals	497,950	518,916	1,452,024
	12,513,277	14,918,243	17,668,296

The interest payables to holding companies and a fellow subsidiary are unsecured, interest-free and have no fixed terms of repayment.

(n) Bank loans and overdrafts, secured

The bank loans and overdrafts, repayable within one year or on demand, were secured by the Group's investment properties, bore interest at annual effective rates ranging from 1.5% to 2% over the Hong Kong dollar prime rate. During the year ended 31 December 2003, bank loans amounting to HK$1,561,678 which were secured by bank deposits of HK$5,000,000, were fully repaid in the year ended 31 December 2004. Bank overdrafts were fully repaid during the year ended 31 December 2005.

(o) Amount due to the immediate holding company

The short-term balance included in current liabilities was unsecured, bore interest at 7% per annum and was fully settled during the year ended 31 December 2004.

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 which is interest-free, the remaining balance bears interest at annual effective rates ranging from 7% to 8%.

(p) Amount due to an intermediate holding company

The amount due to an intermediate holding company is unsecured, bears interest at annual effective rates ranging from 6.50% to 6.90% and is not repayable within one year.

(q) Amount due to a fellow subsidiary

The balance was unsecured, bore interest at annual effective rates ranging from 0.66% to 0.96% and was fully settled during the year ended 31 December 2004.

(r) Deferred tax liabilities

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

	Accelerated tax depreciation *HK$*
At 1 January 2003, 31 December 2003 and 1 January 2004	—
Deferred tax charged to the consolidated income statement during the year — Section 4(f)	85,909
At 31 December 2004 and 1 January 2005	85,909
Deferred tax charged to the consolidated income statement during the year — Section 4(f)	325,598
At 31 December 2005	411,507

The Group has tax losses arising in Hong Kong of HK$167,977,354, HK$168,137,000 and HK$183,353,825 for the three years ended 31 December 2003, 2004 and 2005, respectively, subject to the agreement by the Inland Revenue Department, 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.

(s) Share capital

Shares

	Company		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Authorised:			
1,000,000,000 ordinary shares of HK$0.10 each	100,000,000	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	61,502,418

Share options

Details of the Company's share option scheme are included in Section 5(t).

(t) Share option scheme

On 11 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 summary of the share option scheme of the Group is as follows:

	The Scheme
Purpose	Provide incentives and rewards to eligible participants.
Participants	Eligible participants include: (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.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of this 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 discretion on issuance of board of directors.

	The Scheme
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.
Basis of determining the exercise price	Determined by the directors at their discretion and shall not be lower than the highest of: (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	The scheme will be valid and effective until 7 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 7 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.

The following share options were outstanding under the Scheme during the year ended 31 December 2005:

	Number of share options							
Name or category of participant	**At 1 January 2005**	**Granted during the year**	**Lapsed during the year**	**At 31 December 2005**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share options***	**Price of Company's shares at grant date of options****
							HK$	*HK$*
Director								
Chan Hon Ming, Alan	3,000,000	—	—	3,000,000	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
Other employees in aggregate	17,550,000	—	(9,300,000)	8,250,000	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
	20,550,000	—	(9,300,000)	11,250,000				

* 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 31 December 2005, the Company had 11,250,000 share options outstanding under the Scheme which represented approximately 1.83% of the Company's ordinary shares in issue as at that date. The exercise in full of these remaining share options would, under the present capital structure of the Company, result in the issue of 11,250,000 additional ordinary shares of the Company and additional share capital of HK$1,125,000 and share premium of HK$123,750 (before issue expenses).

Subsequent to 31 December 2005, a total of 4,050,000 share options lapsed. At the date of approval of this report, the Company had 7,200,000 share options outstanding under the Scheme, which represented approximately 1.17% of the Company's shares in issue at that date.

(u) Reserves

(i) *Group*

The amount of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in the equity set out in Section 7 of this report.

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 30 October 1992, over the nominal value of the Company's shares issued in exchange therefor.

(ii) *Company*

	Share premium account *HK$*	**Contributed surplus** *HK$*	**Accumulated losses** *HK$*	**Total** *HK$*
At 1 January 2003	168,315,330	95,165,446	(352,999,834)	(89,519,058)
Loss for the year	—	—	(28,998,322)	(28,998,322)
At 31 December 2003 and 1 January 2004	168,315,330	95,165,446	(381,998,156)	(118,517,380)
Loss for the year	—	—	(8,211,340)	(8,211,340)
At 31 December 2004 and 1 January 2005	168,315,330	95,165,446	(390,209,496)	(126,728,720)
Loss for the year	—	—	(6,009,873)	(6,009,873)
At 31 December 2005	168,315,330	95,165,446	(396,219,369)	(132,738,593)

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 Section 5(u)(i), 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 is not presently qualified to do so.

(v) Operating lease arrangements

(i) *As lessor*

The Group leases its investment properties (Section 5(b)) 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 31 December 2003, 2004 and 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Within one year	1,921,232	1,399,500	1,734,850
In the second to fifth years, inclusive	878,000	669,600	282,500
	2,799,232	2,069,100	2,017,350

(ii) *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 31 December 2003, 2004 and 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group			**Company**		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Within one year	991,998	793,405	1,859,190	784,000	562,500	1,619,085

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial resources comprise advances from holding companies, and cash on hand and cash at banks. The main purpose of maintaining these financial resources is to finance the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial resources are interest rate risk, credit risk, capital management risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are primarily deposits with banks which are mostly short-term in nature and loans receivable from margin clients and consumer finance customers which are arising from security dealing business and consumer finance business, respectively. The Group's interest-bearing financial liabilities relate primarily to the long-term debt obligations to its holding companies with annual effective interest rates ranging from 6.5% to 8%.

Credit risk

Credit risk is the risk that a customer or counterparty in a transaction may default. The Group has properly put credit management policies in place which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources. The Group's margin clients receivable arising from the ordinary course of business of dealing in securities are secured by the underlying pledged securities while the consumer finance loan is secured by properties collateral. As at 31 December 2003, 2004 and 2005, the Group's 5 largest debtors accounted for 77%, 85% and 96%, respectively of its loans receivable. In respect of the Group's accounts receivable, they relate to a large number of diversified customers, there is no significant concentration of credit risk.

All the Group's bank balances are deposited with a number of major financial institutions.

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at the balance sheet dates, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheets.

Capital management risk

The Group is regulated by the Securities and Futures Commission (the "SFC") and is required to comply with certain minimum capital requirements according to the rules of the SFC.

Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

Fair value

At the balance sheet dates, the fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts.

7. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Movements in the shareholders' equity of the Group for the Relevant Periods on the basis as set out in Section 1 above are as follows:

	Attributable to equity holders of the Company					
	Issued share capital *HK$*	**Share premium account** *HK$*	**Contributed surplus** *HK$* *(Section 5(u)(ii))*	**Fixed assets revaluation reserve** *HK$*	**Accumulated losses** *HK$*	**Net deficiency in assets** *HK$*
At 1 January 2003	61,502,418	168,315,330	36,548,052	1,731,450	(295,301,567)	(27,204,317)
Loss for the year	—	—	—	—	(11,522,244)	(11,522,244)
At 31 December 2003 and 1 January 2004	61,502,418	168,315,330*	36,548,052*	1,731,450*	(306,823,811)*	(38,726,561)
Loss for the year	—	—	—	—	(6,343,576)	(6,343,576)
At 31 December 2004 and 1 January 2005	61,502,418	168,315,330*	36,548,052*	1,731,450*	(313,167,387)*	(45,070,137)
Loss for the year	—	—	—	—	(8,756,390)	(8,756,390)
At 31 December 2005	61,502,418	168,315,330*	36,548,052*	1,731,450*	(321,923,777)*	(53,826,527)

* The consolidated reserves in the consolidated balance sheets comprise the share premium account, contributed surplus, fixed assets revaluation reserve, and accumulated losses with a net debit balance of HK$100,228,979, HK$106,572,555 and HK$115,328,945 as at 31 December 2003, 2004 and 2005, respectively.

8. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods after making such adjustments as we consider appropriate and on the basis set out in Section 1 above are as follows:

	2003	2004	2005
	HK$	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax	(11,522,244)	(6,230,649)	(8,430,792)
Adjustments for:			
Interest income	(2,536,918)	(2,728,780)	(2,621,562)
Dividend income from listed investments	(475,963)	(109,589)	(40,884)
Finance costs	7,199,732	6,426,706	6,506,291
Depreciation	425,924	219,262	52,575
Exchange losses, net	108,214	—	—
Gain on disposal of items of property, plant and equipment	—	(400)	—
Write-off of items of property, plant and equipment	5,328	—	—
Loss/(gain) on disposal of equity investments at fair value through profit or loss	15,700	(1,176,500)	(103,854)
Unrealised losses/(gains) on equity investments at fair value through profit or loss	(5,929,051)	719,000	(443,365)
Changes in fair value of investment properties	1,120,000	(6,280,000)	(10,630,000)
Charge to/(write-back of) provision for doubtful debts	671,693	(962,514)	1,622,788
Impairment of intangible assets	981,262	1,207,965	2,336,028
Operating loss before working capital changes	(9,936,323)	(8,915,499)	(11,752,775)
Decrease/(increase) in loans receivable	(6,482,696)	13,961,961	3,612,808
Decrease/(increase) in accounts receivable	(5,326,876)	2,077,602	4,040,278
Increase in prepayments, deposits and other receivables	(551,765)	(893,219)	(1,676,125)
Decrease/(increase) in equity investments at fair value through profit or loss	(15,700)	13,835,723	56,557
Decrease/(increase) in client trust bank accounts	(1,052,752)	(1,538,976)	1,309,291
Increase/(decrease) in accounts payable	2,848,028	(310,845)	(1,891,360)
Increase in other payables and accruals	7,015,850	6,427,543	6,186,769
Exchange realignment	—	36,299	—
Cash generated from/(used in) operations	(13,502,234)	24,680,589	(114,557)
Hong Kong profits tax paid	(78,104)	(27,018)	—
Interest received	2,536,918	2,728,780	2,621,562
Dividends received from listed investments	475,963	109,589	40,884
Interest paid	(7,199,732)	(6,426,706)	(6,506,291)
Net cash inflow/(outflow) from operating activities	(17,767,189)	21,065,234	(3,958,402)

	2003 *HK$*	2004 *HK$*	2005 *HK$*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(67,925)	(23,560)	(100,688)
Proceeds from disposals of items of property, plant and equipment	—	400	—
Net cash outflow from investing activities	(67,925)	(23,160)	(100,688)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans	(2,224,418)	(1,561,678)	—
Repayment to a fellow subsidiary	—	(1,932,500)	—
Repayment to the immediate holding company	—	(12,067,500)	—
Net cash outflow from financing activities	(2,224,418)	(15,561,678)	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(20,059,532)	5,480,396	(4,059,090)
Cash and cash equivalents at beginning of year	26,258,430	6,191,060	11,668,439
Effect of foreign exchange rate changes, net	(7,838)	(3,017)	(27,795)
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,191,060	11,668,439	7,581,554
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	1,498,718	3,257,012	2,581,554
Bank overdrafts, secured	(307,658)	(588,573)	—
Non-pledged time deposits with original maturity of less than three months when acquired	—	9,000,000	5,000,000
Time deposits with original maturity of less than three months when acquired, pledged as securities for a bank overdraft facility	5,000,000	—	—
	6,191,060	11,668,439	7,581,554

9. 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 they provide. Each of the Group's business segments represents a strategic business unit that offers different types of services which are subject to risks and returns that are different from those of 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 of Hong Kong Limited and financial accommodation to facilitate the trading of these marketable securities.

- The securities investment segment includes trading in securities and holding of 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.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the three years ended 31 December 2003, 2004 and 2005.

Year ended 31 December 2003

	Securities dealing and margin finance *HK$*	Securities investment *HK$*	Consumer finance *HK$*	Property holding *HK$*	Elimination *HK$*	Consolidated *HK$*
Segment revenue:						
Services provided to external customers	4,794,827	433,300	700,000	2,333,873	(2,206)	8,259,794
Other revenue	110,932	475,963	—	835	—	587,730
Segment revenue	4,905,759	909,263	700,000	2,334,708	(2,206)	8,847,524
Segment results	(7,022,666)	6,085,103	(900,908)	(811,583)	—	(2,650,054)
Unallocated revenue and gains						48,610
Unallocated expenses						(2,535,655)
Finance costs						(6,385,145)
Loss before tax						(11,522,244)
Tax						—
Loss for the year						(11,522,244)
Assets and liabilities						
Segment assets	52,707,146	15,306,284	28,158,320	28,065,438	29,109,717	95,127,471
Unallocated assets						778,213
Total assets						95,905,684
Segment liabilities	31,643,141	142,493	44,885,997	1,328,215	(64,077,234)	13,922,612
Unallocated liabilities						120,709,633
Total liabilities						134,632,245
Other segment information:						
Capital expenditures	5,045	—	—	—		
Depreciation	229,888	—	—	164,159		
Unrealised gains on equity investments at fair value through profit or loss	—	5,929,051	—	—		
Charge to/(write-back of) provision for doubtful debts	(28,307)	—	700,000	—		
Changes in fair value of investment properties	—	—	—	(1,120,000)		
Impairment of intangible assets recognised in the income statement	981,262	—	—	—		

Year ended 31 December 2004

	Securities dealing and margin finance *HK$*	Securities investment *HK$*	Consumer finance *HK$*	Property holding *HK$*	Elimination *HK$*	Consolidated *HK$*
Segment revenue:						
Services provided to external customers	5,253,382	13,898,250	703,493	2,092,770	(34,746)	21,913,149
Other revenue	103,295	109,589	—	400	—	213,284
Segment revenue	5,356,677	14,007,839	703,493	2,093,170	(34,746)	22,126,433
Segment results	(6,510,943)	293,412	1,438,697	6,052,733	—	1,273,899
Unallocated revenue and gains						48,600
Unallocated expenses						(1,964,108)
Finance costs						(5,589,040)
Loss before tax						(6,230,649)
Tax						(112,927)
Loss for the year						(6,343,576)
Assets and liabilities						
Segment assets	43,607,731	1,924,268	18,074,840	34,092,450	(17,854,614)	79,844,675
Unallocated assets						639,277
Total assets						80,483,952
Segment liabilities	15,240,378	153,464	33,363,821	1,365,570	(36,048,585)	14,074,648
Unallocated liabilities						111,479,441
Total liabilities						125,554,089
Other segment information:						
Capital expenditures	740	—	—	21,220		
Depreciation	99,314	—	—	109,982		
Unrealised losses on equity investments at fair value through profit or loss	—	719,000	—	—		
Charge to/(write-back of) provision for doubtful debts	389,443	—	(1,737,296)	385,339		
Changes in fair value of investment properties	—	—	—	6,280,000		
Impairment of intangible assets recognised in the income statement	1,207,965	—	—	—		

Year ended 31 December 2005

	Securities dealing and margin finance *HK$*	Securities investment *HK$*	Consumer finance *HK$*	Property holding *HK$*	Elimination *HK$*	Consolidated *HK$*
Segment revenue:						
Services provided to external customers	4,249,628	5,104,680	825,753	2,156,084	(25,235)	12,310,910
Other revenue	92,056	40,884	—	—	—	132,940
Segment revenue	4,341,684	5,145,564	825,753	2,156,084	(25,235)	12,443,850
Segment results	(8,901,151)	287,980	(1,021,990)	10,752,471	—	1,117,310
Unallocated revenue and gains						103,933
Unallocated expenses						(3,959,479)
Finance costs						(5,692,556)
Loss before tax						(8,430,792)
Tax						(325,598)
Loss for the year						(8,756,390)
Assets and liabilities						
Segment assets	28,957,750	2,539,878	17,059,240	45,201,183	(18,718,878)	75,039,173
Unallocated assets						720,823
Total assets						75,759,996
Segment liabilities	9,108,348	134,869	33,370,211	1,350,233	(31,644,099)	12,319,562
Unallocated liabilities						117,266,961
Total liabilities						129,586,523
Other segment information:						
Capital expenditures	650	—	—	100,038		
Depreciation	5,135	—	—	46,364		
Unrealised gains on equity investments at fair value through profit or loss	—	443,365	—	—		
Charge to provision for doubtful debts	797,035	—	825,753	—		
Changes in fair value of investment properties	—	—	—	10,630,000		
Impairment of intangible assets recognised in the income statement	2,336,028	—	—	—		

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the three years ended 31 December 2003, 2004 and 2005.

Year ended 31 December 2003

	Hong Kong	**Philippines**	**Elimination**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue:				
Services provided to external customers	8,259,794	—	—	8,259,794
Other revenue	636,001	339	—	636,340
Segment revenue	8,895,795	339	—	8,896,134
Other geographical information:				
Segment assets	93,068,158	9,120,229	(6,282,703)	95,905,684
Capital expenditure	67,925	—	—	67,925

Year ended 31 December 2004

	Hong Kong	**Philippines**	**Elimination**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue:				
Services provided to external customers	21,913,149	—	—	21,913,149
Other revenue	152,295	109,589	—	261,884
Segment revenue	22,065,444	109,589	—	22,175,033
Other geographical information:				
Segment assets	78,955,281	7,639,245	(6,110,574)	80,483,952
Capital expenditure	23,560	—	—	23,560

Year ended 31 December 2005

	Hong Kong *HK$*	Philippines *HK$*	Elimination *HK$*	Consolidated *HK$*
Segment revenue:				
Services provided to external customers	12,310,910	—	—	12,310,910
Other revenue	216,614	20,259	—	236,873
Segment revenue	12,527,524	20,259	—	12,547,783
Other geographical information:				
Segment assets	73,735,233	8,489,573	(6,464,810)	75,759,996
Capital expenditure	100,688	—	—	100,688

10. FINANCIAL INFORMATION OF THE LISMORE GROUP

The audited financial information of the Lismore Group for the three years ended 31 December 2003, 2004 and 2005 were as follows:

Consolidated income statements

	Notes	2003 *HK$*	2004 *HK$*	2005 *HK$*
REVENUE — rental income		2,333,873	2,092,770	2,156,084
Other income and gains		835	400	—
Administrative expenses		(1,844,764)	(1,809,033)	(1,974,896)
Other operating expenses		(181,527)	(126,065)	(58,717)
Changes in fair value of investment properties		(1,120,000)	6,280,000	10,630,000
Provision for doubtful debts		—	(385,339)	—
Finance costs	(b)	(173,542)	(36,925)	—
PROFIT/(LOSS) BEFORE TAX		(985,125)	6,015,808	10,752,471
Tax	(c)	—	(112,927)	(325,598)
PROFIT/(LOSS) FOR THE YEAR		(985,125)	5,902,881	10,426,873

Consolidated balance sheets

	Notes	2003 HK$	2004 HK$	2005 HK$
NON-CURRENT ASSETS				
Property, plant and equipment		182,785	94,024	147,697
Investment properties	(d)	27,010,000	33,290,000	43,920,000
Total non-current assets		27,192,785	33,384,024	44,067,697
CURRENT ASSETS				
Prepayments, deposits and other receivables		472,507	318,009	334,701
Amount due from the immediate holding company	(e)	218,800	218,800	218,800
Amount due from a fellow subsidiary	(e)	—	—	506,722
Cash and cash equivalents		181,346	171,617	73,263
Total current assets		872,653	708,426	1,133,486
CURRENT LIABILITIES				
Other payables and accruals		601,585	640,859	625,522
Amount due to an intermediate holding company	(e)	10,671,091	10,708,016	10,708,016
Amounts due to fellow subsidiaries	(e)	45,540,011	45,502,034	45,873,633
Total current liabilities		56,812,687	56,850,909	57,207,171
NET CURRENT LIABILITIES		(55,940,034)	(56,142,483)	(56,073,685)
TOTAL ASSETS LESS CURRENT LIABILITIES		(28,747,249)	(22,758,459)	(12,005,988)
NON-CURRENT LIABILITIES				
Deferred tax liabilities	(f)	—	85,909	411,507
Net liabilities		(28,747,249)	(22,844,368)	(12,417,495)
DEFICIENCY IN ASSETS				
Issued capital		8	8	8
Reserves		(28,747,257)	(22,844,376)	(12,417,503)
Net deficiency in assets		(28,747,249)	(22,844,368)	(12,417,495)

Notes:

(a) The relevant accounting policies of the Lismore Group are set out in Section 2 of this report.

(b) Finance costs comprise interest on bank loans and overdrafts wholly repayable within five years.

(c) Refer to Section 4(f) of this report.

(d) Refer to Section 5(b) of this report.

(e) The balances are unsecured, interest-free and have no fixed terms of repayment.

(f) Refer Section 5(r) of this report.

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 December 2005.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction

The unaudited pro forma financial information of the Remaining Group has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group at any future date.

The following is the unaudited pro forma financial information of the Remaining Group, based on the Group's audited consolidated income statement and audited consolidated cash flow statement for the year ended 31 December 2005 and the audited consolidated balance sheet as at 31 December 2005, after making such pro forma adjustments relating to the Disposal, settlement and waiver of the Shareholder's Loan, subscription of the Convertible Preference Shares and Capital Reduction that are (a) directly attributable to the transaction; (b) expected to have a continuing impact on the Remaining Group; and (c) factually supportable.

(i) *Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2005 as if the Disposal and other transactions described in above accompanying introduction had been completed on 1 January 2005*

	Audited consolidated income statement of the Group for the year ended 31 December 2005	**Pro forma adjustments**			**Unaudited pro forma consolidated income statement of the Remaining Group**
		Note 1	*Note 2*	*Note 3*	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
REVENUE	12,310,910	(2,156,084)			10,154,826
Other income and gains	236,873				236,873
Cost of equity securities sold	(5,000,826)				(5,000,826)
Administrative expenses	(14,157,260)	1,974,896		(1,785,000)	(13,967,364)
Other operating expenses	(2,428,747)	58,717		(145,000)	(2,515,030)
Unrealised gains on equity investments at fair value through profit or loss	443,365				443,365
Changes in fair value of investment properties	10,630,000	(10,630,000)			—
Charge to provision for doubtful debts	(1,622,788)				(1,622,788)
Impairment of intangible assets	(2,336,028)				(2,336,028)
Gain on disposal of the Lismore Group	—		12,417,495		12,417,495
Gain on waiver of the remaining Shareholder's Loan	—		16,833,129		16,833,129
Finance costs	(6,506,291)				(6,506,291)
PROFIT/(LOSS) BEFORE TAX	(8,430,792)				8,137,361
Tax	(325,598)	325,598			—
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(8,756,390)				8,137,361
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(Note 8)*					
Basic					HK1.32 cents
Diluted					HK0.38 cents

(ii) *Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2005 as if the Disposal and other transactions described in above accompanying introduction had been completed on 31 December 2005*

	Audited consolidated balance sheet of the Group as at 31 December 2005		**Pro forma adjustments**			**Unaudited pro forma consolidated balance sheet of the Remaining Group**
		Note 3	*Note 4*	*Note 5*	*Note 6*	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS						
Property, plant and equipment	151,189		(147,697)			3,492
Investment properties	43,920,000		(43,920,000)			—
Intangible assets	827,246					827,246
Total non-current assets	44,898,435					830,738
CURRENT ASSETS						
Loans receivable	14,969,290					14,969,290
Accounts receivable	1,196,327					1,196,327
Prepayments, deposits and other receivables	2,405,800		(334,701)			2,071,099
Equity investments at fair value through profit or loss	1,910,949					1,910,949
Client trust bank accounts	2,797,641					2,797,641
Cash and cash equivalents	7,581,554	(1,930,000)	(73,263)			5,578,291
Total current assets	30,861,561					28,523,597
CURRENT LIABILITIES						
Accounts payable	3,643,550					3,643,550
Other payables and accruals	51,560,285		(625,522)	(47,277,001)		3,657,762
Amounts due to the Remaining Group	—		(56,362,849)	56,362,849		—
Amounts due to the Lismore Group	—		506,722			506,722
Tax payable	52,034					52,034
Total current liabilities	55,255,869					7,860,068
NET CURRENT ASSETS/ (LIABILITIES)	(24,394,308)					20,663,529
TOTAL ASSETS LESS CURRENT LIABILITIES	20,504,127					21,494,267

	Audited consolidated balance sheet of the Group as at 31 December 2005	Pro forma adjustments				Unaudited pro forma consolidated balance sheet of the Remaining Group
		Note 3	*Note 4*	*Note 5*	*Note 6*	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
NON-CURRENT LIABILITIES						
Amount due to the immediate holding company	42,999,147			(42,999,147)		—
Amount due to an intermediate holding company	30,920,000			(30,920,000)		—
Deferred tax liabilities	411,507		(411,507)			—
Total non-current liabilities	74,330,654					—
Net assets/(liabilities)	(53,826,527)					21,494,267
EQUITY/(DEFICIENCY IN ASSETS)						
Issued capital	61,502,418				(60,887,394)	615,024
Convertible Preference Shares	—			48,000,170		48,000,170
Reserves	(115,328,945)	(1,930,000)	12,417,495	16,833,129	60,887,394	(27,120,927)
Total equity/(net deficiency in assets)	(53,826,527)					21,494,267

(iii) *Unaudited pro forma consolidated cash flow statement of the Remaining Group for the year ended 31 December 2005 as if the Disposal and other transactions described in above accompanying introduction had been completed on 1 January 2005*

	Audited consolidated cash flow statement of the Group as at year ended 31 December 2005	Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Remaining Group
		Note 2	*Note 3*	*Note 5*	*Note 7*	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax	(8,430,792)	29,250,624	(1,930,000)		(10,752,471)	8,137,361
Adjustments for:						
Interest income	(2,621,562)					(2,621,562)
Dividend income from listed investments	(40,884)					(40,884)
Finance costs	6,506,291					6,506,291
Depreciation	52,575				(46,365)	6,210
Gain on disposal of equity investments at fair value through profit or loss	(103,854)					(103,854)
Unrealised losses on equity investments at fair value through profit or loss	(443,365)					(443,365)
Changes in fair value of investment properties	(10,630,000)				10,630,000	—
Charge to provision for doubtful debts	1,622,788					1,622,788
Impairment of intangible assets	2,336,028					2,336,028
Gain on disposal of the Lismore Group	—	(12,417,495)				(12,417,495)
Gain on waiver of the remaining Shareholder's Loan	—	(16,833,129)				(16,833,129)
Operating loss before working capital changes	(11,752,775)					(13,851,611)
Decrease in loans receivable	3,612,808					3,612,808
Decrease in accounts receivable	4,040,278					4,040,278
Increase in prepayments, deposits and other receivables	(1,676,125)				16,692	(1,659,433)
Decrease in equity investments at fair value through profit or loss	56,557					56,557
Decrease in client trust bank accounts	1,309,291					1,309,291
Decrease in accounts payable	(1,891,360)					(1,891,360)
Increase in other payables and accruals	6,186,769				15,337	6,202,106
Cash used in operations	(114,557)					(2,181,364)
Interest received	2,621,562					2,621,562
Dividend received from listed investments	40,884					40,884
Interest paid	(6,506,291)					(6,506,291)
Net cash outflow from operating activities	(3,958,402)					(6,025,209)

	Audited consolidated cash flow statement of the Group as at year ended 31 December 2005	Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Remaining Group
		Note 2	*Note 3*	*Note 5*	*Note 7*	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	(100,688)				100,038	(650)
Net cash outflow from investing activities	(100,688)					(650)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of the Convertible Preference Shares	—			48,000,170		48,000,170
Repayment of the Shareholder's Loan	—			(48,000,170)		(48,000,170)
Repayment from the Remaining Group	—				135,123	135,123
Net cash inflow from financing activities	—					135,123
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,059,090)					(5,890,736)
Cash and cash equivalents at beginning of the year	11,668,439				(171,617)	11,496,822
Effect of foreign exchange rate changes, net	(27,795)					(27,795)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7,581,554					5,578,291
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	2,581,554		(1,930,000)		(73,263)	578,291
Non-pledged time deposits with original maturity of less than three months when acquired	5,000,000					5,000,000
	7,581,554					5,578,291

Notes:

1. The adjustment reflects the elimination of revenue and expenses attributable to the Lismore Group with net amount of approximately HK$10.4 million for the year ended 31 December 2005. Included in the adjustment is HK$10.6 million, representing net profit from a fair value adjustment of investment properties which were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, on an open market, existing use basis.

2. The adjustment reflects the gains on the Disposal of approximately HK$12.4 million and waiver of the Shareholder's Loan of approximately HK$16.8 million for the year ended 31 December 2005 which are calculated as follows:

   (i) Gain on the Disposal of approximately HK$12.4 million takes into account of:

      (a) the Disposal Consideration of approximately HK$56.4 million;

      (b) elimination of the aggregate net liabilities of the Lismore Group approximately HK$12.4 million as at 31 December 2005; and

      (c) elimination of the amounts due to the Remaining Group by the Lismore Group of approximately HK$56.4 million.

   (ii) Gain on waiver of the Shareholder's Loan of approximately HK$16.8 million takes into account of:

      (a) the outstanding Shareholder's Loan as at 31 December 2005 of approximately HK$121.2 million;

      (b) settlement of the Shareholder's Loan by the Subscription Price of the Convertible Preference Shares and the Disposal Consideration amounting to approximately HK$48.0 million and HK$56.4 million;

      (c) remaining Shareholder's Loan will be waived by MGL, MESB and MIL pursuant to the Deed of Settlement.

3. The adjustment reflects the effect of the relevant costs in respect of the Disposal.

4. The adjustment reflects the elimination of the carrying values of assets and liabilities attributable to the Lismore Group as at 31 December 2005.

5. The adjustment reflects the application of the Disposal Consideration and the Subscription Price of approximately HK$56.4 million and HK$48.0 million (before share issue expenses), respectively, to repay part of the Shareholder's Loan.

6. The adjustment reflects the effect of the Capital Reduction.

7. The adjustment reflects the elimination of the cash flow items attributable to the Lismore Group for the year ended 31 December 2005.

8. The calculation of basic earnings per share amount of the Remaining Group is based on the profit for the year of the Remaining Group attributable to equity holders of the Company of HK$8,137,361 and the weighted average number of 615,024,175 ordinary shares in issue throughout the year.

   The calculation of diluted earnings per share amount of the Remaining Group is based on the profit for the year of the Remaining Group, as used in the basic earnings per share calculation of the Remaining Group. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation of the Remaining Group and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all Convertible Preference Shares into ordinary shares. Because the average market price per share was below the exercise price per share for the outstanding options, the share options were ignored in the calculation of diluted earnings per share of the Remaining Group.

LETTER ON UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is a text of the letter from Ernst & Young, the reporting accountants, in respect of the unaudited pro forma financial information of the Remaining Group, prepared for the purpose of incorporation in this circular.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

29 April 2006

The Board of Directors
Magnum International Holdings Limited

Dear Sirs

We report on the unaudited pro forma financial information of Magnum International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out in Appendix II to the circular (the "Circular") of the Company dated 29 April 2006 which has been prepared by the directors for illustrative purposes only, to provide information about how the disposal of the entire equity interests of Lismore Properties Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries, and the transactions described in the accompanying introduction to the unaudited pro forma financial information of the Group might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on the accompanying introduction and notes to the unaudited pro forma financial information to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the unaudited evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2005 or any future date; or
- results and cash flows of the Group and the earnings per share of the Remaining Group for the year ended 31 December 2005 or any future periods.

Opinion

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

1. POSSIBLE FINANCIAL EFFECT

Net asset value

As stated in the unaudited pro forma consolidated balance sheet of the Remaining Group in Appendix II to this circular, the net asset value (i.e. the Shareholders' fund) of the Remaining Group would be approximately HK$21.49 million upon the S&P Completion, the Subscription Completion, the Disposal Completion and the full settlement and waiver of the Shareholder's Loan pursuant to the Deed of Settlement, compared with the net deficit value of HK$53.83 million before occurance of such events.

Earnings

As stated in the unaudited pro forma consolidated profit and loss account of the Remaining Group in Appendix II to this circular, the Remaining Group would change from a net loss of approximately HK$8.76 million to a net profit of approximately HK$8.14 million, mainly attributable to the expected gain on the disposal of Lismore Group and waiver of the remaining Shareholder's Loan pursuant to the Deed of Settlement to the Group of approximately HK$12.42 million and approximately HK$16.83 million respectively.

Working Capital

As stated in the unaudited pro forma consolidated balance sheet of the Remaining Group in Appendix II to this circular, the net current asset value of the Remaining Group would be approximately HK$20.66 million upon the S&P Completion, the Subscription Completion, the Disposal Completion and the full settlement and waiver of the Shareholder's Loan pursuant to the Deed of Settlement, compared with the net current liabilities value of approximately HK$24.39 million before occurance of such events.

2. INDEBTEDNESS

Borrowings

At the close of business on 28 February 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had unsecured payables due to its holding companies and a fellow subsidiary of approximately HK$122 million, comprising loans of approximately HK$74 million and interest payables of approximately HK$48 million.

In addition, certain investment properties of the Group with a total carrying amount of approximately HK$40 million were subject to legal charges in favour of the Group's bankers at 28 February 2006. No bank facilities were utilised by the Group as at 28 February 2006.

Contingent Liabilities

As at 28 February 2006, the Group had no contingent liabilities.

Save as aforesaid, the Group did not have any debt securities, outstanding loan capital, other borrowings or any other indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 28 February 2006.

3. MATERIAL CHANGES

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Company since 28 February 2006.

4. WORKING CAPITAL

Taking into account (i) the continuous financial support from the holding companies should the Group remains as its subsidiary companies of MCB; (ii) the improvement in the financial position following partial settlement of the Shareholder's Loan by the Subscription Price and the Disposal Consideration, and the waiver of the remaining balance of the Shareholder's Loan by MGL, MESB and MIL; and (iii) the confirmed willingness of Mr. Lee to provide financial support to the Group should the Company is a subsidiary company of Dragon Hill and Dragon Hill is owned and controlled by Mr. Lee, the Directors are of the opinion that the Group will have sufficient working capital for its present requirement for at least the next 12 months from the date of this circular.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Comment on segment information

During the year under review, turnover of the securities dealing and brokerage, money lending and property investment accounted for approximately 75.8%, 6.7% and 17.5% 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

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

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 as long as the Group remains as subsidiary companies of MCB. The Company's holding companies have also agreed 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.

The carrying values of investment properties as at 31 December 2005 amount to HK$43.92 million, of which HK$43.57 million were subject to legal charges to banks. No bank facilities was utilised as at 31 December 2005.

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 investments held

The Group holds some investments in Hong Kong and Philippines listed shares. As at 31 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.

Number and 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 11 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 8 July 2002 at an exercise price of HK$0.111 per share. No share options were exercised during the year under review. As at 31 December 2005, 11,250,000 share options were outstanding.

The following is the text of the valuation report received from Vigers, independent property valuers, prepared for the purpose of inclusion in this circular, in connection with its valuation of the Properties as at 28 February 2006 held by the Lismore Group, which will be disposed of by the Group pursuant to the Disposal Agreement.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

VIGERS 威格斯

29 April 2006

The Directors
Magnum International Holdings Limited
1301A on 13th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value all the properties interests owned by Magnum International Holdings Limited (hereinafter referred to as the "Company") and the subsidiaries (together referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of their values as at 28 February 2006 (the "date of valuation").

Our valuation is our opinion of the market value. We define market value to mean: "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumptions that the owners sold the properties in the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase or decrease the values of the properties.

We have valued the properties by direct comparison approach with reference to market comparables with due allowances for the differences between the comparables and the properties. Where appropriate, we have also valued the properties held for investment by capitalisation of the net rental income obtained from the properties with allowances for reversionary income potential.

We have accepted advice given to us on such matters as tenure, lettings, rental incomes, floor areas and all other relevant matters. However, without exception, we have not searched the original documents to verify ownership or to verify any lease amendments which might not appear on the copies handed to us. All documents have been used as reference only. All dimensions, measurement and areas are approximate.

We have inspected the exterior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures, which were covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties were free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of these properties and we are therefore unable to report that the properties were free from risk in this respect. For the purpose of these valuations we have assumed that such investigation would not disclose the presence of any such materials in any adverse conditions.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which might be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars.

We enclose herewith our summary of valuation and our valuation certificates.

Yours faithfully
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED
Gilbert K.M. Yuen
Registered Professional Surveyor
MRICS MHKIS
Executive Director

Note: Mr. Gilbert K. M. Yuen is a Chartered Surveyor who has about 20 years' experience in undertaking valuation of properties in Hong Kong

SUMMARY OF VALUATION

		Capital Value in Existing State as at 28 February 2006
	Property Interests held by the Group in Hong Kong for investment	
1.	Workshops A and B on 4th Floor and the Flat Roofs appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon.	HK$11,340,000
2.	Seventh Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon.	HK$10,960,000
3.	Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong.	HK$4,050,000
4.	4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, (Formerly known as Nos. 15–17 Hing Yip Street), Kwun Tong, Kowloon.	HK$5,720,000
5.	Apartment A on 20th Floor and Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong.	HK$11,500,000
6.	Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon.	HK$350,000
	TOTAL:	**HK$43,920,000**

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
1.	Workshops A and B on 4th Floor and the Flat Roofs appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong 76/2260th shares of and in the Remaining Portion of Kun Tong Inland Lot No. 83.	The property comprises two workshop units on the fourth floor of a 14-storey industrial building completed in or about 1981. The total gross floor area of the property is approximately 16,818 sq.ft. (1,562.43 sq.m.) and flat roof of 2,804 sq.ft. (260.50 sq.m.). The property is held under a Government Lease for a term, which has expired on 30 June 1997. By virtue of the New Territories Leases (Extension) Ordinance, the lease of the property has been statutorily extended to 30th June 2047 without premium, but subject to a payment of 3% of the rateable value for the time being of the property as the Government Rent.	Workshop A is subject to a tenancy for a term of 2 years commencing from 13 May 2005 at a monthly rental of $23,000 inclusive of rates and management fee. Workshop B is subject to a tenancy for a term of 3 years commencing from 22 April 2003 at a monthly rental of $25,000 inclusive of rates and management fee.	HK$11,340,000

Notes:

1. The registered owner of the property is Ongreat Properties Limited (Re: Workshop A) which is an indirectly wholly-owned subsidiary of the Company and Continuous Gain Limited (Re: Workshop B) which is an indirectly wholly-owned subsidiary of the Company.

2. The property is subject to a mortgage and two assignments of rent in favour of Dao Heng Bank Limited.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
2.	Seventh Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong 76/2260th shares of and in the Remaining Portion of Kun Tong Inland Lot No. 83.	The property comprises the whole of the seventh floor of a 14-storey industrial building completed in or about 1981. The gross floor area of the property is approximately 16,818 sq.ft. (1,562.43 sq.m.). The property is held under a Government Lease for a term, which has expired on 30 June 1997. By virtue of the New Territories Leases (Extension) Ordinance, the lease of the property has been statutorily extended to 30th June 2047 without premium, but subject to a payment of 3% of the rateable value for the time being of the property as the Government Rent.	Unit A1 on 7th floor is subject to a tenancy for a term of 2 years commencing from 8 September 2004 at a monthly rental of $16,000 inclusive of rates and management fee. Unit A2 on 7th floor is subject to a tenancy for a term of 2 years commencing from 15 September 2004 at a monthly rental of $23,000 inclusive of rates and management fee. Unit B on 7th floor is subject to a tenancy for a term of 2 years commencing from 13 May 2005 at a monthly rental of $32,000 inclusive of rates and management fee.	HK$10,960,000

Notes:

1. The registered owner of the property is Lismore Properties Limited which is an indirectly wholly-owned subsidiary of the Company.

2. The property is subject to a mortgage and an assignment of rent in favour of Dao Heng Bank Limited.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
3.	Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong. 15/1386th shares of and in Sections B to G and the 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.	The property comprises an office unit on the first floor of a 27-storey commercial building completed in or about 1993. The gross floor area of the property is approximately 1,188 sq.ft. (110.37 sq.m.). The property is held under a Government Lease for a term of 999 years commencing from 25 June 1863 at an annual rent payable of $142 for the lots.	The property is subject to a tenancy for a term of 2 years commencing from 22 February 2005 at a monthly rental of $10,300 exclusive of rates and management fee.	HK$4,050,000

Notes:

1. The registered owner of the property is Wolston Limited which is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
4.	4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, (Formerly known as Nos. 15–17 Hing Yip Street), Kwun Tong, Kowloon, Hong Kong 112/3190th shares of and in Kun Tong Inland Lot Nos. 51 and 52.	The property comprises the whole of the fourth floor of a 15-storey industrial building completed in or about 1989. The saleable area of the property is approximately 5,997 sq.ft. (557.13 sq.m.) with a flat roof of 1,371 sq.ft. (127.37 sq.m.). The property is held under two Government Leases, which have expired on 30 June 1997. By virtue of the New Territories Leases (Extension) Ordinance, the leases of the property have been statutorily extended to 30 June 2047 without premium, but subject to a payment of 3% of the rateable value for the time being of the property as the Government Rent.	The property is subject to a tenancy for a term of 2 years commencing from 8 July, 2004 at a monthly rental of $43,100 inclusive of rates and management fee.	HK$5,720,000

Notes:

1. The registered owner of the property is Lismore Properties Limited which is an indirectly wholly-owned subsidiary of the Company.

2. The property is subject to a mortgage and an assignment of rent in favour of Dao Heng Bank Limited.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
5.	Apartment A on 20th Floor and Car Parking Space No. 172 on 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.	The property comprises a residential unit on the twentieth floor and a car park on first floor of a 31-storey residential building completed in or about 1984. The gross floor area and saleable area of the property are approximately 1,433 sq.ft. (133.13 sq.m.) and 1,112 sq.ft. (103.31 sq.m.) respectively (excluding the car parking space). The property is held from Government under Conditions of Sale No. 11432 for a term of 75 years commencing from 4 September, 1980 renewable for a further term of 75 years at an annual rent payable of $1,000 for the lot.	The property is subject to a tenancy for a term of 2 years commencing from 8 February 2006 at a monthly rental of $35,100 inclusive of rates and management fee.	HK$11,500,000

Notes:

1. The registered owner of the property is Lismore Properties Limited which is an indirectly wholly-owned subsidiary of the Company.

2. The property is subject to a legal charge, assignment of rental and an assignment of insurance in favour of Malayan Banking Berhad.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 28 February 2006
6.	Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon, Hong Kong 1/640th share of and in Kun Tong Inland Lot No. 70.	The property comprises a carparking space on the ground floor of a 14-storey industrial building completed in or about 1977. The property is a covered carparking space. The property is held under a Government Lease for a term, which has expired on 30 June 1997. By virtue of the New Territories Leases (Extension) Ordinance, the lease of the property has been statutorily extended to 30 June 2047 without premium, but subject to a payment of 3% of the rateable value for the time being of the property as the Government Rent.	The property is subject to a tenancy for a term of 1 year commencing from 1 April 2005 at a monthly rental of $1,600 inclusive of rates and management fee.	HK$350,000

Note:

1. The registered owner of the property is Lismore Properties Limited which is an indirectly wholly-owned subsidiary of the Company.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to Dragon Hill) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The sole director of Dragon Hill accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group, MCB, MGL and their group companies) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company has any interests and short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules and none of the Directors is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(a) Directors' interest in the Company — interests in share options of the Company (being granted and remained outstanding):

Name	**Capacity**	**Number of Shares in the option**	**Exercise period**	**Price of grant**	**Subscription price per Share** *(Note)*
Chan Hon Ming	Beneficial owner	3,000,000	8/07/2002 to 7/07/2012	HK$1.00	HK$0.111

Note: The exercise price of the share option is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(b) Directors' interests in associated corporation:

Name of associated corporation	Name of director	Class of shares held	Capacity and nature of interest	Number of shares held
MCB *(Note 1)*	Lim Teong Leong	Ordinary	Directly beneficially owned	1,000,000
	Tam Cheok Wing	Ordinary	Directly beneficially owned	640,000
	Ooi Sin Heng	Ordinary	Directly beneficially owned	52,000

Notes:

1. MCB is the Company's ultimate holding company.

2. The interest in shares represents both interest in ordinary shares and interest in share options of MCB. The number of share options are further disclosed in the following paragraph headed "(c) Directors' right to acquire shares in associated corporation — interests in share options of associated corporation (being granted and remained outstanding)".

3. All interests stated above represent long positions.

(c) Directors' rights to acquire shares in associated corporation — interests in share options of associated corporation (being granted and remained outstanding):

Name of associated corporation	Name of participant	Number of shares in the option	Date of grant of share option	Exercise period of share options	Exercise price of share options *(Note 1)*	Capacity and nature of interest
MCB	Lim Teong Leong	900,000	16/07/2001	16/07/2001 to 15/07/2006	RM1.26	Directly beneficially owned
MCB	Tam Cheok Wing	600,000	16/07/2001	16/07/2001 to 15/07/2006	RM1.26	Directly beneficially owned

Notes:

(1) 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.

(2) The above share options are owned by the Directors in person.

(d) Interest in assets and contracts of the Group:

As at the Latest Practicable Date, none of the Directors has any interest in any assets which have been, since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of or leased to any member of the Group, or are proposed to be acquired, disposed of or leased to any member of the Group. As at the Latest Practicable Date, there is no material contract or arrangement entered into by the Company, in which any Directors has a material personal interest.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined in the Listing Rules) was considered to have interests in any competing businesses pursuant to the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed below, as at the Latest Practicable Date and so far as was known to the Directors and chief executive of the Company, there were no other persons who has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Percentage of the Company's issued share capital
MCB	Attributable interest of controlled corporation	316,973,680	51.54% *(Notes 1, 2, 4, 5)*
Dragon Hill	Beneficial owner	316,973,680	51.54% *(Notes 2, 4, 5)*
Lee Shing	Attributable interest of controlled corporation	316,973,680	51.54% *(Notes 3, 4, 5)*

Notes:

(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.

(2) MGL, Dragon Hill, Lee Shing and MCB entered into a sale and purchase agreement on 8 April 2006 for the sale of 316,973,680 shares by MGL to Dragon Hill.

(3) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing. Mr. Lee Shing is therefore deemed to have an interest in the Shares in which Dragon Hill is interested.

(4) All interests stated above represent long positions.

(5) The interest held by each of MCB, Dragon Hill and Mr. Lee Shing refers to the same parcel of shares.

5. SERVICE CONTRACT

None of the Directors has any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. PROCEDURES ON DEMANDING A POLL

At any general meeting of the Company, resolutions put to the vote of the meeting shall be decided on a show of hands, unless a poll is demanded. Under bye-law 69 of the bye-laws of the Company, a poll may be demanded, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative and representing not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative and holding Shares conferring a right to attend and vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

7. LITIGATIONS AND CLAIMS

Save as the legal action brought by Mr. Chan King Kwong Willy against MISL and Magnum International Finance Limited in High Court Action No. 131 of 2003 in respect to a claim for repayment of debt, injunctive relief and damages for negligence or misrepresentation, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group after the date two years immediately preceding 30 March 2006 (being the date of the Announcement) and up to the Latest Practicable Date and are or may be material:

1. the conditional compromise deed dated 8 April 2005 entered into among the Company, MGL and Unichina Enterprises Limited in respect of the settlement of certain shareholder's loan due by the Group to MGL and its associates (note: such compromise deed did not become unconditional and lapsed accordingly);

2. the conditional subscription agreement dated 8 April 2005 entered into among the Company, MGL and Unichina Enterprises Limited in relation to the subscription of convertible bond by Unichina Enterprises Limited (note: such subscription agreement did not become unconditional and lapsed accordingly);

3. the Subscription Agreement;

4. the Disposal Agreement; and

5. the Deed of Settlement.

9. MATERIAL CHANGES SINCE 31 DECEMBER 2005

Save as the following, the Directors are not aware of any material changes in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited consolidated financial statement of the Group were made up:

(a) on 30 March 2006 the Company announced, among other things, the entering into of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement (details of which are set out in the paragraphs headed "IV. The Subscription Agreement", "V. The Disposal Agreement" and "VI. Deed of Settlement" in the letter from the Board in this circular); and

(b) upon S&P Completion, Dragon Hill and parties acting in concert with it will own in aggregate approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date.

10. CONSENTS AND QUALIFICATION

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Kingston	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Vigers	property valuer

Kingston, Ernst & Young and Vigers have given and have not withdrawn their respective written consents to the issue of this document with the inclusion herein of copies of their respective letters, reports and/or references to their names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Kingston, Ernst & Young and Vigers was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company (i.e. the annual report of the Company for the year ended 31 December 2005) were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. MISCELLANEOUS

(a) The secretary of the Company is Mr. Chui Chi Yun, Robert, who is a fellow member of Hong Kong Institute of Certified Public Accountants. The qualified accountant of the Company is Lau Ka Fung, Connie.

(b) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

(c) The principal place of business of the Company is situated at 1301A, 13/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(d) The Company's Hong Kong branch share registrar is Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

(e) The executive Directors include Messrs. Lim Teong Leong, Tam Cheok Wing, Ooi Sin Heng and Chan Hon Ming. The independent non-executive Directors include Messrs. Wong Ming Shiang and Lim Eng Ho.

(f) As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements which were subsisting at the Latest Practicable Date and were significant in relation to the business of the Group.

(g) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office of the Company at 1301A, 13/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours from 10:00 a.m. to 12:00 noon and from 3:00 p.m. to 5:00 p.m. on any Business Day; and on the website of the Company (www.magnumhk.com/magnum/main_frameIE.html) and the SFC (www.sfc.hk) until and including 19 May 2006:

(a) the conditional compromise deed dated 8 April 2005 entered into among the Company, MGL and Unichina Enterprises Limited in respect of the settlement of certain shareholder's loan due by the Group to MGL and its associates (note: such compromise deed did not become unconditional and lapsed accordingly);

(b) the conditional subscription agreement dated 8 April 2005 entered into among the Company, MGL and Unichina Enterprises Limited in relation to the subscription of convertible bond by Unichina Enterprises Limited (note: such subscription agreement did not become unconditional and lapsed accordingly);

(c) the Subscription Agreement;

(d) the Disposal Agreement;

(e) the Deed of Settlement;

(f) the memorandum of association and bye-laws of the Company;

(g) the annual reports of the Company for each of the two financial years ended 31 December 2005;

(h) the letter from the Independent Board Committee dated 29 April 2006 the text of which set out on pages 37 to 38 to this circular;

(i) the letter of advice from Kingston dated 29 April 2006, the text of which set out on pages 39 to 60 to this circular;

(j) the accountants' report of Ernst & Young of the Group, the text of which set out on pages 61 to 108 to this circular;

(k) the letter from Ernst & Young regarding the pro forma financial information of the Remaining Group, the text of which set out on pages 109 to 117 to this circular;

(l) the valuation report prepared by Vigers dated 29 April 2006, the text of which set out on pages 121 to 129 to this circular;

(m) the written consents referred to in the section headed "10. Consents and qualification" in this appendix; and

(n) this circular.

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of Magnum International Holdings Limited (the "Company") will be held at 10:30 a.m. on 23 May 2006 at 27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions numbered 3, 4 and 5 as ordinary resolutions and 1 and 2 as a special resolution as indicated:

SPECIAL RESOLUTION NO. 1

"THAT, conditional on (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.001 each in the capital of the Company following the Capital Reduction (as defined below) becoming effective; (ii) compliance with Section 46 of the Companies Act 1981 of Bermuda; and (iii) the passing of Ordinary Resolution Nos. 3, 4 and 5 below, with effect from 25 May 2006 (Hong Kong time), or such other day and at such time as the board of directors of the Company may determine:

(a) the issued share capital of the Company be reduced from the amount of HK$61,502,417.50 to HK$615,024.175 by HK$60,887,393.325 and the par value of each share in issue be reduced from HK$0.10 to HK$0.001 by cancelling the paid up capital to the extent of HK$0.099 on each share of HK$0.10 in issue in the issued share capital of the Company on the date of this resolution ("Capital Reduction") so that each issued share shall be treated as one fully paid up share of HK$0.001 in the capital of the Company ("Share") and any liability of the holders of such Shares to make any further contribution to the capital of the Company on each such Share shall be treated as satisfied;

(b) subject to and forthwith upon the Capital Reduction taking effect, each authorized but unissued share of HK$0.10 in the capital of the Company be subdivided into 100 shares of HK$0.001 each;

(c) subject to and forthwith upon the Capital Reduction taking effect, the credit arising from the cancellation of paid up capital be transferred to the contributed surplus account of the Company where it will be utilised in accordance with the bye-laws of the Company and all applicable laws including, but not limited to, applied towards setting off the accumulated losses of the Company; and

(d) any one of the directors of the Company be and is hereby authorised generally to do all such acts, deeds and things as he shall, in his absolute discretion, deem appropriate to effect and implement any of the foregoing."

SPECIAL RESOLUTION NO. 2

"THAT, conditional on the passing of Ordinary Resolution Nos. 3, 4 and 5 below,

(a) upon the capital reduction as set out in Special Resolution No. 1 becoming effective, 1,521,400,000 new convertible non-voting preference shares of par value HK$0.001 each (the "Convertible Preference Shares") be created in the capital of the Company, having the rights and restrictions as set out in the amendments to the bye-laws of the Company under paragraph (b) of this Special Resolution No. 2, and the authorised shares capital of the Company be thereby increased from HK$ 100,000,000 divided into 100,000,000,000 ordinary shares of HK$0.001 each to HK$101,521,400 comprising HK$100,000,000 divided into 100,000,000,000 ordinary shares of HK$0.001 each and HK$1,521,400 divided into 1,521,400,000 Convertible Preference Shares of HK$0.001 each;

(b) the existing bye-laws of the Company ("Bye-law") be altered by (i) the insertion of a new definition of "Convertible Preference Share(s)" immediately after the existing definition of "share(s)" in Bye-law 1 as follows: "Convertible Preference Shares" shall mean convertible non-voting preference shares of par value HK$0.001 each in the share capital of the Company, which have the rights and are subject to the limitations and restrictions as set out in Bye-law 6(C) of these Bye-laws;"; and (ii) the insertion of new Bye-law 6(C) in the Bye-laws, in the form as set out in the document produced to this meeting marked Exhibit "A" and signed by the Chairman for the purpose of identification, to incorporate into the Bye-laws the rights and restriction attaching to the Convertible Preference Shares; and

(c) any two directors of the Company be authorised to take all such actions, execute all such documents and do all such other things on behalf of the Company as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect to this Special Resolution No. 2 including without limitation the implementation of the amendments to the Bye-laws and the issue and allotment of the Convertible Preference Shares."

ORDINARY RESOLUTION NO. 3

"THAT,

(a) the Subscription Agreement (as defined in the Company's circular to shareholders dated 29 April 2006 (the "Circular") of which this notice of SGM forms a part) (a copy of which has been produced to this meeting marked document "B" and signed by the Chairman of the meeting for identification purposes) entered into on 30 March 2006 between the Company, Dragon Hill Development Limited, Magnum Corporation Berhad and Mr. Lee Shing and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and that any one director of the Company be and is hereby authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Subscription Agreement or any matters relating thereto; and

(b) the issue of the Convertible Preference Shares (as defined in this circular) upon and subject to the terms and conditions contained in the Bye-law (as amended by Special Resolution No. 1) be and is hereby approved and confirmed, and that any two directors of the Company or any one director and the secretary of the Company, be and are hereby authorised to execute a share certificate (or certificates) representing the Convertible Preference Shares and affix the common seal of the Company thereto for and on behalf of the Company, and any one director of the Company (in any case where the common seal of the Company is required to be affixed, then any two directors or any one director and the secretary, of the Company) be authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his (or their) opinion be necessary or desirable in connection with the issue of the Convertible Preference Shares, the share certificates or any matters relating thereto and the directors of the Company be and are authorised to allot, issue and deal with additional shares in the capital of the Company which may fall to be allotted and issued upon conversion rights attached to the Convertible Preference Shares."

ORDINARY RESOLUTION NO. 4

"THAT, the Disposal Agreement (as defined in the Company's circular to shareholders dated 29 April 2006 (the "Circular") of which this notice of SGM forms a part) (a copy of which has been produced to this meeting marked document "C" and signed by the Chairman of the meeting for identification purposes) entered into on 30 March 2006 between the Watary Investment Limited and Magnum (Guernsey) Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified."

ORDINARY RESOLUTION NO. 5

"THAT, the Deed of Settlement (as defined in this circular of which this notice of SGM forms a part) (a copy of which has been produced to this meeting marked document "D" and signed by the Chairman of the meeting for identification purposes) entered into on 30 March 2006 between the Company, Dragon Hill Development Limited, Magnum (Guernsey) Limited, Magnum Corporation Berhad and Magnum Investment Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and that any one director of the Company (in any case where the common seal of the Company is required to be affixed, then any two directors or any one director and the secretary, of the Company) be and is hereby authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Deed of Settlement or any matters relating thereto."

By order of the Board of
Magnum International Holdings Limited
Ooi Sin Heng
Director

Notes:

1. Any member entitled to attend and vote at the meeting of the Company is entitled to appoint one or more than one proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy in respect of part only of his holding of shares in the Company to represent him and vote on his behalf at the meeting of the Company. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either an individual member or a member which is a corporation, shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

2. A form of proxy for use at the meeting is enclosed.

3. The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of authority, shall be delivered to the Company's branch share registrar, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, and in default the instrument of proxy shall not be treated as valid.