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# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, 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 document and the accompanying Form(s) of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the Offers contained herein.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document and the accompanying Form(s) of Acceptance and make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document and the accompanying Form(s) of Acceptance.

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**Magnum International Holdings Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock code: 305)**

**DRAGON HILL DEVELOPMENT LIMITED**

*(incorporated in Samoa with limited liability)*

## **COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO**

### **THE MANDATORY UNCONDITIONAL CASH OFFERS BY CELESTIAL CAPITAL LIMITED**

#### **ON BEHALF OF DRAGON HILL DEVELOPMENT LIMITED**

#### **FOR ALL THE ISSUED SHARES IN, AND ALL OUTSTANDING SHARE OPTIONS OF, MAGNUM INTERNATIONAL HOLDINGS LIMITED**

#### **(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY DRAGON HILL DEVELOPMENT LIMITED OR PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to  
Dragon Hill Development Limited**

**CASH**  
Celestial Capital Limited

**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**

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A letter from Celestial Capital Limited containing, among other things, details of the Offers is set out on pages 6 to 16. A letter from the Board is set out on pages 17 to 22. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the Optionholders, and a letter from Kingston Corporate Finance Limited containing its advice and recommendation to the Independent Board Committee in respect of the Offers are set out on pages 23 to 24 and pages 25 to 37 of this document respectively.

The procedures for acceptance and settlement of the Offers are set out on pages 38 to 43 in Appendix I to this document and in the accompanying Form(s) of Acceptance. Acceptances of the Share Offer should be received by the branch registrar of the Company, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 13 July 2006 (or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code). Acceptances of the Option Offer should be received by the company secretary of the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong by no later than 4:00 p.m. on 13 July 2006 (or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code).

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## EXPECTED TIMETABLE

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2006

Despatch date of this composite offer and response document and the accompanying Forms of Acceptance and commencement of the Offers ( <i>Note 1</i> ) . . . . .	22 June
Latest time and date for acceptance of the Offers . . . . .	4:00 p.m. on 13 July
Closing Date of the Offers ( <i>Note 2</i> ) . . . . .	13 July
Announcement of the results of the Offers to be posted on the Stock Exchange's website . . . . .	7:00 p.m. on 13 July
Announcement of the results of the Offers to be published in newspapers . . . . .	14 July
Latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances received on or before the Closing Date ( <i>Note 3</i> ) . . . . .	23 July

*Notes:*

1. The Offers are made on 22 June 2006, being the date of posting of this document, and are capable of acceptance on and from that date until the Closing Date.
2. The Offers, which are unconditional, will be closed on 13 July 2006 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on 13 July 2006 stating whether the Offers have been revised or extended or have expired. In the event that the Offeror decides that the Offers will remain open until further notice, at least 14 days' notice in writing will be given, before the Offers are closed, to those Independent Shareholders and Optionholders who have not accepted the Offers. For further details, please refer to the paragraph headed "Acceptance period and revisions" in Appendix I to this document.
3. The Offers are unconditional. Acceptance of the Offers shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code.
4. Remittances in respect of the cash consideration payable for the Shares and the Options tendered under the Offers will be posted to the relevant Shareholders and Optionholders by ordinary post at their own risk as soon as practicable, but in any event within 10 days after the receipt of all relevant documents by the Registrar from the Shareholders or by the company secretary of the Company from the Optionholders which render the relevant acceptances under the Offers complete and valid.

**All time references contained in this document refer to Hong Kong time.**

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions shall have the following meanings:*

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the joint announcement made by the Offeror and the Company dated 30 March 2006 in relation to, among other things, the Offers
“associate(s)”	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 reduction of the nominal value of the issued and unissued Shares from HK\$0.10 each to HK\$0.001 each, which has become effective on 19 June 2006, 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, details of which were set out in the circular of the Company dated 29 April 2006
“CCASS”	the 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, the financial adviser to the Offeror
“Closing Date”	13 July 2006 or, if the Offers are extended, the closing date of the Offers as extended by the Offeror in accordance with the Takeovers Code
“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”	20 June 2006, being the date of simultaneous completion of the Share Sale Agreement, the Subscription Agreement and the Disposal Agreement
“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 issued by the Company to the Offeror under the Subscription Agreement

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## DEFINITIONS

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“Deed of Settlement”	the deed of settlement dated 30 March 2006 entered into between the Company, the Offeror, MGL, MESB and MIL in respect of the repayment and settlement of the Shareholder’s Loan in full which were taken place on 20 June 2006
“Directors”	the directors of the Company
“Disposal Agreement”	the disposal agreement dated 30 March 2006 entered into by Watary Investment Limited, a wholly-owned subsidiary of the Company, as vendor/assignor and MGL as purchaser/assignee in relation to the sale and purchase of the entire issued share capital of Lismore Properties Limited and the assignment of the amounts due from Lismore Properties Limited to Watary Investment Limited (details of the agreement were set out in the circular of the Company dated 29 April 2006), which was completed on 20 June 2006
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form(s) of Acceptance”	the accompanying <b>WHITE</b> form of acceptance and transfer in respect of the Share Offer and the accompanying <b>YELLOW</b> form of acceptance and cancellation in respect of the Option Offer (for distribution to the Optionholders only) or each of them as the context requires
“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 Siang and Mr. Lim Eng Ho, established for the purpose of advising the Independent Shareholders and Optionholders in relation to the Offers
“Independent Shareholders”	Shareholders other than the Offeror and its associates, and any parties acting in concert with any of them
“Kingston”	Kingston Corporate Finance Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee
“Latest Practicable Date”	20 June 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“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 was the immediate holding company of the Company before the S&P Completion 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 exchange participant of, and the holder of a trading right on, the Stock Exchange
“Mr. Lee”	Mr. Lee Shing, the sole beneficial owner and the sole director of the Offeror
“Offeror”	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 legally and beneficially owned by Mr. Lee.
“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 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
“Option Offer”	the mandatory unconditional cash offer for cancellation of all outstanding Options at the offer price of HK\$0.001 per Option made by Celestial Capital on behalf of the Offeror in accordance with the Takeovers Code
“Optionholder(s)”	holders of the Option(s)
“Oriental Patron”	Oriental Patron Asia Limited, a corporation licensed to conduct, inter alia, type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Company
“Registrar”	Tengis Limited, the branch share registrar of the Company in Hong Kong at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong

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## DEFINITIONS

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“S&P Completion”	completion of the Share Sale Agreement which took place on 20 June 2006
“Sale Share(s)”	a total of 316,973,680 Shares acquired by the Offeror 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 convened and held on 23 May 2006 to seek Independent Shareholders’ approval in respect of, among other things, 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)
“Share(s)”	ordinary share(s) of HK\$0.001 each in the issued share capital of the Company
“Share Offer”	the mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by the Offeror or parties acting in concert with it at the offer price of HK\$0.03155 per Share made by Celestial Capital on behalf of the Offeror in accordance with the Takeovers Code
“Share Option Scheme”	the share option scheme adopted by the Company on 11 June 2002
“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 accrued thereon, immediately before repayment and settlement thereof in full according to the Deed of Settlement on the Completion Date, which amounted to approximately HK\$124.43 million
“Share Sale Agreement”	the share sale agreement dated 30 March 2006 entered into by the Offeror, the 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 subscription agreement dated 30 March 2006 entered into between, among others, the Company and the Offeror in relation to the subscription by the Offeror of the Convertible Preference Shares issued by the Company (details of the agreement were set out in the circular of the Company dated 29 April 2006) which was completed on 20 June 2006

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## DEFINITIONS

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“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”/“HK cent(s)”	Hong Kong dollars/Hong Kong cent(s), the lawful currency of Hong Kong
“%”	per cent





**Celestial Capital Limited**

21/F, Low Block, Grand Millennium Plaza,  
181 Queen's Road Central,  
Hong Kong

22 June 2006

*To the Independent Shareholders  
and the Optionholders*

Dear Sir or Madam,

**MANDATORY CASH OFFERS BY  
CELESTIAL CAPITAL LIMITED  
ON BEHALF OF DRAGON HILL DEVELOPMENT LIMITED  
FOR ALL THE ISSUED SHARES IN, AND ALL OUTSTANDING OPTIONS OF,  
MAGNUM INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY  
DRAGON HILL DEVELOPMENT LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

On 30 March 2006, the Company and the Offeror jointly announced that on that day, among other things, the Offeror had entered into the Share Sale Agreement with MGL, MCB and Mr. Lee, pursuant to which the Offeror had conditionally agreed to purchase and MGL had conditionally agreed to sell the Sale Shares for a maximum cash consideration of HK\$10,000,519.60 in total (equivalent to approximately HK\$0.03155 per Sale Share). The Sale Shares represent approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date. All the conditions precedent to the Share Sale Agreement had been fulfilled on 19 June 2006 (it is a condition of the Share Sale Agreement that the Disposal Agreement should have become unconditional, while certain mortgages and assignments of rent in connection with the properties more particularly referred to in the Disposal Agreement which should have been released before the Completion Date as a condition of the Disposal Agreement are yet to be released. The parties to the Disposal Agreement, namely Watary Investment Limited, a wholly-owned subsidiary of the Company and in the capacity of the vendor, and MGL in the capacity of the purchaser, together with the Company and the Offeror have on 20 June 2006 signed a supplemental agreement to the Disposal Agreement to the effect that the relevant condition in relation to the release of such mortgages and assignments of rent be waived and that the Company would undertake to procure Watary Investment Limited to deliver to MGL the release and discharge of the relevant properties from the mortgages within 30 days from the Completion Date. MGL has also undertaken in the supplemental agreement to provide all necessary assistance in connection with the release of such mortgages). The S&P Completion, together with the completion of the Subscription Agreement and the Disposal Agreement, subsequently took place on the Completion Date, being 20 June 2006.

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## LETTER FROM CELESTIAL CAPITAL

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Upon the S&P Completion, the Offeror and parties acting in concert with it own an aggregate of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date. The Offeror also holds the Convertible Preference Shares upon completion of the Subscription Agreement, which took place simultaneously with the S&P Completion on 20 June 2006. As a result of the S&P Completion, the Offeror is required under Rule 26.1 and Rule 13 of the Takeovers Code 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 the Offeror or parties acting in concert with it). Celestial Capital is making the Offers on behalf of the Offeror.

This letter, together with Appendix I to this document and the accompanying Form(s) of Acceptance, sets out, among other things, the terms and other details of the Offers, information on the Offeror and its intention regarding the Group. Your attention is also drawn to the letter from the Board as well as the respective letters of advice from the Independent Board Committee, which has been formed to give its recommendation in respect of the Offers to the Independent Shareholders and the Optionholders, and Kingston, which has been appointed the independent financial adviser to the Independent Board Committee to give its advice and recommendation on the Offers, as contained in this document.

### THE OFFERS

As at the Latest Practicable Date, there were (i) a total of 615,024,175 Shares in issue (of which 316,973,680 Shares are owned by the Offeror); (ii) outstanding Options entitling the Optionholders to subscribe for up to an aggregate of 7,200,000 Shares at an exercise price of HK\$0.111 per Share; and (iii) a total of 1,521,400,000 Convertible Preference Shares (which are held by the Offeror). Accordingly,

- (i) 298,050,495 Shares will be subject to the Share Offer, and 7,200,000 outstanding Options will be subject to the Option Offer (assuming all outstanding Options are not exercised, and no conversion rights attaching to the Convertible Preference Shares are exercised, prior to the close of the Offers); or
- (ii) 305,250,495 Shares (assuming all outstanding Options are fully exercised, and no conversion rights attaching to the Convertible Preference Shares are exercised, prior to the close of the Offers) will be subject to the Share Offer.

Save for the outstanding Options and the Convertible Preference Shares held by the Offeror as disclosed above, there were no outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

### Principal Terms of the Offers

Celestial Capital, on behalf of the Offeror, is now making mandatory cash offers for all the issued Shares and all the outstanding Options (other than those already owned by or agreed to be acquired by the Offeror or parties acting in concert with it) on the following basis:

the Share Offer for each Share . . . . . HK\$0.03155 in cash;

and

the Option Offer for each outstanding Option attaching rights  
to subscribe for one Share . . . . . HK\$0.001 in cash.

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## LETTER FROM CELESTIAL CAPITAL

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The Offers are unconditional in all respects and are not conditional upon acceptances being received in respect of a minimum number of Shares or Options (as the case may be) nor any other conditions.

All outstanding Options were granted pursuant to the Share Option Scheme. In accordance with the terms of the Share Option Scheme, the Options shall lapse automatically (to the extent not already exercised) on the Closing Date.

As at the Latest Practicable Date, save for Mr. Chan Hon Ming, an executive Director, who has indicated that he intends to accept the Option Offers in respect of the 3,000,000 Options held by him, no Independent Shareholders and Optionholders have irrevocably committed themselves to accept or reject the Offers.

### **Comparison of value**

The offer price of HK\$0.03155 per Share under the Share Offer is not less than the price paid by the Offeror for each Sale Share under the Share Sale Agreement and 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 full 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 up to and including 21 March 2006, 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 up to and including 21 March 2006, being approximately HK\$0.07 per Share; and
- (d) a discount of approximately 69.07% to the closing price of HK\$0.102 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the Company's annual report for the year ended 31 December 2005, the audited consolidated net deficit of the Group as at 31 December 2005 was approximately HK\$53.8 million, which was equivalent to approximately HK\$0.09 per Share (based on a total of 615,024,175 Shares then in issue).

All of the outstanding Options entitle the Optionholders to subscribe for Shares at an exercise price of HK\$0.111 per Share. The respective closing prices 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 on 22 March 2006, and on the Latest Practicable Date, were HK\$0.08 and HK\$0.102 respectively. Accordingly, the Options have been out-of-the-money. The offer price per Option under the Option Offer is equivalent to the existing nominal value of each Share.

### **Total consideration**

Assuming that there is no change in the issued share capital of the Company as a result of the exercise of any Options and of the conversion rights attaching to the Convertible Preference Shares during the period from the Latest Practicable Date up to and including the Closing Date, at the offer

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## LETTER FROM CELESTIAL CAPITAL

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price of HK\$0.03155 per Share, the entire issued share capital of the Company with 615,024,175 Shares in issue is valued at approximately HK\$19.4 million under the Share Offer and all the Shares subject to the Share Offer are valued at approximately HK\$9.4 million. Assuming that all the 7,200,000 outstanding Options at the offer price of HK\$0.001 per Option are surrendered pursuant to the Option Offer, the relevant consideration payable by the Offeror is HK\$7,200.

Assuming that all the outstanding Options, which entitle the holders thereof to subscribe for an aggregate of 7,200,000 Shares, are fully exercised, and no conversion rights attaching to the Convertible Preference Shares are exercised, during the period from the Latest Practicable Date up to and including the Closing Date, there will be 622,224,175 Shares in issue and the entire issued share capital of the Company is valued at approximately HK\$19.6 million under the Share Offer, and all the Shares subject to the Share Offer are valued at approximately HK\$9.6 million. The Offers are to be financed by the own resources of Mr. Lee, the sole beneficial owner of the Offeror. In addition, the Offeror does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company. Celestial Capital, as the financial adviser to the Offeror, is satisfied that there are sufficient financial resources available to the Offeror to meet its obligation in case of a full acceptance of the Offers.

### **Effect of accepting the Offers**

The Offers are unconditional. By accepting the Share Offer, Independent Shareholders will sell their Shares to the Offeror free from all encumbrances and together with all rights attaching to the Shares as at 20 June 2006, being the Completion Date, including the rights to receive all dividends and distribution declared, made or paid at or after the Completion Date. By accepting the Option Offer, the Optionholders will surrender and give up the subscription rights attaching to the Options. In addition, according to the Share Option Scheme, the Options shall lapse automatically (to the extent not already exercised) on the date on which the Option Offer closes. Acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

### **Stamp duty**

Seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer amounting to HK\$1 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Shares in respect of the relevant acceptances will be deducted from the amount payable to the Independent Shareholders who accept the Share Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty amounting to HK\$1 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Shares in respect of relevant acceptances and will be responsible to account to the Stamp Office of Hong Kong all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptances under the Share Offer.

There is no stamp duty imposed on the Optionholders in connection with their acceptance of the Option Offer.

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# LETTER FROM CELESTIAL CAPITAL

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## **Payment**

Payment in cash by way of banker's cheques in respect of acceptances of the Offers will be made within ten days of the date on which the relevant documents of title are received by the Registrar (in respect of acceptances of the Share Offer) and the company secretary of the Company (in respect of acceptances of the Option Offer) to render each such acceptance complete and valid.

## **Compulsory acquisition**

The Offeror and parties acting in concert with it do not intend, but reserve the right, to exercise any right which may be available under the provision of the Companies Act 1981 of Bermuda to acquire compulsorily any outstanding issued Shares not acquired under the Share Offer after it is closed.

## **INFORMATION ON THE OFFEROR AND ITS INTENTION REGARDING THE GROUP**

The Offeror 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 the Offeror. Other than the acquisition of the Sale Shares and the subscription of the Convertible Preference Shares, the Offeror does not engage in any other business.

As at the Latest Practicable Date, save for the holding of 316,973,680 Shares and 1,521,400,000 Convertible Preference Shares by the Offeror, the Offeror and parties acting in concert with it did not hold any Shares and securities in the Company. In addition, none of the Offeror, its 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 (pursuant to which the Sale Shares were acquired by the Offeror), the Subscription Agreement (pursuant to which the Convertible Preference Shares were allotted and issued to the Offeror) and the Deed of Settlement by the Offeror and/or Mr. Lee.

No agreement, arrangement or understanding has been made to transfer, charge or pledge the Shares acquired under the Share Offer by the Offeror to any other persons, save for the possible placing of certain Shares held by the Offeror to other parties in case restoration of the public float of the Company is required after close of the Offers.

The Offeror intends to continue the existing businesses of the Group and has no intention to dispose of the Group's businesses after close of the Offers. The Offeror will 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 or divesting of loss-making operations of the Group should appropriate opportunities arise. However, the Offeror has no immediate plan of injecting any of its assets into the Group or redeploying the fixed assets of the Company. Being confident of the future development of the Group under the new management to be established by the Offeror (please refer to the following paragraph headed "Proposed change of composition of the Board") with a view to developing a corporate strategy to enhance the Group's existing businesses and asset base and broaden its income stream, the Offeror considers it commercially justifiable in the long run to make investment in the Company.

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## LETTER FROM CELESTIAL CAPITAL

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The Offeror 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.

### **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 in compliance with Rule 7 of the Takeovers Code. Mr. Ooi Sin Heng (“Mr. Ooi”, who did not hold any Shares or Options as at the Latest Practicable Date) 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 entered into on 21 March 2006 upon termination of the old service contract. As mentioned in the letter from the Board set out on pages 17 to 22 of this document, the monthly salary payable to Mr. Ooi under the old service contract and the new service contract would be the same. 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. Under the old service contract, Mr. Ooi is entitled to a severance payment amounted to approximately HK\$680,000 of which approximately HK\$356,710 will be borne by the Company and the remaining balance of HK\$323,290 will be born by MGL. 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 under the new service contract. Save as aforesaid, there is no other major new terms under the new service contract.

The Offeror has nominated Mr. Lee and Ms. Liu Yaling as the executive Directors and and Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas as the independent non-executive Directors (together as the “New Directors”), whose appointment will become effective immediately after the posting of this document. Set out below are their respective biographical details:

#### **Executive Directors:**

##### *Mr. LEE Shing*

Mr. Lee, aged 48, will be appointed as the chairman of the Board and an executive Director. He 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 (i) 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 a PRC company in Jilin, the PRC principally engaged in the manufacturing of car spare parts, and (ii) Dragon Hill Development Limited, a Hong Kong company which has invested in a property development project in Dongguan, the PRC and used to be engaged in trading of papers, construction materials, plastic and car spare parts. He is the Hong Kong representative in the Committee of The Chinese People’s Political Consultative Conference of Liujiang County, Liuzhou, Guangxi Province, the PRC.

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## LETTER FROM CELESTIAL CAPITAL

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Mr. Lee is the sole shareholder and sole director of the Offeror, the controlling Shareholder which held (i) 316,973,680 Shares, representing approximately 51.54% of the Company's entire issued share capital; and (ii) the Convertible Preference Shares, as at the Latest Practicable Date. Accordingly, Mr. Lee is deemed to be interested in such 316,973,680 Shares and the Convertible Preference Shares held by the Offeror. Save as aforesaid, Mr. Lee does not have any interests in Shares within the meaning of Part XV of the SFO.

*Ms. LIU Yaling*

Ms. Liu, aged 30, will be appointed as an executive Director. She graduated from 長春光學精密機械學院 (Changchun Institute of Optics and Fine Mechanics) (currently known as “長春理工大學 (Changchun University of Science and Technology)”) and is a qualified accountant in the PRC. She has approximately 8 years of experience in the finance and accounting industry in the PRC.

### **Independent non-executive Directors:**

*Mr. YU Xiumin*

Mr. Yu, aged 46, will be appointed as an independent non-executive Director. He holds a doctorate degree in engineering. Mr. Yu has over 9 years of experience in the engine and machinery related teaching and research.

*Mr. ZUO Duofu*

Mr. Zuo, aged 62, will be appointed as an independent non-executive Director. He graduated from Department of Journalism of 暨南大學 (Jinan University). Mr. Zuo has over 25 years of experience in the media industry in the PRC. He is a representative of 廣東作家代表大會 (Congress of Writers' Representatives in Guangdong) and a member of president group of 廣東作家協會 (Guangdong Writer Association).

*Mr. CHENG Kin Wah, Thomas*

Mr. Cheng, aged 40, graduated from the Hong Kong Polytechnic University with a Professional Diploma in Accountancy in 1988. Mr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants in Hong Kong. Mr. Cheng had extensive experience in the field of auditing and accounting.

Save as Mr. Lee's interest in the Offeror disclosed in this section, each of the New Directors does not have any other relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders and did not hold any directorship of any listed companies in the last three years.

Save as Mr. Lee's deemed interest in the Shares and the Convertible Preference Shares disclosed in this section, as at the Latest Practicable Date, each of the New Directors does not have any interests in Shares within the meaning of Part XV of the SFO.

The New Directors are not appointed with a fixed term of service with the Company and do not have any proposed length of service with the Company in respect of their directorship. They will be subject to retirement by rotation and re-election at the Company's forthcoming annual general meeting in accordance with the bye-laws of the Company.

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## LETTER FROM CELESTIAL CAPITAL

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The amount of directors' emoluments of the New Directors will be determined by the Board with reference to their relevant duties and responsibilities within the Group and prevailing market conditions. In relation to the appointments of the New Directors, there are no information to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there other matters that need to be brought to the attention of the Shareholders. Save as disclosed above, the Offeror does not intend to make any changes to the existing management and employment of the employees of the Group.

### **MAINTAINING THE LISTING STATUS OF THE COMPANY**

The Offeror 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. Mr. Lee, the sole director of the Offeror and a new Director whose appointment will become effective upon posting of this document, and all other New Directors whose appointment will also become effective upon posting of this document, 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:**

- (i) a false market exists or may exist in trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

**it will consider exercising its discretion to suspend dealings in the Shares.**

So long as the Company remains as a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of transactions entered into by the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applications as set out in the Listing Rules.

### **ACCEPTANCE AND SETTLEMENT**

#### **Procedures for acceptance**

##### *The Share Offer*

To accept the Share Offer, you should complete the accompanying **WHITE** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Share Offer.



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## LETTER FROM CELESTIAL CAPITAL

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The completed **WHITE** Form of Acceptance should then be forwarded, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept under the Share Offer, by post or by hand, to the Registrar, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in an envelope marked "Magnum Share Offer" as soon as possible but in any event not later than 4:00 p.m. on 13 July 2006 (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive). No acknowledgement of receipt of any Form of Acceptance, share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

### *The Option Offer*

To accept the Option Offer, you should complete the **YELLOW** Form of Acceptance, which is obtainable from the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Option Offer, and then deliver the completed **YELLOW** Form of Acceptance, together with the relevant option certificate(s) for the number of Options in respect of which you intend to accept under the Option Offer, by post or by hand, to the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, for the attention of the company secretary of the Company, in an envelope marked "Magnum Option Offer", as soon as possible but in any event not later than 4:00 p.m. on 13 July 2006. No acknowledgement of receipt of any Form of Acceptance and option certificate(s) will be given.

Your attention is drawn to the further terms of the Offers set out in Appendix I to this document and in the Forms of Acceptance. The Independent Shareholders and the Optionholders with registered addresses outside Hong Kong please also pay attention to the section headed "General" in Appendix I to this document.

### **Settlement**

#### *The Share Offer*

Provided that a **WHITE** Form of Acceptance, together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), is in complete and good order and has been received by the Registrar on or before 4:00 p.m. on 13 July 2006, a banker's cheque for the consideration payable to the relevant accepting Independent Shareholder in respect of the Shares tendered by he/she/it under the **WHITE** Form of Acceptance, less relevant seller's ad valorem stamp duty payable by he/she/it, will be despatched to such Independent Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the date on which all the relevant Form of Acceptance and documents are received by the Registrar to render such acceptance complete and valid.

#### *The Option Offer*

Provided that a **YELLOW** Form of Acceptance and option certificate(s) are in complete and good order and have been received by the company secretary of the Company on or before 4:00 p.m. on 13 July 2006, a banker's cheque for the consideration that the relevant accepting Optionholder is entitled to by accepting the Option Offer will be sent to such accepting Optionholder

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## LETTER FROM CELESTIAL CAPITAL

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by ordinary post at his/her own risk as soon as possible but in any event within 10 days of the date upon which the all the Form of Acceptance and relevant documents are received by the company secretary of the Company to render such acceptance complete and valid.

### *Nominee registration*

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order to accept the Share Offer, it is essential that the beneficial owners of Shares, whose investments are registered in the names of their respective nominees, provide instructions to their nominees of their intentions with regard to the Share Offer.

All documents and remittances will be sent to the Independent Shareholders and the Optionholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members, or register of Optionholders or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant Forms of Acceptance completed and returned by the Independent Shareholders or the Optionholders (as the case may be). None of the Company, the Offeror, the parties acting in concert with the Offeror, Celestial Capital and the Registrar or any of their respective directors will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

### **TAXATION**

You are recommended to consult your own professional advisers if you are in any doubt as to the taxation implications of accepting the Offers. It is emphasised that none of the Offeror, the parties acting in concert with it and Celestial Capital, any of their respective directors, and any other parties involved in the Offers will accept responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offers.

### **POSSIBLE CONSOLIDATION OF THE SHARES**

As mentioned in the letter from the Board, the Board proposes to implement a consolidation of the Shares (trading timetable of which is to be finalised) as soon as practicable after the close of the 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. Upon implementation of the consolidation of the Shares, change will be made to the board lot size of the Shares. An announcement with full details of the consolidation of the Shares, change of the board lot size and trading arrangement will be made by the Company in due course.

### **GENERAL**

The Independent Board Committee has been formed to advise the Independent Shareholders and Optionholders in respect of the Offers. Kingston has been appointed as the financial adviser to the Independent Board Committee to give its opinion and advice in relation to the Offers. You are advised to read carefully the letter from the Board, and the respective letters of advice from the Independent Board Committee and Kingston as contained in this document before deciding whether or not to accept the Offers.

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## LETTER FROM CELESTIAL CAPITAL

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Your attention is also drawn to the further terms of the Offers and the additional information set out in the Appendices to this document.

Yours faithfully,  
For and on behalf of  
**CELESTIAL CAPITAL LIMITED**  
**Benson Chan**                      **Daphne Ng**  
*Managing Director*    *Executive Director*



# 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

*Head office and principal place  
of business:*

1301A, 13/F,  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

*Independent non-executive Directors:*

Mr. Wong Ming Shiang  
Mr. Lim Eng Ho

22 June 2006

*To the Independent Shareholders  
and the Optionholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFERS BY  
CELESTIAL CAPITAL LIMITED  
ON BEHALF OF DRAGON HILL DEVELOPMENT LIMITED  
FOR ALL THE ISSUED SHARES IN, AND ALL OUTSTANDING OPTIONS OF,  
MAGNUM INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY  
DRAGON HILL DEVELOPMENT LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

On 30 March 2006, the Company and the Offeror jointly announced, among other things, that the Offeror had entered into the Share Sale Agreement with MGL, MCB and Mr. Lee, pursuant to which the Offeror has conditionally agreed to purchase and MGL had conditionally agreed to sell the Sale Shares, representing approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date, for a maximum cash consideration of HK\$10,000,519.60 (equivalent to approximately HK\$0.03155 per Sale Share).

On 30 March 2006, the Company entered into the Deed of Settlement with MGL, MESB, MIL (all of MGL, MESB and MIL are either directly or indirectly owned by MCB, the ultimate holding company of MGL) and the Offeror pursuant to which, among other things, the parties thereto agreed to repayment and settlement of the Shareholder's Loan in full under the terms thereof. On the even date, Watary Investment Limited, a wholly owned subsidiary of the Company, entered into the Disposal Agreement with MGL, pursuant to which, among other things, Watary Investment Limited had conditionally agreed to sell and MGL had conditionally agreed to purchase the entire issued share capital of Lismore Properties Limited, an indirect wholly-owned subsidiary of the Company; and (ii) Watary Investment Limited had conditionally agreed to sell and assign and MGL had conditionally agreed to purchase and accept the amounts due from Lismore Properties Limited to

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## LETTER FROM THE BOARD

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Watary Investment Limited. As MGL was the then controlling Shareholder, MGL was a connected person of the Company under the Listing Rules, the entering into of the Deed of Settlement and the Disposal Agreement constitute connected transactions for the Company under the Listing Rules. They also constitute special deals under Rule 25 of the Takeovers Code and require consent from the Executive. An application has been made by the Company to the Executive in respect of the special deals for its consent under Rule 25 of the Takeovers Code and the Executive has granted such consent. At the SGM, the resolutions in respect of the Subscription Agreement, the Deed of Settlement and the Disposal Agreement were duly passed by the Independent Shareholders voting by way of poll. For further details on the results of the SGM, Shareholders should refer to the Company's announcement dated 23 May 2006.

All the conditions precedent to the Share Sale Agreement had been fulfilled on 19 June 2006, and the S&P Completion, the completion of the Disposal Agreement and the Subscription Agreement, took place simultaneously on the Completion Date, being 20 June 2006. Under the Disposal Agreement, there are certain mortgages and assignments of rent in connection with the properties more particularly referred to in the Disposal Agreement which are yet to be released. The parties to the Disposal Agreement, namely Watary Investment Limited, a wholly-owned subsidiary of the Company, and MGL, together with the Company and the Offeror have on 20 June 2006 signed a supplemental agreement to the Disposal Agreement to the effect that this condition be waived and that the Company would undertake to procure Watary Investment Limited to deliver to MGL the release and discharge of the relevant properties from the mortgages within 30 days from the Completion Date. MGL has also undertaken in the supplemental agreement to provide all necessary assistance in connection with the release of such mortgages.

Upon the S&P Completion, the Offeror, together with parties acting in concert with it, is interested in an aggregate of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company. The Offeror also holds the Convertible Preference Shares upon completion of the Subscription Agreement, which took place simultaneously with the S&P Completion on 20 June 2006. The Offeror and the parties acting in concert with it is therefore obliged to make mandatory cash offers to acquire all the issued Shares and all the outstanding Options (other than those already owned by or agreed to be acquired by the Offeror or parties acting in concert with it) under Rules 26 and 13 of the Takeovers Code respectively. Celestial Capital is making, on behalf of the Offeror, the Offers to acquire all the issued Shares and all the outstanding Options (other than those already owned by or agreed to be acquired by the Offeror or parties acting in concert with it). The terms of the Offers are set out in the letter from Celestial Capital on pages 6 to 16 of this document as well as in Appendix I to this document and in the Forms of Acceptance.

As at the Latest Practicable Date, the Company had 615,024,175 Shares in issue and outstanding Options entitling the Optionholders to subscribe for an aggregate of 7,200,000 Shares at an exercise price of HK\$0.111 per Share. According to the Share Option Scheme, the Options shall lapse automatically (to the extent not already exercised) on the date on which the Option Offer closes.

Save for the outstanding Options disclosed above and the Convertible Preference Shares, there are no other outstanding warrants, options, derivatives or securities convertible into Shares as at the Latest Practicable Date.

The Board currently consists of four executive Directors and two independent non-executive Directors. The Independent Board Committee comprising Mr. Wong Ming Shiang and Mr. Lim Eng Ho, all being the independent non-executive Directors who are independent to the Offers, has been formed to advise the Independent Shareholders and Optionholders in respect of the Offers. The

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## LETTER FROM THE BOARD

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appointment of Kingston as the independent financial adviser to advise the Independent Board Committee as well as the Independent Shareholders and Optionholders on the terms of the Offers has been approved by the Independent Board Committee.

The purposes of this document is to provide you with, among other things, information relating to the Group, the Offeror and the Offers, and to set out the letter from the Independent Board Committee and the letter from Kingston containing their respective advice to the Independent Shareholders and the Optionholders in respect of the Offers.

### THE OFFERS

As a result of the S&P Completion, the Offeror becomes the owner of an aggregate of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company and is obliged to make the Share Offer pursuant to Rule 26 of the Takeovers Code. The Offeror is also obliged to make the Option Offer pursuant to Rule 13 of the Takeovers Code.

Celestial Capital, on behalf of the Offeror, is making the Offers on the following basis:

the Share Offer for each Share . . . . . HK\$0.03155 in cash

the Option Offer for each outstanding Option

attaching rights to subscribe for one Share . . . . . HK\$0.001 in cash

The Offers are unconditional and acceptance of which shall be irrevocable and cannot be withdrawn, except for the circumstances set out in Rule 19.2 of the Takeovers Code, which provides that if the Offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive until the requirements under Rule 19 of the Takeovers Code can be met.

The price of HK\$0.03155 per Share is not less than the price paid by the Offeror to MGL for each Sale Share under the Share Sale Agreement. All of the outstanding Options entitling the Optionholders to subscribe for Shares at an exercise price of HK\$0.111 per Share. The respective closing prices 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 on 22 March 2006 pending the publication of the Announcement, and on the Latest Practicable Date, were HK\$0.08 and HK\$0.102 respectively. Accordingly, the Options have been out-of-the-money. The offer price per Option under the Option Offer is equivalent to the nominal value of each Share upon the Capital Reduction becoming effective on 19 June 2006.

None of the Offeror, its ultimate beneficial owner and parties acting in concert with any one 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 Announcement 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 the Offeror.

### Further details of the Offers

Further details of the Offers, including the terms and conditions of the Offers and the procedures for acceptance of the Offers, are contained in the letter from Celestial Capital set out on pages 6 to 16 of this document, in Appendix I to this document and in the Forms of Acceptance.

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# LETTER FROM THE BOARD

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## INFORMATION ON THE GROUP

### Business

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 investment holding, property investment, securities dealing and brokerage, money lending and margin finance.

### Financial information

A summary of the audited consolidated results of the Group for each of the three financial years ended 31 December 2005, and the audited financial statements of the Group for the year ended 31 December 2005 are set out in Appendix II to this document.

### Further information

Further information in relation to the Group is set out in Appendices II, III and IV to this document. An expected timetable in relation to the Offers is set out under the section headed “Expected timetable” of this document.

## INFORMATION ON THE OFFEROR AND FUTURE OF THE GROUP

Your attention is drawn to the section headed “Information on the Offeror and its intention regarding the Group” in the letter from Celestial Capital as set out on pages 10 to 11 of this document.

## THE OFFEROR’S INTENTION REGARDING THE GROUP

The Directors note from the letter from Celestial Capital that the Offeror intends to continue the existing businesses of the Group and has no intention to dispose of the Group’s businesses after close of the Offers. The Offeror will 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 or divesting of loss-making operations of the Group should appropriate opportunities arise. However, as noted by the Directors from the letter from Celestial Capital, the Offeror has no immediate plan of injecting any of its assets into the Group or redeploying the fixed assets of the Company. As stated in the letter from Celestial Capital, the Offeror is confident of the future development of the Group under the new management to be established by the Offeror with a view to developing a corporate strategy to enhance the Group’s existing businesses and asset base and broaden its income stream and considers commercially justifiable in the long run to make investment in the Company.

### Proposed change of the Board composition

It is expected that all of the existing executive Directors, namely, Messrs. Lim Teong Leong, Tam Cheok Wing, Ooi Sin Heng and Chan Hon Ming, and all of the existing independent non-executive Directors, namely Messrs. Wong Ming Shiang and Lim Eng Ho, will resign and that such resignation will take effect on the Closing Date in compliance with Rule 7 of the Takeovers Code. Mr. Ooi Sin Heng (“Mr. Ooi”) (who did not hold any Shares or Options as at the Latest Practicable Date) will cease to be a Director and general manager of the Company as a result of change in the

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## LETTER FROM THE BOARD

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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 the new service contract (the monthly salary payable to Mr. Ooi under the old service contract and the new service contract are the same, which is HK\$35,000). Under the old 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 borne by the Company and the remaining balance of HK\$323,290 will be borne by MGL. Upon the termination of the old 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 (as defined under the SFO). 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 and MISL undertakes not to claim back the amount contributed to the mandatory provident fund account of Mr. Ooi upon termination of the new service contract. Save as the aforesaid, there is no other major new terms under the new service contract.

As stated in the letter from Celestial Capital as set out in this document, the Directors note that the Offeror at present has nominated Mr. Lee and Ms. Liu Yaling as the executive Directors and Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas as the independent non-executive Directors (together as the "New Directors"), whose appointment will become effective immediately after the posting of this document. Further information on the New Directors is set out in the letter from Celestial Capital as set out on pages 11 to 13 of this document. Save as disclosed therein, the Offeror does not intend to make any changes to the existing management and employment of the employees of the Group.

The Board has confirmed that, save as disclosed in the sub-paragraph headed "Proposed change of composition of the Board" under the paragraph headed "Information on the Offeror and its intention regarding the Group" in the letter from Celestial Capital in this document, there are no other matters that need to be brought to the attention of the Shareholders in relation to the appointments of the new Directors as mentioned above.

### **Maintaining the listing status of the Company**

To the best knowledge of the Directors after making all reasonable enquiries, the Offeror 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. Mr. Lee, the sole director of the Offeror and a New Director whose appointment will become effective upon posting of this document, and all other New Directors whose appointment will become effective upon posting of this document, 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 issued Shares are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,



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## LETTER FROM THE BOARD

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it will consider exercising its discretion to suspend dealings in the Shares. So long as the Company remains as a listed company, the Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of transactions entered into by the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new applicants as set out in the Listing Rules.

### POSSIBLE CONSOLIDATION OF THE SHARES

The Board proposes to implement a consolidation of the Shares (trading timetable of which is to be finalised) as soon as practicable after the close of the 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. Upon implementation of the consolidation of the Shares, change will be made to the board lot size of the Shares. An announcement with full details of the consolidation of the Shares, change of the board lot size and trading arrangement will be made by the Company in due course.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the Optionholders and the letter from Kingston as set out on pages 23 to 24 and pages 25 to 37 of this document respectively, which sets out their respective recommendations in relation to the Offers and the principal factors considered by them in arriving at their recommendation.

### ADDITIONAL INFORMATION

In considering what action to take in connection with the Offers, Independent Shareholders and Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this document together with the Forms of Acceptance for details of the Offers. Your attention is also drawn to the additional information contained in the Appendices to this document.

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)**

22 June 2006

*To the Independent Shareholders  
and the Optionholders*

Dear Sir/Madam,

**THE MANDATORY UNCONDITIONAL CASH OFFERS BY  
CELESTIAL CAPITAL LIMITED  
ON BEHALF OF DRAGON HILL DEVELOPMENT LIMITED  
FOR ALL THE ISSUED SHARES IN, AND ALL OUTSTANDING OPTIONS OF,  
MAGNUM INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY  
DRAGON HILL DEVELOPMENT LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

As the Independent Board Committee, we have been appointed to advise the Independent Shareholders and Optionholders in connection with the Offers, details of which are set out in the letter from the Board, the letter from Celestial Capital contained in and Appendix I to the composite offer and response document to the Independent Shareholders and Optionholders dated 22 June 2006 (the "Document"), of which this letter forms part. Terms defined in the Document 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 from Kingston on pages 25 to 37 of the Document.

## **RECOMMENDATIONS**

### **Share Offer**

Taking into account the advice of Kingston in relation thereto and the principal factors and reasons taken into consideration by them in arriving at their advice, in particular, the financial position of the Group will be improved as a result of the completion of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, following which the Offeror will make the Share Offer in accordance with the Takeovers Code, we are of the opinion that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned.

However, having considered the fact that the offer price for each Share under the Share Offer of HK\$0.03155 was at a substantial discount to the market price of the Shares, we recommend the Independent Shareholders not to accept the Share Offer. However, for those Independent

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Shareholders who wish to sell their shares in the open market but were unable to do so due to low liquidity of the Shares, the Share Offer provides an opportunity for them to dispose of the Shares.

### **Option Offer**

The offer price per Option is equivalent to the nominal value of HK\$0.001 for each Share upon the Capital Reduction becoming effective on 19 June 2006, as the Shares were traded below the exercise price of HK\$0.111 per Share of the Option (the “Exercise Price”) most of the time over the past 13 months, thus the Options have been out of the money. We therefore consider the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned and therefore recommend the Optionholders to accept the Option Offer.

However, although the Shares were traded below the Exercise Price most of the time, there were some trading days when the closing prices of the Shares were higher than the Exercise Price. On the basis that the Options shall lapse automatically (to the extent not already exercised) on the Closing Date, Optionholders should closely monitor the movement of the prices of the Shares carefully before the Closing Date and should consider exercising the Options in accordance with the terms of the Share Option Scheme and selling the resulting new Share(s) through the Share Offer or the open market as recommended under the sub-section headed “Share Offer” above.

Notwithstanding our recommendation, the Independent Shareholders and the Optionholders should consider carefully the terms and conditions of the Offers.

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

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## LETTER FROM KINGSTON

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*Set out below is the text of the letter from Kingston to the Independent Board Committee prepared for inclusion in this document:*



### **KINGSTON CORPORATE FINANCE LIMITED**

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

22 June 2006

To the Independent Board Committee

Dear Sirs

**MANDATORY UNCONDITIONAL CASH OFFERS BY  
CELESTIAL CAPITAL LIMITED  
ON BEHALF OF DRAGON HILL DEVELOPMENT LIMITED  
FOR ALL THE ISSUED SHARES IN, AND ALL OUTSTANDING OPTIONS  
OF, MAGNUM INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE  
ACQUIRED BY DRAGON HILL DEVELOPMENT LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

#### **INTRODUCTION**

We refer to our appointment by the Company that has been approved by the Independent Board Committee to advise the Independent Board Committee in respect of the Offers. Details of the Offers are set out in the composite offer and response document dated 22 June 2006 (the “Document”) relating to the mandatory unconditional cash offers by Celestial Capital on behalf of the Offeror for all the issued Shares in, and all outstanding Options of, the Company (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in the Document and in the circular issued by the Company dated 29 April 2006 (the “Circular”).

On 30 March 2006, the Company and the Offeror jointly announced that on that day, the Offeror had entered into the Share Sale Agreement with MGL, MCB and Mr. Lee, pursuant to which the Offeror had conditionally agreed to purchase and MGL had conditionally agreed to sell the Sale Shares for a maximum cash consideration of HK\$10,000,519.60 in total (equivalent to approximately HK\$0.03155 per Sale Share). The Sale Shares represent approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date. All the conditions precedent to the Share Sale Agreement had been fulfilled on 19 June 2006, and the S&P Completion subsequently took place on 20 June 2006.

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## LETTER FROM KINGSTON

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Upon the S&P Completion, the Offeror and parties acting in concert with it own an aggregate of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date. The Offeror also holds the Convertible Preference Shares upon completion of the Subscription Agreement, which took place simultaneously with the S&P Completion on 20 June 2006. As a result of the S&P Completion, the Offeror is required under Rule 26.1 and Rule 13 of the Takeovers Code to make an unconditional 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 the Offeror and parties acting in concert with it). Celestial Capital is making the Offers on behalf of the Offeror.

The Independent Board Committee has been established to advise the Independent Shareholders and Optionholders in respect of the Offers. We have been appointed to advise the Independent Board Committee as to whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned, and to give our opinion in relation to the Offers for the Independent Board Committee's consideration in making its recommendation to the Independent Shareholders and the Optionholders.

In accordance with Rule 2.8 of the Takeovers Code, Mr. Wong Ming Shiang and Mr. Lim Eng Ho, both being independent non-executive Directors and having no conflict of interest in the Offers, have been appointed as members of the Independent Board Committee to consider the terms of the Offers and to advise the Independent Shareholders and the Optionholders in respect of the Offers.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the accuracy of the information, facts and representations contained or referred to in the Document and the Circular and the accuracy of the information, facts and representations provided by, and the opinions expressed by the Company and the Directors. We have assumed that all information, facts, opinions and representations made or referred to in the Document and the Circular were true at the time they were made and continued to be true at the date of the Document. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Document and the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Document and the Circular and to provide a reasonable basis for our recommendation. We have relied on such information and opinions and have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospect 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.

We have not considered the tax consequences on the Independent Shareholders and the Optionholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the Optionholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

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# LETTER FROM KINGSTON

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

### Review of historical and pro forma financial performance

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.

According to the audited consolidated accounts of the Group for the three years ended 31 December 2005 and the unaudited pro forma financial information of the Group immediately upon completion upon of the Disposal Agreement (the “Remaining Group”) as set out in Appendix I and II to the Circular, set out in Table 1 below are some key financial figures showing the financial performance and position of the Group and the Remaining Group:

*Table 1: Key financial figures*

	Group			Remaining Group Pro forma
	2003 (Audited) (HK\$ million) (approx.)	2004 (Audited) (HK\$ million) (approx.)	2005 (Audited) (HK\$ million) (approx.)	2005 (Unaudited) (HK\$ million) (approx.)
Revenue	8.3	21.9	12.3	10.2
Profit/(loss) before tax	(11.5)	(6.2)	(8.4)	8.1
Profit/(loss) after tax	(11.5)	(6.3)	(8.8)	8.1
Total assets	95.9	80.5	75.8	29.4
Total liabilities	134.6	125.6	129.6	7.9
Net assets/(deficit)	(38.7)	(45.0)	(53.8)	21.5
Net tangible asset/(liabilities)	(43.1)	(48.2)	(54.7)	20.7

As illustrated in Table 1, the Group has a track record of persistent net loss and net deficit for the three years ended 31 December 2003, 2004 and 2005. Moreover, as stated under the section headed “VII. Reasons for the entering into of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement” in the Circular (“Section VII”), the Group recorded net loss attributable to the Shareholders for each of the seven years ended 31 December 2005, and has recorded net liabilities since 31 December 2001.

As stated under Section VII of the Circular, as at 31 December 2005, total liabilities of the Group amounted to approximately HK\$129.6 million, of which approximately HK\$121.2 million were debts extended by MGL, MESB and MIL (comprising the amounts due to holding companies of approximately HK\$73.9 million and the interest payable to the holding companies and a fellow subsidiary of approximately HK\$47.3 million). We consider that the financial position of the Group has been deteriorating and the Group has been in an unfavorable liquidity position with its main funding from intercompany advances.

Upon completion of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement on 20 June 2006, the aforementioned intercompany advances from MCB group of companies of approximately HK\$121.2 million were fully settled. As illustrated in Table 1 above, the total liabilities of the Group will be decreased from approximately HK\$129.6 million to approximately HK\$7.9 million by approximately HK\$121.7 million, representing a reduction of

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## LETTER FROM KINGSTON

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approximately 93.9%, as a result thereof and the net deficit of the Group of approximately HK\$53.8 million will turn into a net asset value of approximately HK\$21.5 million, being equivalent to approximately HK\$0.03495 per Share, whereas the unaudited pro forma net tangible asset of the Remaining Group is approximately HK\$20.7 million, being equivalent to approximately HK\$0.03360 per Share. Regarding the profitability, based on the pro forma financial results of the Remaining Group, there was an unaudited pro forma profit of approximately HK\$8.1 million. The financial position (as indicated by the net assets) and the financial performance (as indicated by the profitability of the remaining business) of the Remaining Group will be discussed later in this letter.

In view of the above, the financial position of the Group is improved as a result of a series of transactions contemplated under the Subscription Agreement, the Disposal Agreement and the Deed of Settlement.

### **Intention of the Offeror regarding the future of the Group**

- ***Business***

Save for the acquisition of the Sale Shares and the subscription of the Convertible Preference Shares, the Offeror has not been engaged in any other business. The Offeror intends to continue the existing businesses of the Group and has no intention to dispose of the Group's businesses after the close of the Offers. It is the intention of the Offeror to conduct a more detailed review of the operations of the Group with a view to developing a corporate strategy to enhance its existing business and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses or divesting of loss-making operations of the Group should appropriate opportunities arise. However, no specific targets have been stated. The Offeror also has no immediate plan of injecting any of its assets into the Group or redeploying the fixed assets of the Company.

- ***Directors and management***

It is expected that all of the existing executive Directors and existing independent non-executive Directors will resign and such resignation will take effect on the Closing Date in compliance with Rule 7 of the Takeovers Code. Except that Mr. Ooi Sin Heng, one of the existing executive Directors, who will cease to be a Director and general manager of the Company, 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 Sin Heng under the old service contract and the new service contract are the same, which is HK\$35,000). The Directors also stated that the two existing representative officers of MISL in respect of the business of MISL would remain in the Company upon completion of the Offers.

The Offeror has nominated Mr. Lee and Ms. Liu Yaling as the executive Directors and Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas as the independent non-executive Directors, whose appointment will become effective immediately after the posting of the Document. Biographical details of the proposed Directors above are set out under the section headed "Proposed change of the Board composition" in the letter from Celestial Capital in the Document. Save as disclosed above, the Offeror has no intention to make any material changes to the existing management and employment of the employees of the Group.

## LETTER FROM KINGSTON

Although there will be a significant change in the composition of the Board, on the bases that the Offeror intends to continue the existing businesses of the Group and the Company will retain the existing responsible officer and representative officers of MISL in respect of the business of MISL, we are of the view that there is sufficient expertise for the continuance of the existing operation of the Group.

- ***Maintaining the listing status of the Company***

The Offeror 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 proposed Directors 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.

### **Prospect of the existing businesses of the Group**

The Group is principally engaged in investment holding, property investment, securities dealing and brokerage, money lending and margin finance. It is the intention of the Offeror to continue the existing businesses of the Group. Summary details of the business segments are set out in “5. Segment information” of “Notes to financial statements” in Appendix II to the Document.

Set out below is the segment revenues and results of the Group for the three years ended 31 December 2003, 2004 and 2005 as extracted from section headed “(a) Business segments” under “9. Segment information” in Appendix I to the Circular (Table 2: Breakdown of revenues and results):

*Table 2: Breakdown of revenues and results*

	<b>2003</b> <b>(Audited)</b> <i>(HK\$ million)</i> <i>(approx.)</i>	<b>2004</b> <b>(Audited)</b> <i>(HK\$ million)</i> <i>(approx.)</i>	<b>2005</b> <b>(Audited)</b> <i>(HK\$ million)</i> <i>(approx.)</i>
Securities dealings and margin finance			
— Revenue	4,906	5,357	4,342
	(55.4%)	(24.2%)	(34.8%)
— Result	(7,023)	(6,511)	(8,901)
Securities investment			
— Revenue	909	14,008	5,146
	(10.3%)	(63.2%)	(41.3%)
— Result	6,085	293	288
Consumer finance			
— Revenue	700	703	826
	(7.9%)	(3.2%)	(6.6%)
— Result	(901)	1,439	(1,022)
Property holding			
— Revenue	2,335	2,093	2,156
	(26.4%)	(9.4%)	(17.3%)
— Result	(812)	6,053	10,752



## LETTER FROM KINGSTON

As illustrated by Table 2, segment of securities investment being the majority revenue source contributed approximately 41.3% of the total revenue of the Group for the year ended 31 December 2005 and made profits for each of the three latest financial years. However, we consider that the revenues and results from securities investment were rather unstable for the three years under review. In relation to the business segment of property investment, as stated in Section VII of the Circular, upon completion of the Disposal Agreement, the Group will not have any investment in properties. As such, we only discuss the segments of securities dealings and margin finance and consumer finance for the purpose of this section.

We are of the view that the revenue generated from securities related businesses significantly relates to the market sentiment of the Hong Kong stock market. Set out below are certain key statistics extracting from the Stock Exchange Fact Book 2005 showing the development of the Hong Kong stock market (Table 3: Main Board and Growth Enterprise Market):

*Table 3: Main Board and Growth Enterprise Market*

	<b>2003</b>	<b>2004</b>	<b>2005</b>
Turnover value ( <i>HK\$ billion</i> )			
— Annual	2,583.83	3,974.11	4,520.43
— Daily average	10.42	15.96	18.30
Turnover volume ( <i>billion shares</i> )			
— Annual	2,410.38	4,023.55	5,779.81
— Daily average	9.72	16.16	23.40
No. of transactions			
— Annual	28,803,397	37,243,835	36,956,081
— Daily average	116,143	149,574	149,620
Market capitalization ( <i>HK\$ billion</i> )	5,547.85	6,695.89	8,179.94

We consider the Hang Seng Index, the trading turnover, the market capitalization, and the number of trading transactions as a whole serve to be a reliable indicator for assessing the market sentiment of the Hong Kong stock market. According to the website of the Stock Exchange, (i) the Hang Seng Index increased from 13,867.07 as at the end of May 2005 to 15,857.89 as at the end of May 2006, representing an annual growth of approximately 14.4%; and (ii) the Hang Seng Index as at the Latest Practicable Date was 15,608.97, representing an increase of approximately 11.53% to the average Hang Seng Index of 13,995.50 in June 2005. Although there is a recent fluctuation in the Hang Seng Index, the average Hang Seng Index of 15,657.29 in June 2006 and the average turnover value of approximately HK\$32,338.76 million in June 2006 (such averages are calculated based on the information from the Stock Exchange's website and trading days from 1 June 2006 up to the Latest Practicable Date) represent an annual growth of 11.90% and 88.36% from the average Hang Seng Index of 13,995.50 in June 2005 and the average turnover value of approximately HK\$17,168.92 million in June 2005 respectively. Taking into account the Hang Seng Index performance under review (including the annual growth of average Hang Seng Index and turnover value from June 2005 to June 2006) and the significant growth of the stock market as shown in Table 3, we consider the stock market sentiment remains to be good although there was a recent fluctuation in the stock market.

Taking into account the overall good stock market sentiment and performance, we are of the view that there is likely an increase in the trading volume and demand for more financing in the near future. This provides a favorable environment for the Group's existing securities related businesses.

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## LETTER FROM KINGSTON

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However, we note that the Group recorded unsatisfactory results for segments of the securities dealings and margin finance and the consumer finance for the past three years during which as discussed above the overall stock market sentiment and performance should have been favourable to the Group's existing securities related businesses. The Group's securities dealings and margin finance business made losses for the three financial years ended 31 December 2005 with the largest losses made in the recent financial year in an amount of approximately HK\$8.9 million whereas the Group's consumer finance business also attained the largest loss making record for the recent financial year amongst the latest three financial years ended 31 December 2005 to an amount of approximately HK\$1.0 million.

Given the poor performance of the business segments of the Group under review, we are of the view that it is doubtful whether the Group is able to benefit from the present favorable stock market environment.

### **Net asset value**

According to the pro forma financial information of the Remaining Group set out in Appendix II to the Circular and based on the 615,024,175 Shares in issue as at the Latest Practicable Date, upon completion of the Deed of Settlement, the historical net deficit of the Group will turn into an unaudited pro forma net assets of approximately HK\$21.5 million, being equivalent to approximately HK\$0.03495 per Share, whereas the unaudited pro forma net tangible asset will be approximately HK\$20.7 million, being equivalent to approximately HK\$0.03360 per Share. The offer price of HK\$0.03155 per Share under the Share Offer (the "Share Offer Price") represents a discount of approximately 9.73% to the unaudited pro forma net asset value of HK\$0.03495 per Share and approximately 6.10% to the unaudited pro forma net tangible asset value of HK\$0.0336 per Share.

We consider that such small discount of the Share Offer Price to the unaudited pro forma net tangible asset value for each Share is fair and reasonable given that the Group's remaining securities related business has been making losses and that there is no indicator as to the Group's ability in turning into profitability in the near future.

### **Share price performance**

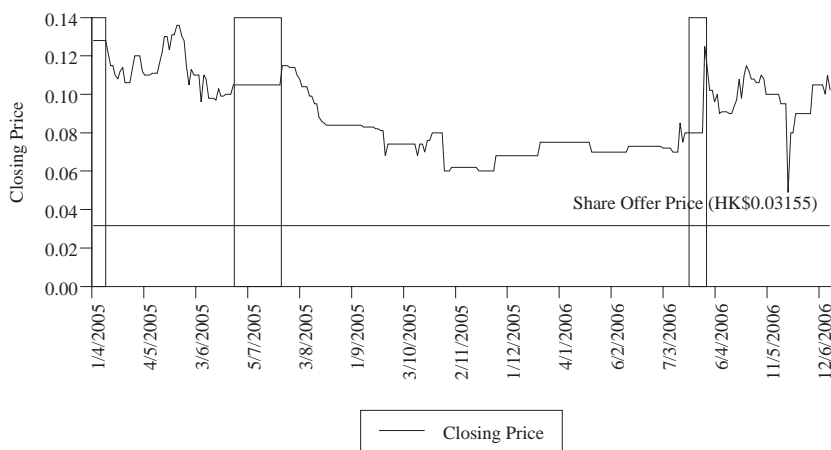
The Share Offer Price of HK\$0.03155 per Share under the Share Offer is the same as the price paid by the Offeror for each Sale Share under the Share Sale Agreement and represents:

- (a) a discount of approximately 60.56% to the closing price of HK\$0.08 per Share (the "Closing Price") as quoted on the Stock Exchange on 21 March 2006, being the last full 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 up to and including 21 March 2006, 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 up to and including 21 March 2006, being approximately HK\$0.07 per Share; and
- (d) a discount of approximately 69.07% to the closing price of HK\$0.102 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

# LETTER FROM KINGSTON

The graph (Graph 1: Closing price) and table (Table 4: Closing price) below set out the closing price of the Shares traded on the Stock Exchange from 1 April 2005 to the Latest Practicable Date (both dates inclusive) (the “Review Period”)

*Graph 1: Closing price*



*Table 4: Closing price*

Month/period	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)
<i>2005</i>			
April (Note)	0.128	0.106	0.114
May	0.136	0.105	0.120
June (Note)	0.113	0.096	0.103
July (Note)	0.115	0.105	0.112
August	0.114	0.084	0.093
September	0.084	0.068	0.080
October	0.080	0.060	0.073
November	0.068	0.060	0.062
December	0.075	0.068	0.070
<i>2006</i>			
January	0.075	0.070	0.074
February	0.073	0.070	0.071
March (Note)	0.125	0.070	0.077
April	0.115	0.090	0.099
May	0.112	0.049	0.097
June (up to the Latest Practicable Date)	0.110	0.090	0.098

Source: Stock Exchange’s website (www.hkex.com.hk)

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.

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## LETTER FROM KINGSTON

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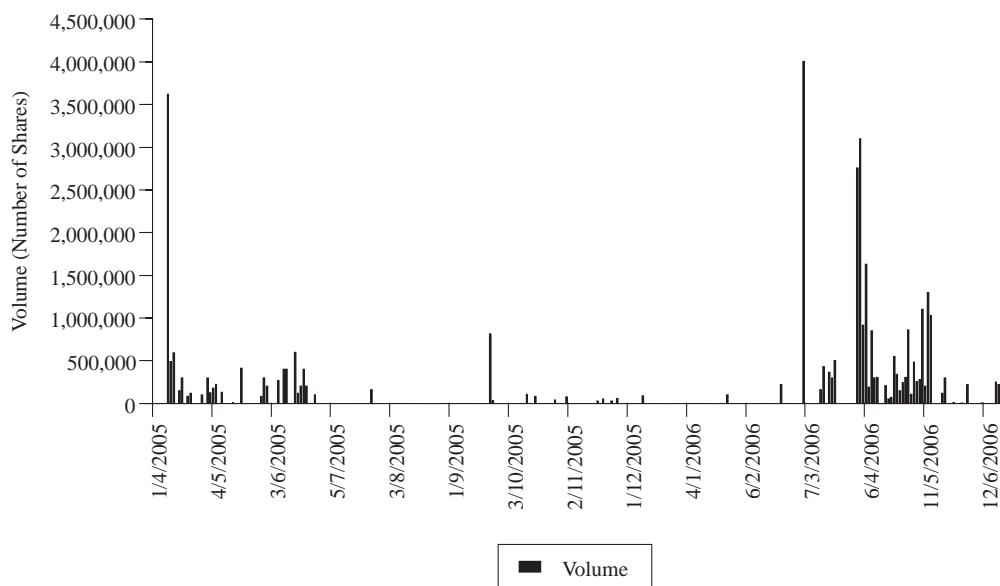
As shown in Graph 1 and Table 4 above, during the Review Period, the closing prices of the Shares were within the range of HK\$0.049 and HK\$0.1360, consistently above the Share Offer Price. The Share Offer Price represents a discount of approximately 49.1% and 73.7% of the lowest average daily closing price of HK\$0.062 and the highest average daily closing price of HK\$0.120 during the Review Period respectively.

On the bases that the Share Offer Price represents a significant discount to the average closing prices of the Shares during the Review Period, we consider the Share Offer Price is not attractive to the Independent Shareholders.

### Liquidity of the Shares

The graph (Graph 2: Trading volume) and table (Table 5: Trading Volume) below set out the trading volume of the Shares during the Review Period:

*Graph 2: Trading volume*



# LETTER FROM KINGSTON

*Table 5: Trading volume*

Month	Total trading volume (Shares)	Number of trading days	Average daily trading volume (Shares)	Percentage of average daily trading volume to the total number of issued Shares (approximate) <i>(Note 1)</i>	Percentage of average daily trading volume to the issued Shares held by the public (approximate) <i>(Note 2)</i>
<i>2005</i>					
April <i>(Note 3 &amp; 4)</i>	5,753,999	15	383,600	0.062%	0.129%
May	1,456,000	20	72,800	0.012%	0.024%
June <i>(Note 3)</i>	2,890,000	18	160,556	0.026%	0.054%
July <i>(Note 3)</i>	160,000	7	22,857	0.004%	0.008%
August	0	23	0	0.000%	0.000%
September	852,000	21	40,571	0.007%	0.014%
October	224,000	20	11,200	0.002%	0.004%
November	250,000	22	11,364	0.002%	0.004%
December	86,000	20	4,300	0.001%	0.001%
<i>2006</i>					
January	100,000	19	5,263	0.001%	0.002%
February	220,000	20	11,000	0.002%	0.004%
March <i>(Note 3 &amp; 5)</i>	8,154,000	16	509,625	0.083%	0.171%
April	9,200,000	17	541,176	0.088%	0.182%
May	6,052,000	20	302,600	0.049%	0.102%
June (up to the Latest Practicable Date)	692,000	14	49,429	0.017%	0.008%

*Source:* Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

1. Based on 615,024,175 Shares in issue as at the Latest Practicable Date.
2. Based on 298,050,495 issued Shares held by the public as at the Latest Practicable Date.
3. 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.
4. On 11 April 2005, an announcement in relation to a possible conditional general offer by a previous offeror was published.
5. On 31 March 2006, the Announcement in relation to the Offers was published.

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## LETTER FROM KINGSTON

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During the Review Period, the average daily trading volume of the Shares was thin and within the range of 0.000% to 0.182% of the issued Shares held by the public. For the 272 trading days during the Review Period, there were 192 trading days with no trading of the Shares, representing approximately 70.59% of the total trading days of the Shares during the Review Period. As illustrated in Graph 2 and Table 5, the trading of the Shares was relatively active on April 2005, March 2006 and April 2006. Despite the relatively higher trading volume in these three months, we consider the liquidity of the Shares was low during most of the time of the Review Period. Furthermore, there is no assurance that the recent increase in trading volume will sustain after the close of the Offers.

On the bases above, we consider that the Independent Shareholders who intend to dispose of their Shares in the market may not be able to do so without discounting the Share price to some extent. Therefore, we consider that the Share Offer provides an alternative platform for the Independent Shareholders to dispose of their Shares at a discounted price notwithstanding such discount being substantial.

### **Price-earnings multiple**

We consider price-earnings multiple (net earnings divided by earnings per share) to be one of the most commonly used benchmark for valuing a company. However, given that the Group has recorded net loss for each of the seven years ended 31 December 2005, the use of price-earnings multiple to assess the Share Offer Price is not applicable. Notwithstanding that as shown in Table 1 above, the Remaining Group, made an unaudited pro forma profit of approximately HK\$8.1 million, such profit is mainly attributable to i) a gain on disposal of the Lismore Group of approximately HK\$12.4 million; and ii) a gain on waiver of the remaining Shareholder's Loan of approximately HK\$16.8 million, both of which are one-off in nature. Without taking into account such one-off revenue items, the Group will still be loss making. Accordingly, we consider that there is no reliable indicator to measure the profitability of the Group.

### **Gearing**

The Group has recorded net deficit since 31 December 2001 and was deteriorating for the three financial years ended 31 December 2005. According to the pro forma financial information of the Remaining Group set out in Appendix II to the Circular, upon the completion of the Deed of Settlement, all the loans due from the Company of approximately HK\$121.2 million will be fully settled, and the deficiency in assets of approximately HK\$53.8 million will turn into a positive total equity of approximately HK\$21.5 million. We consider the improved financial position of the Group with no debts will facilitate itself to procure funding in the future.

### **Dividend yield**

The Group has not declared any dividend for the seven years ended 31 December 2005, therefore it is not possible to use dividend yield to value the Share against the Share Offer Price.

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# LETTER FROM KINGSTON

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## RECOMMENDATION

### Share Offer

Having considered the principal factors and reasons discussed above, in particular that:

- the improvement of the financial position of the Group as a result of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, following completion of which the Offeror will make the Share Offer at a price of HK\$0.03155 per Share;
- the continuing loss making of the Group's remaining securities-related business;
- there being no improvement in the profitability of the Group's remaining securities-related business even under the favourable stock market sentiment and performance in the past three years;
- the small discount of the Share Offer Price to the pro forma net tangible asset value per Share which in our opinion is justifiable in light of the continuing loss making track record of the Group's remaining business; and
- the recent trading volume of the Shares being significantly thin as to the public float of the Shares notwithstanding that the average closing prices of the Shares during the Review Period being at a premium to the Share Offer Price,

we are of the opinion that the terms of the Share Offer, including the Share Offer Price, are **fair and reasonable** so far as the Independent Shareholders are concerned.

However, having considered the Share Offer Price was at a substantial discount to the market price of the Shares, we recommend the Independent Board Committee to advise the Independent Shareholders **not to accept the Share Offer**.

Independent Shareholders who have particular concerns in the factors, such as the low liquidity of the Shares during the Review Period, and after considering their own circumstances, wish to accept the Share Offer as to part or all of their Shares, should closely monitor the Share price performance during the Offers period and consider to sell their Shares in the open stock market if higher net proceeds can be so obtained. Independent Shareholders should also note that the low liquidity of the Shares during the Review Period implies that Shareholders may meet difficulties in disposing of their Shares in the open stock market. The Share Offer provides an opportunity for the Independent Shareholders to dispose of their Shares.

### Option Offer

As at the Latest Practicable Date, the Company had 7,200,000 outstanding Options entitling the Optionholders to subscribe for up to an aggregate of 7,200,000 Shares at an exercise price of HK\$0.111 per Share. 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 Closing Date.

Celestial Capital, on behalf of the Offeror, is now making an offer for all the outstanding Options at a nominal consideration of HK\$0.001 for each Options attaching rights to subscribe for one Share in consideration of the surrender by the relevant Optionholders of the subscription rights attaching to the Options. On the bases that the offer price per Option under the Option Offer is

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## LETTER FROM KINGSTON

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equivalent to the existing nominal value of each Share and the Shares were traded under HK\$0.111 (the exercise price of the Options to subscribe for one Share) most of the time during the Review Period, we consider the offer price of HK\$0.001 per Option is acceptable. We therefore consider the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned and advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

However, as illustrated in Graph 1, although the Shares were traded under HK\$0.111 most of the time during the Review Period, there were some trading days that the closing prices of the Shares were higher than HK\$0.111. We would like to recommend the Independent Board Committee to advise the Optionholders to closely monitor the market price of the Shares during the period of the Option Offer and not to accept the Option Offer in the event that the market price of the Shares exceeds HK\$0.111 during the period of the Option Offer.

Yours faithfully,  
For and on behalf of  
**Kingston Corporate Finance Limited**  
**Elton Cheung**      **Gregory Ho**  
*Director*                      *Director*



## APPENDIX I CONDITIONS AND FURTHER TERMS OF THE OFFERS

## FURTHER PROCEDURES FOR ACCEPTANCE

## (A) The Share Offer

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares, you must either:
- (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver in an envelope marked “Magnum Share Offer” the **WHITE** Form(s) of Acceptance duly completed, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand to the Registrar; or
  - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver in an envelope marked “Magnum Share Offer” the **WHITE** Form(s) of Acceptance duly completed, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand to the Registrar; or
  - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees limited, you should check with your broker/custodian bank for the timing on processing of your instruction, and submit your instruction to your broker/custodian bank as required by them; or
  - (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form(s) of Acceptance should nevertheless be completed and delivered in an envelope marked “Magnum Share Offer” to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be

forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete the **WHITE** Form(s) of Acceptance and deliver the same in an envelope marked “Magnum Share Offer” to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Celestial Capital and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/ they were delivered to the Registrar with the **WHITE** Form(s) of Acceptance.
- (d) An acceptance may not be counted as valid unless:
1. the **WHITE** Form of Acceptance, together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), has been received by the Registrar on or before 4:00 p.m. on 13 July 2006 (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive) and the Registrar has recorded that the **WHITE** Form(s) of Acceptance and any relevant documents required below have been so received; and
  2. the **WHITE** Form of Acceptance is duly completed and is:
    - (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Share(s); or
    - (ii) from a registered Shareholder or his/her/its personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relating to Share(s) which is/are not taken into account under any other sub-paragraph of this paragraph (2)); or
    - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (e) No acknowledgment of receipt of any **WHITE** Form(s) of Acceptance, share and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (f) The address of the Registrar, Tengis Limited, is at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

**(B) The Option Offer**

- (a) If you accept the Option Offer, you should complete the **YELLOW** Form of Acceptance obtainable from the head office and principal place of business of the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Option Offer.
- (b) The completed **YELLOW** Form of Acceptance should be forwarded, together with the relevant option certificate(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) stating the number of the Options for not less than the number of the Options in respect of which you intend to accept the Option Offer, by post or by hand to the company secretary of the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, marked "Magnum Option Offer" on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by no later than 4:00 p.m. on 13 July 2006 (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive).
- (c) If the option certificate(s) in respect of your Option(s) is/are lost or it is/they are not readily available and you wish to accept the Option Offer, the **YELLOW** Form of Acceptance should nevertheless be completed and delivered to the company secretary of the Company at the office of the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong together with a letter stating that you have lost one or more of your option certificate(s) or that it is/they are not readily available. If you find such certificate(s) or if it/they become(s) available, the relevant option certificate(s) should be forwarded to the head office and principal place of business of the Company at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong as soon as possible thereafter.
- (d) No acknowledgment of receipt of any **YELLOW** Form(s) of Acceptance, option certificate(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

**ACCEPTANCE PERIOD AND REVISIONS**

The Offers will remain open for acceptance until 4:00 p.m. on 13 July 2006, being the Closing Date. The Offers will close on 13 July 2006 unless they are extended or revised by the Offeror in accordance with the Takeovers Code. The Offeror reserves the right to extend or revise the Offers in accordance with the Takeovers Code.

If the Offers are revised, such revised Offers will remain open for acceptance for a period of at least 14 days from the date of posting of the written notification of the revision to the Independent Shareholders and the Optionholders. All the Independent Shareholders and Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised Offers. In any case where the Offers are revised, and the consideration offered under the revised Offers do not represent on such date a reduction in the value of the Offers in their original or any previously revised form(s), the benefit of such revised Offers will be made available as set out herein to acceptors of the Offers

in their original or any previously revised form(s) (hereinafter called “previous acceptor(s)”). The execution by, or on behalf of, a previous acceptor of any Form of Acceptance shall be deemed to constitute acceptance of the Offers as so revised.

If the Offers are extended, an announcement of such extension will state the next closing date and the Offers shall, unless previously extended or revised, be closed on the subsequent closing date. In the event that the closing date of the Offers is extended, any reference in this document and the Forms of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended.

## **ANNOUNCEMENTS**

- (a) By 6:00 p.m. on 13 July 2006 which is the Closing Date (or such later time and/or date as the Executive agrees), the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offers. The Offeror shall publish an announcement on the Stock Exchange’s website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised, extended, or have expired. Such announcement must be republished in accordance with the requirements set out in item (b) below on the next Business Day. The announcement must state the following:
- (i) the total number of Shares and Options for which acceptances of the Offers have been received;
  - (ii) the total number of Shares and Options held, controlled or directed by the Offeror or parties acting in concert with it before the offer period; and
  - (iii) the total number of Shares and Options acquired or agreed to be acquired during the offer period by the Offeror or parties acting in concert with it;

The announcement must also specify the percentages of the issued share capital of the Company and voting rights of the Company represented by these numbers of Shares and Options.

- (b) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offers, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper being in each case a newspaper which is published daily and circulated generally in Hong Kong.

## **NO RIGHT OF WITHDRAWAL**

The Offers are unconditional. Acceptances by the Independent Shareholders and the Optionholders under the Offers shall be irrevocable and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code, which provides that if the Offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

## GENERAL

- (a) All communications, notices, Forms of Acceptance, share and option certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders and the Optionholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Company, the Offeror, Celestial Capital, and any of their respective agents nor the Registrar accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the Forms of Acceptance form part of the terms of the Offers.
- (c) The accidental omission to despatch this document and/or the Form(s) of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to any director of the Offeror, Celestial Capital or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Share Offer or the Option Offer (as the case may be) and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares or the Options (as the case may be), in respect of which such person has accepted the Share Offer or the Option Offer (as the case may be).
- (f) Acceptance of the Share Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired by it under the Share Offer is sold by such person or persons free from all third party rights, liens, claims, right of set-off, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the Shares on or after the Completion Date. By accepting the Option Offer, the Optionholders will renounce and surrender to the Company all of their existing rights in respect of the Options, following which such Options will be cancelled and extinguished. The settlement of the consideration to which any Independent Shareholder or Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder or Optionholder.
- (g) Seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer amounting to HK\$1 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Shares in respect of the relevant acceptances will be deducted from the amount payable to the Independent Shareholders who accept the Share Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty amounting to HK\$1 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Shares in respect of relevant acceptances and will be responsible to account to the Stamp Office of Hong Kong all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptances under the Share Offer. There is no stamp duty imposed on the Optionholders in connection with their acceptance of the Option Offer.

- (h) The Offeror does not intend to exercise any right which may be available to it under the provisions of Section 102 or 103 of the Companies Act to acquire compulsorily any Shares not acquired under the Share Offer after the Offers have closed but reserves the right to do so.
- (i) References to the Offers in this document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (j) The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Independent Shareholders and/or Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.
- (k) Acceptances of the Offers by any persons will be deemed to constitute a warranty by such persons that such persons are permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws. Any such persons will be responsible for any such issue, transfer and other applicable taxes or other governmental payments payable by such persons.
- (l) Subject to the Takeovers Code, the Offeror and Celestial Capital reserve the right to notify any matter (including the making of the Offerors) to all or any Shareholders or Optionholders with registered address(es) outside Hong Kong or whom the Offeror or Celestial Capital know to be nominees, trustees or custodians for such persons by announcement or paid advertisement in any daily newspaper published and circulated in Hong Kong in which case such notice, and all references in this document to notice in writing shall be construed accordingly.
- (m) In making their decision, Independent Shareholders and Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offers, including the merits and risks involved. The contents of this document, including any general advice or recommendations contained herein together with the relevant Forms of Acceptance shall not be construed as any legal or business advice on part of the Offeror or Celestial Capital, Independent Shareholders or Optionholders could consult with their own lawyers or financial advisers for legal or financial advice.
- (n) The English text of this document and of the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

### 1. SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2003, 2004 and 2005 (the “Relevant Periods”) as extracted from the Accountants’ Report of the Group set out in the Company’s circular dated 29 April 2006.

	2003 <i>HK\$</i>	2004 <i>HK\$</i>	2005 <i>HK\$</i>
REVENUE	<u>8,259,794</u>	<u>21,913,149</u>	<u>12,310,910</u>
LOSS BEFORE TAX	(11,522,244)	(6,230,649)	(8,430,792)
TAX	<u>—</u>	<u>(112,927)</u>	<u>(325,598)</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u>(11,522,244)</u>	<u>(6,343,576)</u>	<u>(8,756,390)</u>
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic	<u>HK(1.87 cents)</u>	<u>HK(1.03 cents)</u>	<u>HK(1.42 cents)</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Notes:*

- The reports of the auditors in respect of the Group’s audited financial statements for the three years ended 31 December 2003, 2004 and 2005 did not contain any qualification.
- 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 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.
- There was no exceptional or extraordinary items during the Relevant Periods.
- There was no minority interest during the Relevant Periods.
- No dividend was paid or declared by the Company during the Relevant Periods.

## 2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2005

The following is the unqualified audited financial statements of the Group for the year ended 31 December 2005 as extracted from the annual report of the Company for that year. The notes to the financial statements have been adopted to conform with the presentation herein.

**Consolidated Income Statement***Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i> <i>(Restated)</i>
REVENUE	6	12,310,910	21,913,149
Other income and gains	6	236,873	261,884
Cost of trading equity investments sold		(5,000,826)	(12,721,750)
Administrative expenses		(14,157,260)	(12,065,515)
Other operating expenses		(2,428,747)	(3,013,170)
Unrealised gains/(losses) on equity investments at fair value through profit or loss/short term investments		443,365	(719,000)
Changes in fair value of investment properties	15	10,630,000	6,280,000
Write-back of/(charge to) provision for doubtful debts		(1,622,788)	962,514
Impairment of intangible assets		(2,336,028)	(702,055)
Finance costs	7	<u>(6,506,291)</u>	<u>(6,426,706)</u>
LOSS BEFORE TAX	8	(8,430,792)	(6,230,649)
Tax	11	<u>(325,598)</u>	<u>(112,927)</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	<u><u>(8,756,390)</u></u>	<u><u>(6,343,576)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13		
Basic		<u><u>(1.42 cents)</u></u>	<u><u>(1.03 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>



**Consolidated Balance Sheet**

31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	151,189	103,076
Investment properties	15	43,920,000	33,290,000
Intangible assets	17	<u>827,246</u>	<u>3,135,479</u>
Total non-current assets		<u>44,898,435</u>	<u>36,528,555</u>
<b>CURRENT ASSETS</b>			
Loans receivable	18	14,969,290	19,402,017
Accounts receivable	19	1,196,327	5,213,721
Prepayments, deposits and other receivables	20	2,405,800	1,555,428
Equity investments at fair value through profit or loss/short term investments	21	1,910,949	1,420,287
Client trust bank accounts	22	2,797,641	4,106,932
Cash and cash equivalents	23	<u>7,581,554</u>	<u>12,257,012</u>
Total current assets		<u>30,861,561</u>	<u>43,955,397</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	19	3,643,550	5,534,910
Other payables and accruals	24	51,560,285	45,373,516
Bank overdrafts, secured	25	—	588,573
Tax payable		<u>52,034</u>	<u>52,034</u>
Total current liabilities		<u>55,255,869</u>	<u>51,549,033</u>
NET CURRENT LIABILITIES		<u>(24,394,308)</u>	<u>(7,593,636)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		20,504,127	28,934,919
<b>NON-CURRENT LIABILITIES</b>			
Amount due to the immediate holding company	26	42,999,147	42,999,147
Amount due to an intermediate holding company	27	30,920,000	30,920,000
Deferred tax liabilities	28	<u>411,507</u>	<u>85,909</u>
Total non-current liabilities		<u>74,330,654</u>	<u>74,005,056</u>
Net liabilities		<u>(53,826,527)</u>	<u>(45,070,137)</u>
<b>DEFICIENCY IN ASSETS</b>			
Issued capital	29	61,502,418	61,502,418
Reserves	31(a)	<u>(115,328,945)</u>	<u>(106,572,555)</u>
Net deficiency in assets		<u>(53,826,527)</u>	<u>(45,070,137)</u>

## Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	Note	Attributable to equity holders of the Company				Accumulated losses	Net deficiency in assets
		Issued share capital	Share premium account	Contributed surplus	Fixed assets revaluation reserve		
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2004							
As previously reported		61,502,418	168,315,330	36,548,052	1,731,450	(307,175,318)	(39,078,068)
Prior year adjustment	3.4(b)	—	—	—	—	351,507	351,507
As restated		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		<u>61,502,418</u>	<u>168,315,330</u>	<u>36,548,052</u>	<u>1,731,450</u>	<u>(313,167,387)</u>	<u>(45,070,137)</u>
At 1 January 2005							
As previously reported		61,502,418	168,315,330	36,548,052	1,731,450	(313,432,985)	(45,335,735)
Prior year adjustment	3.4(b)	—	—	—	—	265,598	265,598
As restated		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		<u>61,502,418</u>	<u>168,315,330*</u>	<u>36,548,052*</u>	<u>1,731,450*</u>	<u>(321,923,777)*</u>	<u>(53,826,527)</u>

\* The consolidated reserves in the consolidated balance sheet comprise the share premium account, contributed surplus, fixed assets revaluation reserve, and accumulated losses with a net debit balance of HK\$115,328,945 (2004: HK\$106,572,555 (Restated)).

**Consolidated Cash Flow Statement***Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(8,430,792)	(6,230,649)
Adjustments for:			
Interest income	8	(2,621,562)	(2,728,780)
Dividend income from listed investments	6	(40,884)	(109,589)
Finance costs	7	6,506,291	6,426,706
Amortisation of intangible assets	8	—	505,910
Depreciation	8	52,575	219,262
Gain on disposal of items of property, plant and equipment	8	—	(400)
Gain on disposal of equity investments at fair value through profit or loss/short term investments	8	(103,854)	(1,176,500)
Unrealised losses/(gains) on equity investments at fair value through profit or loss/short term investments		(443,365)	719,000
Changes in fair value of investment properties	15	(10,630,000)	(6,280,000)
Charge to/(write-back of) provision for doubtful debts		1,622,788	(962,514)
Impairment of intangible assets		<u>2,336,028</u>	<u>702,055</u>
Operating loss before working capital changes		(11,752,775)	(8,915,499)
Decrease in loans receivable		3,612,808	13,961,961
Decrease in accounts receivable		4,040,278	2,077,602
Increase in prepayments, deposits and other receivables		(1,676,125)	(893,219)
Decrease in equity investments at fair value through profit or loss/short term investments		56,557	13,835,723
Decrease/(increase) in client trust bank accounts		1,309,291	(1,538,976)
Decrease in accounts payable		(1,891,360)	(310,845)
Increase in other payables and accruals		6,186,769	6,427,543
Exchange realignment		<u>—</u>	<u>36,299</u>
Cash generated from/(used in) operations		(114,557)	24,680,589
Hong Kong profits tax paid		—	(27,018)
Interest received		2,621,562	2,728,780
Dividend received from listed investments		40,884	109,589
Interest paid		<u>(6,506,291)</u>	<u>(6,426,706)</u>
Net cash inflow/(outflow) from operating activities		<u>(3,958,402)</u>	<u>21,065,234</u>

	<i>Notes</i>	<b>2005</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(100,688)	(23,560)
Proceeds from disposals of items of property, plant and equipment		<u>—</u>	<u>400</u>
Net cash outflow from investing activities		<u>(100,688)</u>	<u>(23,160)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of bank loans		—	(1,561,678)
Repayment to a fellow subsidiary		—	(1,932,500)
Repayment to the immediate holding company		<u>—</u>	<u>(12,067,500)</u>
Net cash outflow from financing activities		<u>—</u>	<u>(15,561,678)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		(4,059,090)	5,480,396
Cash and cash equivalents at beginning of year		11,668,439	6,191,060
Effect of foreign exchange rate changes, net		<u>(27,795)</u>	<u>(3,017)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u><u>7,581,554</u></u>	<u><u>11,668,439</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	2,581,554	3,257,012
Bank overdrafts, secured	25	—	(588,573)
Non-pledged time deposits with original maturity of less than three months when acquired	23	<u>5,000,000</u>	<u>9,000,000</u>
		<u><u>7,581,554</u></u>	<u><u>11,668,439</u></u>

**Balance Sheet***31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	16	(22,927,276)	(19,065,003)
<b>CURRENT ASSETS</b>			
Prepayments and deposits	20	229,887	229,887
Cash and cash equivalents	23	<u>62,010</u>	<u>48,130</u>
Total current assets		<u>291,897</u>	<u>278,017</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	24	17,668,296	14,918,243
Bank overdrafts, secured	25	<u>—</u>	<u>588,573</u>
Total current liabilities		<u>17,668,296</u>	<u>15,506,816</u>
<b>NET CURRENT LIABILITIES</b>		<u>(17,376,399)</u>	<u>(15,228,799)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(40,303,675)	(34,293,802)
<b>NON-CURRENT LIABILITY</b>			
Amount due to the immediate holding company	26	<u>30,932,500</u>	<u>30,932,500</u>
Net liabilities		<u>(71,236,175)</u>	<u>(65,226,302)</u>
<b>DEFICIENCY IN ASSETS</b>			
Issued capital	29	61,502,418	61,502,418
Reserves	31(b)	<u>(132,738,593)</u>	<u>(126,728,720)</u>
Net deficiency in assets		<u>(71,236,175)</u>	<u>(65,226,302)</u>

**Notes to Financial Statements***31 December 2005***1. CORPORATE INFORMATION**

Magnum International Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 1301A, 13/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

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

- securities dealing and brokerage
- securities trading and investment holding
- money lending
- property investment

The immediate holding company of the Company is Magnum (Guernsey) Limited (“MGL”) which is incorporated in Malaysia.

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

**2. CORPORATE UPDATE AND BASIS OF PRESENTATION**

The Group 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 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.

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 Investments Limited (“Watary”), a wholly-owned subsidiary of the Company, 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 Lismore Properties Limited (“Lismore”), a wholly-owned subsidiary of Watary, and its

subsidiaries (collectively 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 notes 2(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 the announcement dated 30 March 2006 jointly issued by the Company and Dragon Hill.

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 notes 2(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. The financial information of the Lismore Group as at 31 December 2005 is set out in Supplementary Information of this annual report.

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 financial statements on a going concern basis.

### 3.1 BASIS OF PREPARATION

These financial statements 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 Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. 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.

### 3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases



Except for HKASs 24, 32, 38, 39 and 40, HKFRS 2 and HK(SIC)-Int 21 as stated below, the adoption of the above standards has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

**(a) HKAS 24 — Related Party Disclosures**

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

**(b) 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. The effects of the above changes are summarised in note 3.4 to the financial statements.

**(c) 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. Under the transitional provision of HKAS 38, this change in accounting policy has been applied prospectively and therefore comparative amounts have not been restated.

**(d) HKAS 40 — Investment Property**

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, 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.

The adoption of HKAS 40 has had no impact on the amounts disclosed in the financial statements.

**(e) HKFRS 2 — Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 3.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the accumulated losses as at 31 December 2003 and at 31 December 2004.

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

In prior periods, 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 effects of the above changes are summarised in note 3.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

**3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendments, HKFRSs 1, 4 & 6 Amendments, HKFRS 6, HK(IFRIC)-Int 4, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6, and HK(IFRIC)-Int 7 do not apply to the activities to the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

### 3.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

#### (a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting		Total HK\$
	HKASs 32# & 39* Change in classification of equity investments HK\$	HK(SIC)-Int 21# Deferred tax on revaluation of investment properties HK\$	
<b>Assets</b>			
Equity investments at fair value through profit or loss	1,420,287	—	1,420,287
Short term investments	(1,420,287)	—	(1,420,287)
			—
<b>Liabilities</b>			
Deferred tax liabilities	—	(265,598)	(265,598)

\* Adjustments taken effect prospectively from 1 January 2005

# Adjustments/presentation taken effect retrospectively

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting		Total HK\$
	HKASs 32 & 39 Change in classification of equity investments HK\$	HK(SIC)-Int 21 Deferred tax on revaluation of investment properties HK\$	
<b>Assets</b>			
Equity investments at fair value through profit or loss	1,910,949	—	1,910,949
Short term investments	(1,910,949)	—	(1,910,949)
			—
<b>Liabilities</b>			
Deferred tax liabilities	—	60,000	60,000

## (b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting HK(SIC)-Int 21 Deferred tax on revaluation of investment properties HK\$
<b>Effect of new policies</b>	
<b>1 January 2004</b>	
Decrease in accumulated losses	351,507
<b>1 January 2005</b>	
Decrease in accumulated losses	265,598

## (c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting HK(SIC)-Int 21 Deferred tax on revaluation of investment properties
<b>Effect of new policies</b>	
<b>Year ended 31 December 2005</b>	
Increase in tax and loss for the year	HK\$325,598
Increase in basic loss per share	HK0.05 cents
<b>Year ended 31 December 2004</b>	
Increase in tax and loss for the year	HK\$85,909
Increase in basic loss per share	HK0.01 cents

## 3.5 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/amortisation), 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 the 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 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**

#### ***Applicable to the year ended 31 December 2004:***

The Group classified its equity investments, other than subsidiaries, as short term investments.

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

#### ***Applicable to the year ended 31 December 2005:***

Financial assets in the scope of HKAS 39 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 (applicable to the year ended 31 December 2005)**

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 (applicable to the year ended 31 December 2005)**

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 (applicable to the year ended 31 December 2005)**

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 it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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.

#### *Share-based payment transactions (applicable to options granted to employees on or before 7 November 2002)*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The Group had adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal values of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### **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.

#### 4. 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 financial statements:

##### *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 amount of investment properties at 31 December 2005 was HK\$43,920,000 (2004: HK\$33,290,000) (note 15).

## 5. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of services 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 investments.
- 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 years ended 31 December 2005 and 2004.

	Securities dealing and margin finance		Securities investment		Consumer finance		Property holding		Intersegment sales elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Segment revenue:</b>												
Services provided to external customers	4,249,628	5,253,382	5,104,680	13,898,250	825,753	703,493	2,156,084	2,092,770	(25,235)	(34,746)	12,310,910	21,913,149
Other revenue	92,056	103,295	40,884	109,589	—	—	—	400	—	—	132,940	213,284
<b>Segment revenue</b>	<b>4,341,684</b>	<b>5,356,677</b>	<b>5,145,564</b>	<b>14,007,839</b>	<b>825,753</b>	<b>703,493</b>	<b>2,156,084</b>	<b>2,093,170</b>	<b>(25,235)</b>	<b>(34,746)</b>	<b>12,443,850</b>	<b>22,126,433</b>
<b>Segment results</b>	<b>(8,901,151)</b>	<b>(6,510,943)</b>	<b>287,980</b>	<b>293,412</b>	<b>(1,021,990)</b>	<b>1,438,697</b>	<b>10,752,471</b>	<b>6,052,733</b>	<b>—</b>	<b>—</b>	<b>1,117,310</b>	<b>1,273,899</b>
Unallocated revenue and gains											103,933	48,600
Unallocated expenses											(3,959,479)	(1,964,108)
Finance costs											(5,692,556)	(5,589,040)
Loss before tax											(8,430,792)	(6,230,649)
Tax											(325,598)	(112,927)
<b>Loss for the year</b>											<b>(8,756,390)</b>	<b>(6,343,576)</b>

	Securities dealing and margin finance		Securities investment		Consumer finance		Property holding		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
												<i>(Restated)</i>
<b>Assets and liabilities</b>												
Segment assets	28,957,750	43,607,731	2,539,878	1,924,268	17,059,240	18,074,840	45,201,183	34,092,450	(18,718,878)	(17,854,614)	75,039,173	79,844,675
Unallocated assets											720,823	639,277
Total assets											75,759,996	80,483,952
Segment liabilities	9,108,348	15,240,378	134,869	153,464	33,370,211	33,363,821	1,350,233	1,365,570	(31,644,099)	(36,048,585)	12,319,562	14,074,648
Unallocated liabilities											117,266,961	111,479,441
Total liabilities											129,586,523	125,554,089
<b>Other segment information:</b>												
Capital expenditures	650	740	—	—	—	—	100,038	21,220				
Depreciation	5,135	99,314	—	—	—	—	46,364	109,982				
Amortisation	—	505,910	—	—	—	—	—	—				
Unrealised gains/ (losses) on equity investments at fair value through profit or loss	—	—	443,365	(719,000)	—	—	—	—				
Charge to/(write-back of) provision for doubtful debts	797,035	389,443	—	—	825,753	(1,737,296)	—	385,339				
Changes in fair value of investment properties	—	—	—	—	—	—	10,630,000	6,280,000				
Impairment of intangible assets recognised in the income statement	2,336,028	702,055	—	—	—	—	—	—				

**(b) Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

	Hong Kong		Philippines		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
								<i>(Restated)</i>
<b>Segment revenue:</b>								
Services provided to external customers	12,310,910	21,913,149	—	—	—	—	12,310,910	21,913,149
Other revenue	216,614	152,295	20,259	109,589	—	—	236,873	261,884
Segment revenue	12,527,524	22,065,444	20,259	109,589	—	—	12,547,783	22,175,033
<b>Other geographical information:</b>								
Segment assets	73,735,233	78,955,281	8,489,573	7,639,245	(6,464,810)	(6,110,574)	75,759,996	80,483,952
Capital expenditure	100,688	23,560	—	—	—	—	100,688	23,560

## 6. REVENUE, OTHER INCOME AND GAINS

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

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
		<i>(Restated)</i>
<b>Revenue</b>		
Commission and interest income from securities dealing and margin finance	4,224,393	5,218,636
Interest income from consumer finance	825,753	703,493
Property rental income	2,156,084	2,092,770
Proceeds from the sale of equity investments at fair value through profit or loss/short term investments	<u>5,104,680</u>	<u>13,898,250</u>
	<u><u>12,310,910</u></u>	<u><u>21,913,149</u></u>
<b>Other income</b>		
Dividend income from listed investments	40,884	109,589
Others	<u>140,656</u>	<u>152,295</u>
	<u>181,540</u>	<u>261,884</u>
<b>Gains</b>		
Foreign exchange gains, net	<u>55,333</u>	<u>—</u>
	<u><u>236,873</u></u>	<u><u>261,884</u></u>

In previous years, gains arising from trading of equity securities was classified as other income and included in "Securities dealing and margin finance" in segment information. During the current year, 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 securities sold, respectively, and to present the related financial information under a separate segment of "Securities investment" to better reflect the underlying nature of these balances and allow a more appropriate presentation of the Group's results. Accordingly, the comparative amounts of revenue and cost of trading securities sold, and segment information have been restated to conform with the current year's presentation.

## 7. FINANCE COSTS

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank overdrafts wholly repayable within five years	12,015	100,613
Interest on amounts due to holding companies and a fellow subsidiary	<u>6,494,276</u>	<u>6,326,093</u>
	<u><u>6,506,291</u></u>	<u><u>6,426,706</u></u>

## 8. LOSS BEFORE TAX

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

	2005 HK\$	2004 HK\$
Amortisation of intangible assets*	—	505,910
Auditors' remuneration	750,000	680,000
Depreciation	52,575	219,262
Employee benefits expense (including directors' remuneration — note 9):		
Wages and salaries	7,063,026	7,246,872
Pension scheme contributions	297,433	276,541
Termination benefits	<u>236,721</u>	<u>—</u>
	<u>7,597,180</u>	<u>7,523,413</u>
Foreign exchange losses, net	—	62,750
Minimum lease payments under operating leases in respect of land and buildings	<u>1,392,886</u>	<u>1,324,355</u>
and after crediting:		
Gross rental income	2,156,084	2,092,770
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	<u>(112,192)</u>	<u>(95,196)</u>
Net rental income	<u>2,043,892</u>	<u>1,997,574</u>
Bank interest income	120,124	8,772
Interest income for loans receivable	<u>2,501,438</u>	<u>2,720,008</u>
	<u>2,621,562</u>	<u>2,728,780</u>
Gain on disposal of equity investments at fair value through profit or loss/short term investments	103,854	1,176,500
Gain on disposal of items of property, plant and equipment	<u>—</u>	<u>400</u>

\* The amortisation of the intangible assets for the year ended 31 December 2004 was included under "Other operating expenses" on the face of the consolidated income statement.

## 9. DIRECTORS' REMUNERATION

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

	Group	
	2005 HK\$	2004 HK\$
Fees	210,000	210,000
Other emoluments:		
Salaries, allowances and benefits in kind	2,235,320*	1,895,469
Fixed bonuses	354,815	354,815
Pension scheme contributions	84,963	84,963
	<u>2,675,098</u>	<u>2,335,247</u>
	<u>2,885,098</u>	<u>2,545,247</u>

\* 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.

## (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK\$	2004 HK\$
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
	<u>90,000</u>	<u>90,000</u>

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

## (b) Executive directors

	Fees HK\$	Salaries, allowances and benefits in kind HK\$	Fixed bonuses HK\$	Pension scheme contributions HK\$	Total remuneration HK\$
<b>2005</b>					
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
	<u>120,000</u>	<u>2,235,320</u>	<u>354,815</u>	<u>84,963</u>	<u>2,795,098</u>



	Fees <i>HK\$</i>	Salaries, allowances and benefits in kind <i>HK\$</i>	Fixed bonuses <i>HK\$</i>	Pension scheme contributions <i>HK\$</i>	Total remuneration <i>HK\$</i>
<b>2004</b>					
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
	<u>120,000</u>	<u>1,895,469</u>	<u>354,815</u>	<u>84,963</u>	<u>2,455,247</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

#### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are set out below:

	Group	
	2005 <i>HK\$</i>	2004 <i>HK\$</i>
Salaries, allowances and benefits in kind	1,257,467	1,265,418
Fixed bonuses	95,180	95,180
Pension scheme contributions	<u>57,108</u>	<u>57,108</u>
	<u>1,409,755</u>	<u>1,417,706</u>

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

#### 11. TAX

No provision for Hong Kong profits tax has been made for the current and prior years as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong during the two years. Tax charge in the prior year represented underprovision for Hong Kong profits tax in prior years.

	2005 <i>HK\$</i>	2004 <i>HK\$</i> <i>(Restated)</i>
Underprovision for Hong Kong profits tax in prior years	—	27,018
Deferred tax — <i>note 28</i>	<u>325,598</u>	<u>85,909</u>
Tax charge for the year	<u>325,598</u>	<u>112,927</u>

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:

	<b>2005</b>		<b>2004</b>	
	<i>HK\$</i>	%	<i>HK\$</i>	%
			<i>(Restated)</i>	
Loss before tax	<u>(8,430,792)</u>		<u>(6,230,649)</u>	
Tax at the statutory tax rate	(1,475,389)	(17.5)	(1,090,364)	(17.5)
Current tax of previous periods	—		27,018	
Income not subject to tax	(1,472,707)		(1,099,000)	
Expenses not deductible for tax	1,900,298		1,666,943	
Tax losses not recognised	1,382,057		1,002,437	
Tax losses utilised from previous periods	<u>(8,661)</u>		<u>(394,107)</u>	
Tax charge at the Group's effective rate	<u>325,598</u>	<u>3.9</u>	<u>112,927</u>	<u>1.8</u>

## 12. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Loss for the year attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK\$6,009,873 (2004: HK\$8,211,340) (note 31(b)).

## 13. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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\$8,756,390 (2004: HK\$6,343,576 (Restated)) and the weighted average number of 615,024,175 (2004: 615,024,175) ordinary shares in issue throughout the year.

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

## 14. PROPERTY, PLANT AND EQUIPMENT

## Group

	Leasehold improvements <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Computers and equipment <i>HK\$</i>	Total <i>HK\$</i>
<b>31 December 2005</b>					
At 1 January 2005:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	<u>(1,654,701)</u>	<u>(950,120)</u>	<u>(650,000)</u>	<u>(860,196)</u>	<u>(4,115,017)</u>
Net carrying amount	<u>77,958</u>	<u>18,297</u>	<u>—</u>	<u>6,821</u>	<u>103,076</u>
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	<u>(42,294)</u>	<u>(5,528)</u>	<u>—</u>	<u>(4,753)</u>	<u>(52,575)</u>
At 31 December 2005, net of accumulated depreciation					
	<u>135,702</u>	<u>12,769</u>	<u>—</u>	<u>2,718</u>	<u>151,189</u>
At 31 December 2005:					
Cost	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	<u>(1,696,995)</u>	<u>(955,648)</u>	<u>(650,000)</u>	<u>(864,949)</u>	<u>(4,167,592)</u>
Net carrying amount	<u>135,702</u>	<u>12,769</u>	<u>—</u>	<u>2,718</u>	<u>151,189</u>
<b>31 December 2004</b>					
At 1 January 2004:					
Cost	1,718,909	1,391,821	650,000	889,325	4,650,055
Accumulated depreciation	<u>(1,548,789)</u>	<u>(1,368,943)</u>	<u>(650,000)</u>	<u>(783,545)</u>	<u>(4,351,277)</u>
Net carrying amount	<u>170,120</u>	<u>22,878</u>	<u>—</u>	<u>105,780</u>	<u>298,778</u>
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	<u>(105,912)</u>	<u>(12,051)</u>	<u>—</u>	<u>(101,299)</u>	<u>(219,262)</u>
At 31 December 2004, net of accumulated depreciation					
	<u>77,958</u>	<u>18,297</u>	<u>—</u>	<u>6,821</u>	<u>103,076</u>
At 31 December 2004:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	<u>(1,654,701)</u>	<u>(950,120)</u>	<u>(650,000)</u>	<u>(860,196)</u>	<u>(4,115,017)</u>
Net carrying amount	<u>77,958</u>	<u>18,297</u>	<u>—</u>	<u>6,821</u>	<u>103,076</u>

## 15. INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
Carrying amount at 1 January	33,290,000	27,010,000
Net profit from a fair value adjustment	<u>10,630,000</u>	<u>6,280,000</u>
Carrying amount at 31 December	<u><u>43,920,000</u></u>	<u><u>33,290,000</u></u>

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

	<i>HK\$</i>
Long term leases	4,050,000
Medium term leases	<u>39,870,000</u>
	<u><u>43,920,000</u></u>

The Group's investment properties were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK\$43,920,000 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 note 32(a) to the financial statements.

Certain investment properties of the Group with a total carrying amount of HK\$43,570,000 (2004: HK\$32,940,000) are subject to legal charges in favour of the Group's bankers at the balance sheet date. No bank facilities are utilised by the Group as at 31 December 2005.

Particulars of the investment properties are as follows:

<b>Location</b>	<b>Approximate floor area</b>	<b>Existing use</b>	<b>Lease term</b>	<b>Group interest</b>
a. Flat A & Flat B of 4th Floor and Roof thereto, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (76/2260th shares of and in Kwun Tong Inland Lot No. 83)	19,622 sq. ft.	Commercial	Medium	100%
b. Flat A & Flat B of 7th Floor, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (76/2260th shares of and in Kwun Tong Inland Lot No. 83)	16,818 sq. ft.	Commercial	Medium	100%
c. 4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Hong Kong (112/3190th shares of and in Kwun Tong Inland Lot Nos. 51 and 52)	7,368 sq. ft.	Commercial	Medium	100%

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

#### 16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$	HK\$
Unlisted shares, at cost	143,919,955	143,919,955
Provision for impairment	<u>(135,378,190)</u>	<u>(135,378,190)</u>
	<u>8,541,765</u>	<u>8,541,765</u>
Amounts due from subsidiaries	276,857,250	280,299,120
Provisions for amounts due from subsidiaries	<u>(253,478,700)</u>	<u>(253,412,533)</u>
	<u>23,378,550</u>	<u>26,886,587</u>
Amounts due to subsidiaries	<u>(54,847,591)</u>	<u>(54,493,355)</u>
	<u>(22,927,276)</u>	<u>(19,065,003)</u>

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

Particulars of the principal subsidiaries are as follows:

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 year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 17. INTANGIBLE ASSETS

## Trading rights

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
At beginning of year:		
Cost	8,476,908	8,573,184
Accumulated amortisation and impairment	<u>(5,341,429)</u>	<u>(4,196,458)</u>
Net carrying amount	<u>3,135,479</u>	<u>4,376,726</u>
Cost at beginning of year, net of accumulated amortisation and impairment	3,135,479	4,376,726
Amortisation provided during the year	—	(505,910)
Impairment during the year	(2,336,028)	(702,055)
Exchange realignment	<u>27,795</u>	<u>(33,282)</u>
At end of year	<u>827,246</u>	<u>3,135,479</u>
At end of year:		
Cost	8,675,042	8,476,908
Accumulated amortisation and impairment	<u>(7,847,796)</u>	<u>(5,341,429)</u>
Net carrying amount	<u>827,246</u>	<u>3,135,479</u>

Upon the adoption of HKAS 38, trading rights are considered to have indefinite lives, which are not amortised.

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.

## 18. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable and a consumer finance loan receivable of HK\$8,969,290 (2004: HK\$13,402,017) and HK\$6,000,000 (2004: HK\$6,000,000), respectively.

The margin clients accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 8% to 11% (2004: 8% to 9%). 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% to 10% (2004: 7% to 8%). At 31 December 2005, the open market value of the pledged properties was approximately HK\$9.6 million.

## 19. ACCOUNTS RECEIVABLE/ACCOUNTS PAYABLE

Accounts receivable and accounts payable arise from the Group's securities dealing and brokerage business with settlement terms of two days after the trade date.

- (a) Details of the accounts receivable of the Group as at the balance sheet date, based on the transaction date and net of provisions, are as follows:

Accounts receivable:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
Not yet due	1,083,493	3,431,749
0–30 days	<u>112,834</u>	<u>1,781,972</u>
	<u><u>1,196,327</u></u>	<u><u>5,213,721</u></u>

The accounts receivable are non-interest-bearing. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

- (b) Details of the accounts payable of the Group as at the balance sheet date are as follows:

Accounts payable:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
Not yet due	1,013,054	1,586,196
0–30 days	424,543	1,442,426
Over 30 days	<u>2,205,953</u>	<u>2,506,288</u>
	<u><u>3,643,550</u></u>	<u><u>5,534,910</u></u>

Accounts payable are non-interest-bearing.

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Prepayments	367,026	417,903	217,237	217,237
Deposits	1,170,251	736,109	12,650	12,650
Other receivables	<u>868,523</u>	<u>401,416</u>	<u>—</u>	<u>—</u>
	<u><u>2,405,800</u></u>	<u><u>1,555,428</u></u>	<u><u>229,887</u></u>	<u><u>229,887</u></u>

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



## 21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005 HK\$	2004 HK\$
Listed equity investments, at market value:		
Hong Kong	642,640	604,420
Elsewhere	<u>1,268,309</u>	<u>815,867</u>
	<u>1,910,949</u>	<u>1,420,287</u>

The above equity investments at 31 December 2005 were classified as held for trading.

## 22. 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.

## 23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Cash and bank balances	2,581,554	3,257,012	62,010	48,130
Time deposit, non-pledged	<u>5,000,000</u>	<u>9,000,000</u>	—	—
Cash and cash equivalents	<u>7,581,554</u>	<u>12,257,012</u>	<u>62,010</u>	<u>48,130</u>

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.

## 24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Interest payable to the immediate holding company	22,419,289	19,410,600	15,866,647	13,671,299
Interest payable to an intermediate holding company	24,611,255	21,125,668	—	—
Interest payable to a fellow subsidiary	246,457	246,457	246,457	246,457
Other payables	743,955	1,223,682	103,168	481,571
Accruals	<u>3,539,329</u>	<u>3,367,109</u>	<u>1,452,024</u>	<u>518,916</u>
	<u>51,560,285</u>	<u>45,373,516</u>	<u>17,668,296</u>	<u>14,918,243</u>

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

**25. BANK OVERDRAFTS, SECURED**

The bank overdrafts were secured by the Group's investment properties, bore interest at annual effective rates ranging from 1.75% to 2% over the Hong Kong dollar prime rate and were fully repaid during the year.

**26. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY**

The amount due to the immediate holding company is unsecured and not repayable within one year. Except for an amount of HK\$2,017,647 (2004: HK\$2,017,647) which is interest-free, the remaining balance bears interest at annual effective rates ranging from 7% to 8% (2004: 7% to 8%).

**27. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY**

The amount due to an intermediate holding company is unsecured, bears interest at an annual effective rate of 6.50% (2004: 6.50%) and is not repayable within one year.

**28. DEFERRED TAX LIABILITIES**

	<b>Accelerated tax depreciation</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
		<i>(Restated)</i>
At 1 January		
As previously reported	351,507	351,507
Prior year adjustment	<u>(265,598)</u>	<u>(351,507)</u>
As restated	85,909	—
Deferred tax charged to the consolidated income statement during the year — <i>note 11</i>	<u>325,598</u>	<u>85,909</u>
At 31 December	<u><u>411,507</u></u>	<u><u>85,909</u></u>

The Group has tax losses arising in Hong Kong of HK\$183,353,825 (2004: HK\$168,137,000), 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.

**29. SHARE CAPITAL****Shares**

	<b>2005</b>	<b>2004</b>
	<i>HK\$</i>	<i>HK\$</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
615,024,175 ordinary shares of HK\$0.10 each	<u>61,502,418</u>	<u>61,502,418</u>

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

**Share options**

Details of the Company's share option scheme are included in note 30 to the financial statements.

## 30. 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) A summary of the share option scheme of the Group is as follows:

	<b>The Scheme</b>
Purpose	Provide incentives and rewards to eligible participants.
Participants	Eligible participants include: <ul style="list-style-type: none"> <li>(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;</li> <li>(ii) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries;</li> <li>(iii) any supplier of goods or services to any member of the Group;</li> <li>(iv) any customer of the Group;</li> <li>(v) any person or entity that provides research, development or other technological support to the Group; and</li> <li>(vi) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.</li> </ul>
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	61,502,417 ordinary shares, being 10% of the issued share capital.
Maximum entitlement of each participant	The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.
Period within which the securities must be taken up under an option	Subject to the discretion on issuance of board of directors.
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.

## The Scheme

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

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

Name or category of participant	Number of share options			At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares at grant date of options** HK\$
	At 1 January 2005	Granted during the year	Lapsed during the year					
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
	<u>20,550,000</u>	<u>—</u>	<u>(9,300,000)</u>	<u>11,250,000</u>				

\* 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 the balance sheet date, a total of 4,050,000 share options lapsed. At the date of approval of these financial statements, 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.

### 31. RESERVES

#### (a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in the equity on page 35 of the financial statements.

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

#### (b) Company

	Share premium account HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2004	168,315,330	95,165,446	(381,998,156)	(118,517,380)
Loss for the year	<u>—</u>	<u>—</u>	<u>(8,211,340)</u>	<u>(8,211,340)</u>
At 31 December 2004 and 1 January 2005	168,315,330	95,165,446	(390,209,496)	(126,728,720)
Loss for the year	<u>—</u>	<u>—</u>	<u>(6,009,873)</u>	<u>(6,009,873)</u>
At 31 December 2005	<u>168,315,330</u>	<u>95,165,446</u>	<u>(396,219,369)</u>	<u>(132,738,593)</u>

The Company's contributed surplus represents the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 31(a), over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so.

### 32. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

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

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005 HK\$	2004 HK\$
Within one year	1,734,850	1,399,500
In the second to fifth years, inclusive	<u>282,500</u>	<u>669,600</u>
	<u>2,017,350</u>	<u>2,069,100</u>

## (b) As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Within one year	<u>1,859,190</u>	<u>793,405</u>	<u>1,619,085</u>	<u>562,500</u>

## 33. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2005 HK\$	2004 HK\$
Interest expense charged by the immediate holding company	(i)	3,008,689	3,059,286
Interest expense charged by an intermediate holding company	(i)	3,485,587	3,266,807
Management fee income charged to a fellow subsidiary	(ii)	<u>48,600</u>	<u>48,600</u>

Notes:

- (i) The interest expense charged by the immediate holding company and an intermediate holding company during the year arose from their respective advances, further details of which, including the terms, are disclosed in notes 26 and 27, respectively.
- (ii) Management fee income was related to the administrative services provided to a fellow subsidiary. The fee was charged at a monthly rate of HK\$4,050.

(b) Outstanding balances with related parties:

	Notes	Group	
		2005 HK\$	2004 HK\$
Due to the immediate holding company	(i)	65,418,436	62,409,747
Due to an intermediate holding company	(ii)	55,531,255	52,045,668
Due to a fellow subsidiary	(iii)	<u>246,457</u>	<u>246,457</u>

Notes:

- (i) This represents interest and loan payable to the immediate holding company, details of the terms thereof are included in notes 24 and 26, respectively.
- (ii) This represents interest and loan payable to an intermediate holding company, details of the terms thereof are included in notes 24 and 27, respectively.
- (iii) This represents interest payable to a fellow subsidiary, details of the terms thereof are included in note 24 to the financial statements.

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

Details of the compensation of the Group's key management personnel are disclosed in note 9 to the financial statements.

### 34. 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 the 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. At the balance sheet date, the Group's 5 largest debtors accounted for 96% 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 date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.

#### 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 date, the fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts.

**35. COMPARATIVE AMOUNTS**

As further explained in notes 3.2 and 3.4 to the financial statements, due to adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised/reclassified to comply with the new requirements. Accordingly, certain prior year adjustments have been made and comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 25 April 2006.

**3. INDEBTEDNESS****Borrowings**

At the close of business on 30 April 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this document, the Group had unsecured payables due to its then holding companies and a then fellow subsidiary of approximately HK\$123 million, comprising loans of approximately HK\$74 million and interest payables of approximately HK\$49 million (all amounts due to the then holding companies and fellow subsidiary were fully repaid/settled subsequent to 30 April 2006 pursuant to the Deed of Settlement completed on 20 June 2006).

In addition, certain investment properties of the Group were subject to legal charges in favour of the Group's bankers at 30 April 2006. No bank facilities were utilised by the Group as at 30 April 2006.

**Contingent Liabilities**

As at 30 April 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 30 April 2006.

**4. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION ON THE GROUP UPON COMPLETION OF THE SUBSCRIPTION AGREEMENT, THE DISPOSAL AGREEMENT AND THE DEED OF SETTLEMENT****Introduction**

Set out below is the unaudited pro forma financial information on the Group, excluding Lismore Properties Limited and its subsidiaries which has been disposed of by the Group pursuant to the Disposal Agreement, (the "Remaining Group") upon completion of the Subscription Agreement, the Disposal Agreement and the Deed of Settlement which is extracted



from Appendix II to the circular of the Company dated 29 April 2006. As mentioned in the circular, such unaudited pro forma financial information on 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 unaudited pro forma financial information on the Remaining Group is prepared 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 sale of the entire issued share capital of Lismore Properties Limited and the assignment of the amounts due from Lismore Properties Limited to Watary Investment Limited by the Group pursuant to the Disposal Agreement (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 HK\$	Pro forma adjustments			Unaudited pro forma consolidated income statement of the Remaining Group HK\$
		Note 1 HK\$	Note 2 HK\$	Note 3 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	<u>(8,756,390)</u>				<u>8,137,361</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (Note 8)					
Basic					<u>HK1.32 cents</u>
Diluted					<u>HK0.38 cents</u>

(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					Unaudited pro forma consolidated balance sheet of the Remaining Group	
	2005 HK\$	Note 3 HK\$	Pro forma adjustments				HK\$
			Note 4 HK\$	Note 5 HK\$	Note 6 HK\$		
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	151,189		(147,697)			3,492	
Investment properties	43,920,000		(43,920,000)			—	
Intangible assets	<u>827,246</u>					<u>827,246</u>	
Total non-current assets	<u>44,898,435</u>					<u>830,738</u>	
<b>CURRENT ASSETS</b>							
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	<u>7,581,554</u>	(1,930,000)	(73,263)			<u>5,578,291</u>	
Total current assets	<u>30,861,561</u>					<u>28,523,597</u>	
<b>CURRENT LIABILITIES</b>							
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	<u>52,034</u>					<u>52,034</u>	
Total current liabilities	<u>55,255,869</u>					<u>7,860,068</u>	
NET CURRENT ASSETS/ (LIABILITIES)	<u>(24,394,308)</u>					<u>20,663,529</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>20,504,127</u>					<u>21,494,267</u>	

	Audited consolidated balance sheet of the Group as at 31 December 2005 HK\$	Note 3 HK\$	Pro forma adjustments			Note 6 HK\$	Unaudited pro forma consolidated balance sheet of the Remaining Group HK\$
			Note 4 HK\$	Note 5 HK\$	Note 6 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	<u>411,507</u>		(411,507)				<u>—</u>
Total non-current liabilities	<u>74,330,654</u>						<u>—</u>
Net assets/(liabilities)	<u>(53,826,527)</u>						<u>21,494,267</u>
EQUITY/(DEFICIENCY IN ASSETS)							
Issued capital	61,502,418				(60,887,394)		615,024
Convertible Preference Shares	—			48,000,170			48,000,170
Reserves	<u>(115,328,945)</u>	(1,930,000)	12,417,495	16,833,129	60,887,394		<u>(27,120,927)</u>
Total equity/(net deficiency in assets)	<u>(53,826,527)</u>						<u>21,494,267</u>

(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					Unaudited pro forma consolidated cash flow statement of the Remaining Group
		Pro forma adjustments				
	HK\$	Note 2 HK\$	Note 3 HK\$	Note 5 HK\$	Note 7 HK\$	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
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				Unaudited pro forma consolidated cash flow statement of the Remaining Group	
			Pro forma adjustments			
	HK\$	Note 2 HK\$	Note 3 HK\$	Note 5 HK\$	Note 7 HK\$	HK\$
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of items of property, plant and equipment	(100,688)				100,038	(650)
Net cash outflow from investing activities	(100,688)					(650)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
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
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>						
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)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>7,581,554</b>					<b>5,578,291</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>						
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
	<b>7,581,554</b>					<b>5,578,291</b>

*Notes:*

- 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.

**5. MATERIAL CHANGE**

Save as the following, the Directors are not aware of any material changes in the financial or trading position or outlook 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. Completion of such agreements and deed took place on 20 June 2006; and
- (b) upon the S&P Completion, the Offeror and parties acting in concert with it have owned in aggregate approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

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

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this document (other than information relating to the Group, MCB and MGL, together with their respective associates or parties acting in concert with any of them) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

## 2. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in Bermuda under the Companies Act on 24 August 1992. Its head office and principal place of business in Hong Kong is at 1301A, 13/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. 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 Mr. Lam Kai Cheung, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of United Kingdom.

## 3. SHARE CAPITAL OF THE COMPANY

### (a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	<i>Shares</i>	<i>HK\$</i>
Authorised share capital	100,000,000,000	100,000,000
Issued and fully paid up share capital	615,024,175	615,024.175

No Shares have been issued by the Company since 31 December 2005 (being the date to which its latest published audited accounts were prepared) up to the Latest Practicable Date. All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital. As at the Latest Practicable Date, there were (i) a total of 1,521,400,000 Convertible Preference Shares carrying rights to convert into 1,521,400,000 Shares at the initial conversion price of HK\$0.03155 *pre Share* (subject to adjustment) at any time immediately upon issue of the Convertible Preference Shares and until conversion of all Convertible Preference Shares in full (such Convertible Preference Shares were issued to the Offeror on 20 June 2006 pursuant to the Subscription Agreement); and (ii) 7,200,000 outstanding Options, which are exercisable at any time on or before 7 July 2012 and which, if exercised, will result in the issue of an additional 7,200,000 Shares at the price of HK\$0.111 *per Share*.



Save as disclosed above, the Company did not have any outstanding warrants or share options or other securities carrying rights of conversion into or exchange or subscription for Shares.

**(b) Listing**

The Shares are listed and traded on the Main Board of the Stock Exchange. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal in the Shares being or proposed to be sought on, any other stock exchange.

**4. 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 <i>(Note 1)</i>	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, save for the indirect interests of Mr. Lim Teong Leong, Mr. Tam Cheok Wing and Mr. Ooi Sin Heng, through their respective shareholding interests in MCB, in the Subscription Agreement, the Disposal Agreement and the Deed of Settlement, 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.

## 5. 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.

## 6. 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
The Offeror	Beneficial owner	316,973,680	51.54% ( <i>Notes 1</i> )
Mr. Lee	Attributable interest of controlled corporation	316,973,680	51.54% ( <i>Notes 1, 2</i> )
Pasmina Overseas Inc.	Beneficial owner	66,013,175	10.73%

*Notes:*

- (1) All interests stated above represent long positions.
- (2) The entire issued share capital of the Offeror is legally and beneficially owned by Mr. Lee. Mr. Lee is therefore deemed to have an interest in the Shares in which the Offeror is interested. Accordingly, the interest held by each of the Offeror and Mr. Lee refers to the same parcel of shares.

## 7. SERVICE CONTRACTS

As at the Latest Practicable Date, there was no service contract in force, which is continuous contract with a notice period of 12 months or more or are fixed term contract with more than 12 months to run irrespective of the notice period, between any Director and the Company or any of its subsidiaries or associated companies. In addition, save for the service contract entered into between MISL, a wholly-owned subsidiary of the Company, and Mr. Ooi Sin Heng on 21 March 2006 in respect of the appointment of Mr. Ooi as the Responsible Officer (as defined under the SFO) of MISL referred to in the sub-paragraph headed "Proposed change of the Board composition" under the paragraph headed "The Offeror's intention regarding the Group" in the letter from the Board as set out on pages 20 to 21 of this document, none of the Directors entered into or amended any service contracts within 6 months before the date of the Announcement with the Company or any of its subsidiaries or associated companies.

## 8. DISCLOSURE OF SHAREHOLDING IN THE GROUP AND THE OFFEROR

As at the Latest Practicable Date,

- (a) save for the Sale Shares acquired by the Offeror pursuant to the Share Sale Agreement and the Convertible Preference Shares issued to the Offeror pursuant to the Subscription Agreement (hence Mr. Lee, the sole director of the Offeror, is deemed to be interested in the Sale Shares and the Convertible Preference Shares), none of the Offeror nor parties acting in concert with it (which include the Offeror's sole director) owned or controlled any securities of the Company;
- (b) no subsidiary of the Company, or any pension fund of the Company or of any member of the Group, owned or controlled any securities in the Company;

- (c) to the best knowledge of the Directors after making reasonable enquiries, none of the professional advisers named under the section headed “13. Consents and qualifications” in this Appendix or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any securities of the Company;
- (d) no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company;
- (e) to the best knowledge of the sole director of the Offeror after making all reasonable enquiries, no person, who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any party acting in concert with it, had any interest in any securities of the Company;
- (f) to the best knowledge of the Directors after making all reasonable enquiries, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associates” under the Takeovers Code had any interest in any securities of the Company; and
- (g) none of the Company and the Directors is interested in the Offeror.

## 9. DEALINGS IN SECURITIES

During the period from 30 September 2005 (being the date falling six months prior to 30 March 2006, the date of the Announcement) to the Latest Practicable Date,

- (a) save for (i) the acquisition of the Sale Shares by the Offeror pursuant to the Share Sale Agreement; and (ii) the Convertible Preference Shares issued to the Offeror pursuant to the Subscription Agreement, none of the Offeror or parties acting in concert with it had dealt for value in any securities of the Company;
- (b) save for the acquisition of the Sale Shares by the Offeror pursuant to the Share Sale Agreement and the Convertible Preference Shares issued to the Offeror pursuant to the Subscription Agreement, the sole director of the Offeror had not dealt for value in any securities of the Company;
- (c) save for the indirect interest of Mr. Lim Teong Leong, Mr. Tam Cheok Wing and Mr. Ooi Sin Heng, the Directors, in the disposal of the Sale Shares by MGL through their respective shareholding interests in MCB which wholly, beneficially and indirectly owns MGL, neither the Company nor any of the Directors dealt for value in the securities of the Offeror or the Company;
- (d) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries, any of the professional advisers named under the section headed “Consents” in this Appendix nor any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value as principal in any securities in the Company;

- (e) to the best knowledge of the Directors after making all reasonable enquiries, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any securities in the Company;
- (f) to the best knowledge of the sole director of the Offeror after making all reasonable enquiries, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any parties acting in concert with it had dealt for value in any securities in the Company;
- (g) to the best knowledge of the Directors after making all reasonable enquiries, no fund managers (other than exempted fund managers) who managed funds on a discretionary basis or connected with the Company had dealt for value in any securities in the Company; and
- (h) none of the Directors nor the Company had dealt for value in any securities in the Offeror.

## 10. MARKET PRICES

The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the period from 30 September 2005, being the date falling six months prior to the date of the Announcement, to the Latest Practicable Date were HK\$0.125 per Share on 31 March 2006 and HK\$0.049 per Share on 25 May 2006, respectively.

The table below sets out the respective closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the calendar months commencing 6 months immediately preceding the date of the Announcement up to the Latest Practicable Date, (ii) 21 March 2006, being the last full 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, and (iii) on the Latest Practicable Date:

<b>Date</b>	<b>Closing price</b> <i>(HK\$)</i>
30 September 2005	0.074
31 October 2005	0.06
30 November 2005	0.068
30 December 2005	0.075
27 January 2006	0.07
28 February 2006	0.073
21 March 2006	0.08
31 March 2006	0.125
28 April 2006	0.115
30 May 2006	0.09
Latest Practicable Date	0.102

**11. LITIGATION**

Save as the legal action brought by Mr. Chan King Kwong Willy against MISL and Magnum International Finance Limited, both of which are indirect wholly-owned subsidiaries of the Company, 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.

**12. MATERIAL CONTRACTS**

In the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, only the following contracts that are or may be material, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries:

- (a) a conditional subscription agreement on 8 April 2005 whereby the Company agreed to issue and Unichina Enterprises Limited agreed to subscribe a convertible bond at the subscription price of HK\$35 million upon and subject to the terms and conditions of such subscription agreement, which subsequently became null and void on 31 July 2005;
- (b) a conditional compromise deed on 8 April 2005 to facilitate the settlement of all the outstanding loans or advances extended by MGL, MESB and MIL to the Group and interest thereon, which subsequently became null and void on 31 July 2005;
- (c) the Subscription Agreement;
- (d) the Disposal Agreement; and
- (e) the Deed of Settlement.

Save as disclosed above, no contracts were entered by into the Company or its subsidiaries which were not in the ordinary course of business and are or may be material in the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date.

**13. CONSENTS AND QUALIFICATIONS**

Each of Celestial Capital and Kingston has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

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

<b>Name</b>	<b>Qualification</b>
Celestial Capital	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 the Offeror
Kingston	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee

**14. GENERAL**

- (a) As at the Latest Practicable Date, no benefit (save as the aggregate sum of HK\$680,000 payable to Mr. Ooi Sin Heng upon termination of the employment contract dated 1 June 2000 made between the Company and Mr. Ooi Sin Heng) would be given to any Director as compensation for loss of office or otherwise in connection with the Offers.
- (b) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any parties acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offers.
- (c) As at the Latest Practicable Date, there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.
- (d) As at the Latest Practicable Date, save for Mr. Chan Hon Ming, an executive Director, who has indicated that he intends to accept the Option Offers in respect of the 3,000,000 Options held by him, no person had irrevocably committed himself/herself/itself to accepting or rejecting the Offers.
- (e) There was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between the Offeror, or any parties acting in concert with it, and any other person;
- (f) There was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between the Company, or any person who is an association of it by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (g) As at the Latest Practicable Date, there was no material contract entered into by the Offeror is a party in which any Director has a material personal interest.
- (h) The English text of this document and the Forms of Acceptance shall prevail over the Chinese text in the case of inconsistency.
- (i) The registered office of the Offeror is situated at the offices of TrustNet (Samoa) Limited, TrustNet Chambers, P.O. Box 1225, Apia, Samoa.
- (j) The Offeror is a company incorporated in the Samoa with limited liability, which is wholly and beneficially owned by Mr. Lee. Mr. Lee is also the sole director of the Offeror.
- (k) The registered office and correspondence address of Celestial Capital, the financial adviser to the Offeror, are at 21st Floor, The Center, 99 Queen’s Road Central, Hong Kong and at 21st Floor, Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong respectively.

**15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of the Company at Rooms 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](http://www.magnumhk.com/magnum/main_frameIE.html)) and the SFC ([www.sfc.hk](http://www.sfc.hk)) until and including the Closing Date, being 13 July 2006:

- (a) the memorandum of association and the bye-laws of the Company and the memorandum and articles of association of the Offeror;
- (b) the annual reports of the Company for the two years ended 31 December 2005;
- (c) the letter from Celestial Capital as set out on pages 6 to 16 of this document;
- (d) the letter from the Independent Board Committee as set out on pages 23 to 24 of this document;
- (e) the letter from Kingston to the Independent Board Committee in relation to the Offers as set out on pages 25 to 37 of this document;
- (f) the service contract entered into between MISL and Mr. Ooi Sin Heng referred to in the paragraph headed “7. Service Contracts” in this appendix;
- (g) the written consents from the experts referred to in the paragraph headed “13. Consents and Qualification” in this appendix; and
- (h) the material contracts referred to in the paragraph headed “12. Material Contracts” in this appendix.

The **WHITE** Forms of Acceptance and the **YELLOW** Forms of Acceptance will be available for collection from the Registrar and the head office of the Company respectively.