THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

A copy of each of the Prospectus Documents (as defined herein), having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. A copy of each of the Prospectus Documents has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of any of these documents.

If you have sold or transferred all your Shares (as defined herein), you should at once hand the Prospectus Documents to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the Shares and the Rights Shares (as defined herein) in their nil-paid form and fully-paid form may be settled through the Central Clearing and Settlement System ("CCASS") operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, 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 prospectus.

magnum

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

Manager to the Rights Issue

CASH

Celestial Capital Limited

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on 31 August 2006. The procedure for acceptance and payment or transfer is set out on pages 13 and 14 of this prospectus.

It should be noted that pursuant to the Underwriting Agreement, the Underwriter may terminate the Underwriting Agreement at any time if prior to 4:00 p.m. on the date of allotment of the Rights Shares (in their fully-paid form), that is expected to be 5 September 2006:

1. the occurrence of the following events would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

2. any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

3. the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

4. the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Rights Issue; or

5. the Company shall, after any matter or event referred to in the Underwriting Agreement has occurred or come to the attention of the Underwriter, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice by the Underwriter pursuant to the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and (save for any antecedent breaches thereof) no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

In the event that the Underwriting Agreement be terminated, the Rights Issue will not proceed. For further details, please refer to the section headed "Termination of the Underwriting Agreement" as set out on pages 5 and 6 of this prospectus.

The Shares have been dealt in on an ex-entitlement basis from 10 August 2006. Dealings in the Rights Shares in the nil-paid form will take place from 21 August 2006 to 28 August 2006 (both dates inclusive). If the conditions of the Rights Issue (see sub-section headed "Conditions of the Underwriting Agreement" as set out on pages 16 of this prospectus) are not fulfilled (or, if appropriate, waived) before 5 September 2006 (or such later time and/or date as the Company and the Underwriter may determine in writing), or the Underwriter terminate or rescind the Underwriting Agreement, the Rights Issue will not proceed.

Any dealings in the Shares from the date of this prospectus up to the date on which all conditions to the Underwriting Agreement are fulfilled (or, if appropriate, waived), and any dealings in the Rights Shares in their nil-paid form are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid forms are recommended to consult their own professional advisers.

17 August 2006

CONTENTS

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

"Acceptance Date"	31 August 2006 or such other date as Dragon Hill, in the capacity of underwriter in relation to the Rights Issue, may agree in writing with the Company as the latest date for acceptance of, and payment for, the Rights Shares
"Adjustment Announcement"	the announcement dated 17 August 2006 issued by the Company in relation to, inter alia, the adjustment to the conversion price of the Convertible Preference Shares
"Announcement"	the announcement dated 28 July 2006 issued by the Company in relation to the Rights Issue
"Board"	the board of the Directors
"Business Day"	any day (other than Saturday) on which banks are generally open for business in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong)
"Company"	Magnum International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Convertible Preference Shares"	the 1,521,400,000 convertible preference shares of par value of $0.001 each in the share capital of the Company with an aggregate notional value of $48,000,170 carrying rights to subscribe for the Shares (i) as at the Latest Practicable Date, at the conversion price of $0.03155 per Share (before adjustment), and (ii) with effect from 17 August 2006, at the adjusted conversion price of $0.02372 per Share (accordingly, the number of Shares to be issued upon exercise of the conversion rights attaching thereto will be adjusted to 2,023,615,935 Shares)
"Director(s)"	the director(s) of the Company, including the independent non-executive director(s) of the Company
"Dragon Hill" or "Underwriter"	Dragon Hill Development Limited, (i) a company incorporated in Samoa which is solely owned by Mr. Lee; (ii) the controlling Shareholder; and (iii) the underwriter to the Rights Issue
"EAF(s)"	the form(s) of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such usual form as may be agreed between the Company and Dragon Hill in the capacity of underwriter in relation to the Rights Issue

"Excluded Shareholders"	Overseas Shareholders whose addresses as shown on the register of members of the Company on the Record Date are in places outside Hong Kong where the Directors, after making enquiries, consider it necessary or expedient on account either of legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in those places not to offer the Rights Shares to such Shareholders
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	14 August 2006, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information for inclusion in this prospectus
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Lee"	Mr. Lee Shing, the sole shareholder of Dragon Hill and a Director
"Overseas Shareholders"	Shareholders whose names appear on the register of members of the Company on the Record Date and whose registered addresses on that date are in places outside Hong Kong
"PAL(s)"	the provisional allotment letters being issued to Qualifying Shareholders in respect of their provisional entitlement under the Rights Issue
"PRC"	the People's Republic of China, for the purpose of this prospectus, excludes Hong Kong, Macau Special Administrative Region and Taiwan
"Prospectus" or "this prospectus"	the prospectus issued by the Company and despatched to the Qualifying Shareholders in connection with the Rights Issue
"Prospectus Documents"	the Prospectus, the PALs and the EAFs
"Qualifying Shareholders"	the persons shown on the register of members of the Company on the Record Date, other than the Excluded Shareholders
"Record Date"	16 August 2006 or such other date as Dragon Hill in capacity of the underwriter may agree in writing with the Company for the determination of the entitlements under the Rights Issue
"Registrar"	Tengis Limited, the branch share registrar of the Company in Hong Kong
"Rights Issue"	the offer of the Rights Shares at the Subscription Price upon the terms and conditions mentioned in the Underwriting Agreement
"Rights Shares"	the new Shares to be issued on the basis of one new Share for every two Shares in issue on the Record Date pursuant to the Rights Issue

"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of $0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of $0.03155 per Rights Share pursuant to the Rights Issue
"Underwriting Agreement"	the underwriting agreement dated 28 July 2006 entered into between the Company and Dragon Hill in the capacity of underwriter to the Rights Issue
"Underwritten Shares"	148,771,247 Rights Shares, being all the Rights Shares (other than 158,740,840 Rights Shares undertaken to be taken up by Dragon Hill) underwritten by Dragon Hill in the capacity of underwriter to the Rights Issue
"$"	Hong Kong dollars, the legal currency in Hong Kong
"%"	per cent.

The following information is derived from, and should be read in conjunction with, the full text of this prospectus:

Issue statistics

Basis of the Rights Issue:	One Rights Share for every two Shares held at the close of business on the Record Date
Subscription Price:	$0.03155 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	615,024,175 Shares
Number of Rights Shares to be issued:	307,512,087 Rights Shares (based on the number of Shares in issue as at the Latest Practicable Date and the undertaking from Dragon Hill, holder of the Convertible Preference Shares, that no part of the conversion rights attaching to the Convertible Preference Shares will be exercised on or before the Record Date)
Number of Rights Shares undertaken to be taken up by Dragon Hill:	158,740,840 Rights Shares (based on the number of Shares held by Dragon Hill as at the Latest Practicable Date)
Number of Rights Shares underwritten by Dragon Hill:	148,771,247 Rights Shares are fully underwritten by Dragon Hill in the capacity of underwriter pursuant to the Underwriting Agreement

As at the Latest Practicable Date, Dragon Hill is interested in 317,481,680 Shares, representing approximately 51.62% of the existing issued share capital of the Company, and the Convertible Preference Shares. Pursuant to the Underwriting Agreement, Dragon Hill (i) has irrevocably undertaken to the Company to take up in full and pay for its provisional entitlements under the Rights Issue, being 158,740,840 Rights Shares (based on the number of Shares held by Dragon Hill as at the Latest Practicable Date), and (ii) has agreed to underwrite the remaining Rights Shares, being 148,771,247 Rights Shares. Please refer to the paragraph headed "Underwriting Agreement" in the letter from the Board contained in this prospectus for more details of the underwriting arrangements in relation to the Rights Issue.

Both of Dragon Hill and Mr. Lee have undertaken not to exercise the conversion rights attaching to the Convertible Preference Shares held by Dragon Hill on or before the Record Date.

Save for the Convertible Preference Shares, there are no outstanding options, warrants or securities which confer rights to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

TERMINATION OF THE UNDERWRITING AGREEMENT

Dragon Hill may terminate the Underwriting Agreement at any time if prior to 4:00 p.m. on the date of allotment of the Rights Shares (in their fully paid form), that is expected to be 5 September 2006:

1. **the occurrence of the following events would, in the reasonable opinion of Dragon Hill, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or Dragon Hill to proceed with the Rights Issue:**

   (a) **the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever; or**

   (b) **the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or**

   (c) **the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);**

2. **any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;**

3. **the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;**

4. **Dragon Hill shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated as provided in the Underwriting Agreement and Dragon Hill shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Rights Issue; or**

5. **the Company shall, after any matter or event referred to in the Underwriting Agreement has occurred or come to the attention of Dragon Hill, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as Dragon Hill may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.**

Upon the giving of notice by Dragon Hill pursuant to the Underwriting Agreement, all obligations of Dragon Hill under the Underwriting Agreement shall cease and determine and (save for any antecedent breaches thereof) no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

TERMINATION OF THE UNDERWRITING AGREEMENT

In the event that the Underwriting Agreement be terminated, the Rights Issue will not proceed. For further details, please refer to the section headed "Termination of the Underwriting Agreement" as set out on pages 16 and 17 of this prospectus.

Shareholders and potential investors should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers. Shareholders should note that the Shares have been dealt in on ex-entitlement basis commencing from 10 August 2006. The Rights Shares will be dealt in their nil-paid form from 21 August 2006 to 28 August 2006, both days inclusive. Shareholders should note that dealings in the Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares and nil-paid Rights Shares up to the date on which all conditions to the Underwriting Agreement are fulfilled (which is expected to be 5 September 2006) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about their position, is recommended to consult their own professional adviser.

EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below for indicative purposes only and it has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled.

	2006
Last day of dealings in Shares on cum-entitlement basis	Wednesday, 9 August
First day of dealings in Shares on ex-entitlement basis	Thursday, 10 August
Latest time and date for lodging transfers of Shares to qualify for the Rights Issue	4:00 p.m. on Friday, 11 August
Register of members for Shares closes (both dates inclusive)	Monday, 14 August to Wednesday, 16 August
Record Date	Wednesday, 16 August
Register of members re-opens	Thursday, 17 August
First day of trading in nil-paid Rights Shares	Monday, 21 August
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Wednesday, 23 August
Last day of trading in nil-paid Rights Shares	Monday, 28 August
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Right Shares	4:00 p.m. on Thursday, 31 August
Latest time for the termination of the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 5 September
Announcement of results of the Rights Issue	Friday, 8 September
Refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares expected to be dispatched on or before	Friday, 8 September
Share certificates in respect of fully-paid Rights Shares expected to be posted on or before	Friday, 8 September
Commencement of dealings in fully-paid Rights Shares	Tuesday, 12 September

Times and dates stated in this prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Rights Issue will be announced appropriately.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if there is:

— a tropical cyclone warning signal number 8 or above, or

— a “black” rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 31 August 2006. Instead the latest time of acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 31 August 2006. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on 31 August 2006, the dates mentioned in the section headed “Expected timetable” in this prospectus may be affected. A press announcement will be made by the Company is such event.

Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

Executive Directors:
Mr. Lee Shing
Ms. Liu Yaling
Mr. Wang Shaohua
Mr. Pei Qingrong

Independent non-executive Directors:
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Cheng Kin Wah, Thomas

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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

17 August 2006

To the Qualifying Shareholders and,
for information purposes only,
the Excluded Shareholders

Dear Sir or Madam,

RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON RECORD DATE

INTRODUCTION

On 28 July 2006, the Board announced that the Company proposed to raise approximately $9.7 million, before expenses, by issuing 307,512,087 Rights Shares at a price of $0.03155 per Rights Share by way of the Rights Issue on the basis of one Rights Share for every two Shares held on the Record Date. Qualifying Shareholders are entitled to apply for excess Rights Shares not taken up by other Qualifying Shareholders or transferees of the nil-paid Rights Shares in excess of their respective entitlements under the Rights Issue.

Net proceeds from the Rights Issue, after deduction of expenses, are expected to be approximately $8.7 million and is intended to be applied by the Group as its general working capital and if suitable opportunities arise, for investments in properties in Hong Kong.

The purpose of this prospectus is to provide you with further details regarding the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and certain financial and other information in respect of the Group.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every two Shares held at the close of business on the Record Date
Subscription Price:	$0.03155 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	615,024,175 Shares
Number of Rights Shares to be issued:	307,512,087 Rights Shares (based on the number of Shares in issue as at the Latest Practicable Date and the undertaking from Dragon Hill, holder of the Convertible Preference Shares, that no part of the conversion rights attaching to the Convertible Preference Shares will be exercised on or before the Record Date)
Number of Rights Shares undertaken to be taken up by Dragon Hill:	158,740,840 Rights Shares (based on the number of Shares held by Dragon Hill as at the Latest Practicable Date)
Number of Rights Shares underwritten by Dragon Hill:	148,771,247 Rights Shares are fully underwritten by Dragon Hill in the capacity of underwriter pursuant to the Underwriting Agreement

As at the Latest Practicable Date, Dragon Hill is interested in 317,481,680 Shares, representing approximately 51.62% of the existing issued share capital of the Company, and the Convertible Preference Shares. Pursuant to the Underwriting Agreement, Dragon Hill (i) has irrevocably undertaken to the Company to take up in full and pay for its provisional entitlements under the Rights Issue, being 158,740,840 Rights Shares (based on the number of Shares held by Dragon Hill as at the Latest Practicable Date), and (ii) has agreed to underwrite the remaining Rights Shares, being 148,771,247 Rights Shares. Please refer to the paragraph headed "Underwriting Agreement" below for more details of the underwriting arrangements in relation to the Rights Issue.

Dragon Hill and Mr. Lee have undertaken not to exercise the conversion rights attaching to the Convertible Preference Shares held by Dragon Hill on or before the Record Date.

Save for the Convertible Preference Shares, there are no outstanding options, warrants or securities which confer rights to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Subscription Price

$0.03155 per Rights Share, which is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the relevant Rights Shares.

The Subscription Price:

(i) is equivalent to the purchase price per Share for the 316,973,680 Shares acquired by Dragon Hill as announced by the Company on 31 March 2006;

(ii) represents a discount of approximately 75.54% to the closing price of $0.129 per Share as quoted on the Stock Exchange on 27 July 2006 (being the last trading day before the date of the Announcement);

(iii) represents a discount of approximately 67.31% to the theoretical ex-entitlement price of approximately $0.0965 per Share based on the closing price per Share on 27 July 2006;

(iv) represents a discount of approximately 69.87% to the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 27 July 2006, being approximately $0.1047 per Share;

(v) represents a discount of approximately 62.44% to the closing price of $0.084 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

(vi) represents a discount of approximately 9.60% to the unaudited pro forma consolidated net asset value per Share of approximately $0.0349, which is calculated based on (i) the unaudited pro forma consolidated net asset value of the Group upon completion of the allotment and issue of the Convertible Preference Shares, the disposal of certain then wholly-owned subsidiaries of the Company, and waiver and settlement of loans due by the Group to the then controlling Shareholder as set out in Appendix II to the circular issued by the Company dated 29 April 2006 (completion of such transactions took place in June 2006), being approximately $21.49 million; and (ii) a total 615,024,175 Shares in issue as at the Latest Practicable Date.

The Subscription Price has been determined based on arm's length negotiations between the Company and Dragon Hill, the controlling Shareholder and the underwriter of the Rights Issue with reference to, among other things, the prevailing market prices of the Shares and the unaudited pro forma consolidated net asset value per Share as set out above. Having taken into account the factors set out in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below, the Directors consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders and Excluded Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company will send the Prospectus Documents to Qualifying Shareholders and, for information only, the Prospectus to the Excluded Shareholders.

To qualify for the Rights Issue, a Shareholder must at the close of business on the Record Date be registered as a member of the Company and not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant share certificate(s)) with the Registrar, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on 11 August 2006. The last day of dealings in Shares on a cum-entitlement basis was on 9 August 2006, and the Shares have been dealt with on an ex-entitlement basis from 10 August 2006.

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda. Based on the register of members of the Company, as at the Latest Practicable Date, there were seven Overseas Shareholders whose registered addresses as shown in the register of members of the Company are outside Hong Kong, including Malaysia, Macau, Canada, the United Kingdom and Spain. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the offer of the Rights Shares to such Overseas Shareholders.

The Rights Issue will be extended to the Overseas Shareholders in Macau, Spain and the United Kingdom as the Company has obtained legal advice that no local regulatory compliance is required to be made in these jurisdictions. The Company has also obtained advice from legal advisers in Malaysia and Canada that local legal and regulatory requirements may have to be complied with if the Rights Issue are to be extended to the Overseas Shareholders in these jurisdictions. In this connection, the Company has considered that it would not be necessary or expedient to include the Overseas Shareholders in Malaysia and Canada in the Rights Issue because of the time and costs involved in complying with the relevant legal and regulatory requirements. The Company will therefore send this prospectus, for information only, to such Excluded Shareholders. The PALs and EAFs will not be sent to the Excluded Shareholders.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself or herself or itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

The Company will make arrangements for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, if any, to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than $100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of $100 or less for its own benefit. Any unsold Rights Shares to which the Excluded Shareholders would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders.

Basis of Provisional Allotments

One Rights Share (in nil-paid form) for every two existing Shares by the Qualifying Shareholders as at the close of business on the Record Date.

Status of the Rights Shares

The Rights Shares, when allotted, fully paid and issued, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue thereof.

Fractional entitlement of the Rights Shares

The Company will not provisionally allot and issue and will not accept application for any fraction of the Rights Shares. Rights Shares representing the aggregate of fractions of Rights Shares (rounded down to the nearest whole number) will be provisionally allotted to a nominee appointed by the Company and, if a premium (net of expenses) can be obtained, will be sold in their nil-paid form by the Company or its appointed nominee and the net proceeds of sale will be retained by the Company for its own benefit. Any such unsold Rights Shares will be available for excess application.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the equity or debt securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made by the Company to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS. Nil-paid Rights Shares are expected to be traded in board lots of 2,000 (the Shares are currently traded on the Stock Exchange in board lots of 2,000). Dealings in the Rights Shares (in both their nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

Odd lots of Rights Shares may arise as a result of the acceptance of the Rights Issue. In order to alleviate the difficulties in trading odd lots of Rights Shares, the Company has appointed Celestial Securities Limited to act as the agent to match, on a best effort basis, the sale and purchase of odd lots of Shares after completion of the Rights Issue for a one-month period from the commencement date of dealings of the fully-paid Rights Shares. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Shares. Shareholders who wish to take advantage of this facility should contact Ms. Fion Chan of Celestial Securities Limited at 7/F Low Block, Grand Millennium Plaza, 181 Queen's Road, Central, Hong Kong (Tel: 2287 8094) during the aforesaid period.

Procedure for acceptance and payment or transfer

The PAL which entitles a Qualifying Shareholder to take up the number of the Rights Shares shown therein is enclosed with this prospectus. If Qualifying Shareholder wishes to accept all the Rights Shares provisionally allotted to him or her or it as specified in the PAL, the Qualifying Shareholder must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration no later than 4:00 p.m. on 31 August 2006. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, or cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "MAGNUM INTERNATIONAL HOLDINGS LIMITED — RIGHTS ISSUE ACCOUNT" and crossed "ACCOUNT PAYEE ONLY". No receipt will be given for such remittance.

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:00 p.m. on 31 August 2006, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The PAL contains full information regarding the procedures to be followed. If a Qualifying Shareholder wishes to accept only part of the provisional allotment or if a Qualifying Shareholder wishes to transfer all or part of his or her or its provisional allotment to more than one person, The PAL must be surrendered by no later than 4:00 p.m. on 23 August 2006 to the Registrar, Tengis Limited, which will cancel the original PAL and issue a new PAL in the denominations required. It should be noted that Hong Kong stamp duty is payable in connection with the transfer of the rights to subscribe for the Rights Shares.

All cheques and cashier 's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the relevant provisional allotment of Rights Shares and all rights thereunder will be deemed to have been declined and will be cancelled.

If Dragon Hill, in the capacity of a underwriter to the Rights Issue, exercises its right to terminate its obligation under the Underwriting Agreement before 4:00 p.m. on 5 September 2006 or if any of the conditions precedent to the Rights Issue (as set out in the sub-section headed "Conditions of the Underwriting Agreement" below) is not fulfilled (or, if appropriate, waived), the Rights Issue will not proceed and the monies received in respect of the relevant provisional allotment of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred without interest, by means of cheques crossed "ACCOUNT PAYEE ONLY" to be despatched by ordinary post to their registered addresses and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at their own risk on or before 8 September 2006.

Application for excess Rights Shares

Any Rights Shares to which the Excluded Shareholders would otherwise have been provisionally allotted and which are not sold as referred to in the sub-section headed "Qualifying Shareholders and Excluded Shareholders" above in this prospectus, any unsold Rights Shares created by adding together fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders will be available for application through the EAFs by the Qualifying Shareholders.

Application for excess Rights Shares may be made by completing the EAF in accordance with the instructions printed thereon and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar by no later than 4:00 p.m. on 31 August 2006.

Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the application for excess Rights Shares will not be extended to beneficial owners individually.

The latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares is expected to be at 4:00 p.m. on 31 August 2006, or such later date as may be agreed between the Company and the Underwriter in writing. All remittances must be made by cheque or cashier's order in Hong Kong dollars. Cheques must be drawn on account with, or cashier's order must be issued by, a licensed bank in Hong Kong and made payable to "MAGNUM INTERNATIONAL HOLDINGS LIMITED — EXCESS APPLICATION ACCOUNT" and crossed "ACCOUNT PAYEE ONLY". The Registrar will notify you of any allotment of excess Rights Shares made to you, the allotment of which will be allocated on a fair and equitable basis to be decided at the sole discretion of the Directors by reference to the number of excess Rights Shares applied for by each Qualifying Shareholder, but the Directors will give preference to topping-up odd lots to whole board lots.

All cheques and cashier 's orders will be presented for payment following receipt and all interest earned on such monies shall be retained for the benefit of the Company. Any EAF in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected and cancelled.

If no excess Rights Shares are allotted to the Qualifying Shareholders, the amount tendered on application is expected to be refunded in full on or before 8 September 2006. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application monies are also expected to be refunded on or before 8 September 2006.

If Dragon Hill, in the capacity of a underwriter to the Rights Issue, exercises its right to terminate its obligation under the Underwriting Agreement before 4:00 p.m. on 5 September 2006 or if any of the conditions precedent to the Rights Issue (as set out in the sub-section headed "Conditions of the Underwriting Agreement" below) is not fulfilled (or, if appropriate, waived), the Rights Issue will not proceed and the monies received in respect of the relevant applications for excess Rights Shares will be refunded in full to the Qualifying Shareholders or, in the case of joint applicants, to the first-named person without interest, by means of cheques crossed "ACCOUNT PAYEE ONLY" to be despatched by ordinary post at their own risk on or before 8 September 2006.

Share certificates and refund cheques

Subject to fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares and refund cheques in respect of wholly or partly unsuccessful applications for excess Right Shares, if any, are expected to be posted to those entitled thereto at their own risk on or before 8 September 2006.

THE UNDERWRITING AGREEMENT

On 28 July 2006, the Company as issuer and Dragon Hill as underwriter entered into the Underwriting Agreement pursuant to which Dragon Hill has agreed to underwrite in the capacity of underwriter a total of 148,771,247 Rights Shares. Dragon Hill is the controlling Shareholder holding 317,481,680 Shares, representing approximately 51.62% of the existing issued share capital of the Company, and the Convertible Preference Shares. Under the Underwriting Agreement, Dragon Hill has also undertaken to the Company to take up and pay for its provisional entitlements under the Rights Issue, being 158,740,840 Rights Shares and not to exercise any conversion rights attaching to the Convertible Preference Shares to subscribe for Shares on or before the Record Date.

Dragon Hill does not underwrite issues of securities in its normal course of business. Dragon Hill acts as the underwriter of the Rights Issue as this enables the Company to plan on the basis of assured funds. The Company will pay to Dragon Hill an underwriting commission of 1.25% of the gross proceeds in respect of the Rights Shares underwritten by Dragon Hill under the Underwriting Agreement. The commission payable to Dragon Hill was determined after arm's length negotiations between the Company and Dragon Hill, and the Directors consider that it is on normal commercial terms and is comparable with the market rate. The Directors consider that the terms of the Underwriting Agreement are fair and reasonable.

Conditions of the Underwriting Agreement

The Underwriting Agreement is subject to, inter alia, the following conditions being fulfilled:

1. the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by two Directors (or by their agents duly authorised in writing) in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules;

2. the posting of copies of the Prospectus Documents to the Qualifying Shareholders;

3. compliance by the Company with all its obligations under the terms of the Underwriting Agreement;

4. compliance of the terms of the irrevocable undertaking given by Dragon Hill and Mr. Lee on or before the Acceptance Date; and

5. the Listing Committee of the Stock Exchange (a) agreeing to grant the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which Dragon Hill and in their reasonable opinion accept and the satisfaction of such conditions (if any); and (b) not having withdrawn or revoked such listing and permission on or before 5 September 2006.

If the above conditions are not satisfied and/or waived in whole or in part by Dragon Hill in writing on or before 27 October 2006 (or such other date as the Company and Dragon Hill may mutually agree in writing) or if the Underwriting Agreement shall be terminated as described below, all obligations and liabilities of the parties thereto shall cease and determine (save for any antecedent breach thereof). The Rights Issue is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

Termination of the Underwriting Agreement

Dragon Hill may terminate the Underwriting Agreement at any time if prior to 4:00 p.m. on the date of allotment of the Rights Shares (in their fully paid form), that is expected to be 5 September 2006:

1. the occurrence of the following events would, in the reasonable opinion of Dragon Hill, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or Dragon Hill to proceed with the Rights Issue:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

2. any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

3. the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

4. Dragon Hill shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated as provided in the Underwriting Agreement and Dragon Hill shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Rights Issue; or

5. the Company shall, after any matter or event referred to in the Underwriting Agreement has occurred or come to the attention of Dragon Hill, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as Dragon Hill may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice by Dragon Hill pursuant to the Underwriting Agreement, all obligations of Dragon Hill under the Underwriting Agreement shall cease and determine and (save for any antecedent breaches thereof) no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

Exempt connected transaction

Dragon Hill, the underwriter in relation to the Rights Issue, is a controlling Shareholder and is therefore a connected person (as defined in the Listing Rules) of the Company. The Rights Issue will be carried out in compliance with Rule 7.21(1) of the Listing Rules. The Underwriting Agreement constitutes an exempt connected transaction for the Company under Rule 14A.31(3) of the Listing Rules, and is therefore exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WARNING OF RISKS OF DEALING IN SHARES

Shareholders and potential investors should note that the Rights Issue is conditional upon Dragon Hill not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of the termination events is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" above). Accordingly, the Rights Issue may or may not proceed. A press announcement will be made by the Company in the event that the Underwriting Agreement is terminated.

Shareholders and potential investors should therefore exercise caution when dealing in the Shares and the Rights Shares in their nil-paid form, and if they are in any doubt about their position, they should consult their professional advisers. Shareholders should note that the Shares were dealt in on ex-entitlement basis commencing from 10 August 2006. The Rights Shares will be dealt in their nil-paid form from 21 August 2006 to 28 August 2006, both days inclusive. Shareholders and potential investors should note that dealings in the Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares and nil-paid Rights Shares up to the date on which all conditions to the Underwriting Agreement are fulfilled (which is expected to be 5 September 2006) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or the nil-paid Rights Shares, who is in any doubt about their position, is recommended to consult his or her or its own professional adviser.

Shareholding structure of the Company

Based on the existing shareholding structure of the Company and the undertaking from Dragon Hill that (i) it will take up in full and pay for its provisional entitlements under the Rights Issue, being 158,740,840 Rights Shares (based on the number of Shares held by Dragon Hill as at the Latest Practicable Date), and (ii) it will not exercise any conversion rights attaching to the Convertible Preference Shares to subscribe for Shares on or before the Record Date, the shareholding structure of the Company (a) immediately before completion of the Rights Issue; (b) immediately after completion of the Rights Issue; and (c) after completion of the Rights Issue and assuming that all conversion rights attaching to the Convertible Preference Shares are exercised by Dragon Hill to subscribe for Shares, are as follows:

	Immediately before completion of the Rights Issue		**Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue)**		**Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders (other than Dragon Hill)) take up their entitlement under the Rights Issue**	
	Number of Shares	*Approximate percentage*	*Number of Shares*	*Approximate percentage*	*Number of Shares*	*Approximate percentage*
Dragon Hill	317,481,680	51.62	476,222,520	51.62	624,993,767	67.75
Public	297,542,495	48.38	446,313,742	48.38	297,542,495	32.25
Total	615,024,175	100.00	922,536,262	100.00	922,536,262	100.00

	After completion of the Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue) and assuming that all conversion rights attaching to the Convertible Preference Shares are exercised by Dragon Hill		After completion of the Rights Issue (assuming no Qualifying Shareholders (other than Dragon Hill) take up their entitlement under the Rights Issue) and assuming that all conversion rights attaching to the Convertible Preference Shares are exercised by Dragon Hill	
	Number of Shares	*Approximate percentage*	*Number of Shares*	*Approximate percentage*
Dragon Hill	2,499,838,455	84.85	2,648,609,702	89.90
Public	446,313,742	15.15	297,542,495	10.10
Total	2,946,152,197	100.00	2,946,152,197	100.00

Reason for the Rights Issue and use of proceeds

The Group is principally engaged in securities dealing and margin finance, money lending and property investment. The Group recorded an audited consolidated net loss attributable to the Shareholders for each of the two years ended 31 December 2005 of approximately $6.3 million and $8.8 million respectively. As at 31 December 2005, the audited consolidated net deficit of the Group was approximately $53.83 million. As set out in Appendix II to the circular issued by the Company dated 29 April 2006, the unaudited pro forma consolidated net asset value of the Group upon completion of the allotment and issue of the Convertible Preference Shares, the disposal of certain then wholly-owned subsidiaries of the Company and waiver and settlement of loans due to the then controlling Shareholder (completion of such events took place in June 2006) was approximately $21.49 million.

Having considered the financial position of the Group as stated above, the Directors are of the view that it is in the interest of the Group and the Shareholders as a whole to strengthen the Group's financial position, and they further consider that the Rights Issue provides an appropriate means for the Group to raise additional funds for such purpose. In addition, the Shareholders are allowed to participate in the Rights Issue in proportion to their shareholdings and in the business growth of the Group.

307,512,087 Rights Shares will be issued at the price of $0.03155 per Rights Share. The expenses in relation to the Rights Issue, including financial and legal advisory fees, underwriting commission and printing expenses, are estimated to be approximately $1 million and will be payable by the Company. The net proceeds to be raised from the Rights Issue is currently expected to be approximately $8.7 million, which will be used as the Group's general working capital and if suitable opportunities arise, for properties investments in Hong Kong.

On 3 August 2006, Hilcrest Limited, a wholly-owned subsidiary of the Company, entered into an agreement with China Point Finance Limited, pursuant to which Hilcrest Limited has agreed to acquire Units 504, 505 and 506, 5th Floor, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong at a consideration of $15,300,000. The consideration for this acquisition is expected to be financed as to 30% by the Group's internal resources and as to 70% by bank borrowings. The proceeds from the Rights Issue will not be used for this acquisition. For the details of this acquisition, please refer to the announcement made by the Company on 3 August 2006.

FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS

Information on the fund raising activity of the Company in the past 12 months immediately preceding the Latest Practicable Date is set out below:

Date of announcement	Description	Net proceeds	Intended use of net proceeds as announced	Actual use of net proceeds
30 March 2006	Allotment and issue of the Convertible Preference Shares at the aggregate subscription price of $48,000,170	$48,000,170	Settlement of the loans due by the Group to the then controlling Shareholder	Settlement of the loans due by the Group to the then controlling Shareholder

Save for the allotment and issue of the Convertible Preference Shares as mentioned above, the Company has not carried out any fund raising activities within the last 12 months prior to the Latest Practicable Date.

ADJUSTMENTS TO THE CONVERTIBLE PREFERENCE SHARES

The Rights Issue will cause adjustments to the conversion price of the Convertible Preference Shares ("Conversion Price") and the number of Shares to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares. In accordance with the terms and conditions of the subscription agreement dated 30 March 2006 in relation to the Convertible Preference Shares, the Conversion Price shall be adjusted from $0.03155 per Share to $0.02372 per Share with effect from 17 August 2006.

The above adjustment in relation to the Conversion Price upon announcement of the Rights Issue has been computed and certified by Celestial Capital Limited, a merchant bank appointed by the Company, in accordance with the terms and conditions of the Convertible Preference Shares.

TAXATION

The Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Rights Shares (in their nil-paid and/or fully-paid forms). It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding, disposal of, or dealing in the Rights Shares (in their nil-paid and/or fully-paid forms).

GENERAL

Under the Listing Rules, Shareholders' approval is not required for the Rights Issue.

Your attention is drawn to the further information set out in the appendices to this prospectus.

Yours faithfully,
By order of the Board
Magnum International Holdings Limited
Lee Shing
Executive Director

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 2005 (the "Relevant Periods") as extracted from its annual reports. The auditors' report in respect of the Company's audited accounts for the three years ended 31 December 2005 did not contain any qualification.

(i) Results

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

(ii) Assets and liabilities

	2003	2004	2005
	$	*$*	*$*
Total assets	95,905,684	80,483,952	75,759,996
Total liabilities	(134,632,245)	(125,554,089)	(129,586,523)
Shareholders' funds/(deficits)	(38,726,561)	(45,070,137)	(53,826,527)

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 the year ended 31 December 2005. The notes to the accounts have been adapted to conform with the presentation herein.

Consolidated Income Statement
Year ended 31 December 2005

	Notes	**2005** *HK$*	**2004** *HK$* *(Restated)*
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	(6,506,291)	(6,426,706)
LOSS BEFORE TAX	8	(8,430,792)	(6,230,649)
Tax	11	(325,598)	(112,927)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	(8,756,390)	(6,343,576)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13		
Basic		(1.42 cents)	(1.03 cents)
Diluted		N/A	N/A

Consolidated Balance Sheet
31 December 2005

	Notes	2005 HK$	2004 HK$ (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	151,189	103,076
Investment properties	15	43,920,000	33,290,000
Intangible assets	17	827,246	3,135,479
Total non-current assets		44,898,435	36,528,555
CURRENT ASSETS			
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	7,581,554	12,257,012
Total current assets		30,861,561	43,955,397
CURRENT LIABILITIES			
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		52,034	52,034
Total current liabilities		55,255,869	51,549,033
NET CURRENT LIABILITIES		(24,394,308)	(7,593,636)
TOTAL ASSETS LESS CURRENT LIABILITIES		20,504,127	28,934,919
NON-CURRENT LIABILITIES			
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	411,507	85,909
Total non-current liabilities		74,330,654	74,005,056
Net liabilities		(53,826,527)	(45,070,137)
DEFICIENCY IN ASSETS			
Issued capital	29	61,502,418	61,502,418
Reserves	31(a)	(115,328,945)	(106,572,555)
Net deficiency in assets		(53,826,527)	(45,070,137)

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to equity holders of the Company					
			Share		**Fixed assets**		**Net**
		Issued share	**premium**	**Contributed**	**revaluation**	**Accumulated**	**deficiency**
		capital	**account**	**surplus**	**reserve**	**losses**	**in assets**
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
				(note 31(b))			
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		61,502,418	168,315,330	36,548,052	1,731,450	(313,167,387)	(45,070,137)
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		61,502,418	168,315,330*	36,548,052*	1,731,450*	(321,923,777)*	(53,826,527)

* The consolidated reserves in the consolidated balance 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

	Notes	**2005** *HK$*	**2004** *HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
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		2,336,028	702,055
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		—	36,299
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		(6,506,291)	(6,426,706)
Net cash inflow/(outflow) from operating activities		(3,958,402)	21,065,234

	Notes	2005 *HK$*	2004 *HK$*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(100,688)	(23,560)
Proceeds from disposals of items of property, plant and equipment		—	400
Net cash outflow from investing activities		(100,688)	(23,160)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		—	(1,561,678)
Repayment to a fellow subsidiary		—	(1,932,500)
Repayment to the immediate holding company		—	(12,067,500)
Net cash outflow from financing activities		—	(15,561,678)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(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		(27,795)	(3,017)
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,581,554	11,668,439
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
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	5,000,000	9,000,000
		7,581,554	11,668,439

Balance Sheet

31 December 2005

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

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 HKASs 32# & 39* Change in classification of equity investments *HK$*	 HK(SIC)-Int 21# Deferred tax on revaluation of investment properties *HK$*	Total *HK$*
Assets			
Equity investments at fair value through profit or loss	1,420,287	—	1,420,287
Short term investments	(1,420,287)	—	(1,420,287)
			—
Liabilities			
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 HKASs 32 & 39 Change in classification of equity investments *HK$*	 HK(SIC)-Int 21 Deferred tax on revaluation of investment properties *HK$*	Total *HK$*
Assets			
Equity investments at fair value through profit or loss	1,910,949	—	1,910,949
Short term investments	(1,910,949)	—	(1,910,949)
			—
Liabilities			
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 new policies	Effect of adopting HK(SIC)-Int 21 Deferred tax on revaluation of investment properties *HK$*
1 January 2004	
Decrease in accumulated losses	351,507
1 January 2005	
Decrease in accumulated losses	265,598

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

Effect of new policies	Effect of adopting HK(SIC)-Int 21 Deferred tax on revaluation of investment properties
Year ended 31 December 2005	
Increase in tax and loss for the year	HK$325,598
Increase in basic loss per share	HK0.05 cents
Year ended 31 December 2004	
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 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$* *(Restated)*
Segment revenue:												
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
Segment revenue	4,341,684	5,356,677	5,145,564	14,007,839	825,753	703,493	2,156,084	2,093,170	(25,235)	(34,746)	12,443,850	22,126,433
Segment results	(8,901,151)	(6,510,943)	287,980	293,412	(1,021,990)	1,438,697	10,752,471	6,052,733	—	—	1,117,310	1,273,899
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)
Loss for the year											(8,756,390)	(6,343,576)

	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$* *(Restated)*
Assets and liabilities												
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
Other segment information:												
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$*
								(Restated)
Segment revenue:								
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
Other geographical information:								
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:

	Group	
	2005	**2004**
	HK$	*HK$*
		(Restated)
Revenue		
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	5,104,680	13,898,250
	12,310,910	21,913,149
Other income		
Dividend income from listed investments	40,884	109,589
Others	140,656	152,295
	181,540	261,884
Gains		
Foreign exchange gains, net	55,333	—
	236,873	261,884

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

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

8. LOSS BEFORE TAX

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

	2005	**2004**
	HK$	*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	236,721	—
	7,597,180	7,523,413
Foreign exchange losses, net	—	62,750
Minimum lease payments under operating leases in respect of land and buildings	1,392,886	1,324,355
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	(112,192)	(95,196)
Net rental income	2,043,892	1,997,574
Bank interest income	120,124	8,772
Interest income for loans receivable	2,501,438	2,720,008
	2,621,562	2,728,780
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	—	400

* 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	**2004**
	HK$	*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
	2,675,098	2,335,247
	2,885,098	2,545,247

* 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	**2004**
	HK$	*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
	90,000	90,000

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

(b) Executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Fixed bonuses**	**Pension scheme contributions**	**Total remuneration**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
2005					
Executive directors:					
Mr. Lim Teong Leong	30,000	—	—	—	30,000
Mr. Tam Cheok Wing	30,000	—	—	—	30,000
Mr. Ooi Sin Heng	30,000	652,236	35,000	21,000	738,236
Mr. Chan Hon Ming, Alan	30,000	1,583,084	319,815	63,963	1,996,862
	120,000	2,235,320	354,815	84,963	2,795,098

	Fees	Salaries, allowances and benefits in kind	Fixed bonuses	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
2004					
Executive directors:					
Mr. Lim Teong Leong	30,000	—	—	—	30,000
Mr. Tam Cheok Wing	30,000	—	—	—	30,000
Mr. Ooi Sin Heng	30,000	616,209	35,000	21,000	702,209
Mr. Chan Hon Ming, Alan	30,000	1,279,260	319,815	63,963	1,693,038
	120,000	1,895,469	354,815	84,963	2,455,247

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

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

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:

	2005		2004	
	HK$	*%*	*HK$*	*%*
			(Restated)	
Loss before tax	(8,430,792)		(6,230,649)	
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	(8,661)		(394,107)	
Tax charge at the Group's effective rate	325,598	3.9	112,927	1.8

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	**Furniture and fixtures**	**Motor vehicles**	**Computers and equipment**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2005					
At 1 January 2005:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	—	6,821	103,076
At 1 January 2005, net of accumulated depreciation	77,958	18,297	—	6,821	103,076
Additions	100,038	—	—	650	100,688
Depreciation provided during the year	(42,294)	(5,528)	—	(4,753)	(52,575)
At 31 December 2005, net of accumulated depreciation	135,702	12,769	—	2,718	151,189
At 31 December 2005:					
Cost	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	135,702	12,769	—	2,718	151,189
31 December 2004					
At 1 January 2004:					
Cost	1,718,909	1,391,821	650,000	889,325	4,650,055
Accumulated depreciation	(1,548,789)	(1,368,943)	(650,000)	(783,545)	(4,351,277)
Net carrying amount	170,120	22,878	—	105,780	298,778
At 1 January 2004, net of accumulated depreciation	170,120	22,878	—	105,780	298,778
Additions	13,750	7,470	—	2,340	23,560
Depreciation provided during the year	(105,912)	(12,051)	—	(101,299)	(219,262)
At 31 December 2004, net of accumulated depreciation	77,958	18,297	—	6,821	103,076
At 31 December 2004:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	—	6,821	103,076

15. INVESTMENT PROPERTIES

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

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

	HK$
Long term leases	4,050,000
Medium term leases	39,870,000
	43,920,000

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:

Location		Approximate floor area	Existing use	Lease term	Group interest
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	(135,378,190)	(135,378,190)
	8,541,765	8,541,765
Amounts due from subsidiaries	276,857,250	280,299,120
Provisions for amounts due from subsidiaries	(253,478,700)	(253,412,533)
	23,378,550	26,886,587
Amounts due to subsidiaries	(54,847,591)	(54,493,355)
	(22,927,276)	(19,065,003)

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 Direct	Indirect	Principal activities
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

	Group 2005	Group 2004
	HK$	*HK$*
At beginning of year:		
Cost	8,476,908	8,573,184
Accumulated amortisation and impairment	(5,341,429)	(4,196,458)
Net carrying amount	3,135,479	4,376,726
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	27,795	(33,282)
At end of year	827,246	3,135,479
At end of year:		
Cost	8,675,042	8,476,908
Accumulated amortisation and impairment	(7,847,796)	(5,341,429)
Net carrying amount	827,246	3,135,479

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:

	Group	
	2005	**2004**
	HK$	*HK$*
Not yet due	1,083,493	3,431,749
0–30 days	112,834	1,781,972
	1,196,327	5,213,721

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:

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

Accounts payable are non-interest-bearing.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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	**2004**
	HK$	*HK$*
Listed equity investments, at market value:		
Hong Kong	642,640	604,420
Elsewhere	1,268,309	815,867
	1,910,949	1,420,287

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

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	**2004**	**2005**	**2004**
	HK$	*HK$*	*HK$*	*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	3,539,329	3,367,109	1,452,024	518,916
	51,560,285	45,373,516	17,668,296	14,918,243

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

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

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

	2005	**2004**
	HK$	*HK$*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000,000	100,000,000
Issued and fully paid:		
615,024,175 ordinary shares of HK$0.10 each	61,502,418	61,502,418

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:

	The Scheme
Purpose	Provide incentives and rewards to eligible participants.
Participants	Eligible participants include: (i) employees (whether full-time or part-time employees, including any executive directors but not any non-executive director) of the Company and its subsidiaries; (ii) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of the Group; (v) any person or entity that provides research, development or other technological support to the Group; and (vi) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of 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: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (ii) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
The remaining life of the scheme	The scheme will be valid and effective until 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:

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

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

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The share options do not confer rights on the holders to dividends or to vote at shareholders meetings.

As 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. On 13 July 2006, 7,200,000 share options had been tendered for cancellation under the mandatory unconditional and offer for consultation of all outstanding options at the offer price of HK$0.101 per option made by Dragon Hill. At the date of approval of these financial statements, there are no outstanding and unexercised share options under the Scheme.

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	—	—	(8,211,340)	(8,211,340)
At 31 December 2004 and 1 January 2005	168,315,330	95,165,446	(390,209,496)	(126,728,720)
Loss for the year	—	—	(6,009,873)	(6,009,873)
At 31 December 2005	168,315,330	95,165,446	(396,219,369)	(132,738,593)

The Company's contributed surplus represents the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in 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$*	Group 2004 *HK$*
Within one year	1,734,850	1,399,500
In the second to fifth years, inclusive	282,500	669,600
	2,017,350	2,069,100

(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	**2004**	**2005**	**2004**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	1,859,190	793,405	1,619,085	562,500

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:

		Group	
	Notes	**2005**	**2004**
		HK$	*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)	48,600	48,600

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:

		Group	
	Notes	**2005**	**2004**
		HK$	*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)	246,457	246,457

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

At the close of business on 20 June 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this prospectus, the Group had neither outstanding bank borrowings nor contingent liabilities.

In addition, 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 20 June 2006.

4. MATERIAL CHANGE

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

(a) on 30 March 2006 the Company announced, among other things, the entering into of (i) a subscription agreement in relation to the subscription by Dragon Hill of the Convertible Preference Shares; (ii) a disposal agreement in relation to the sale of the entire share capital of certain then wholly-owned subsidiaries and the assignment of the amounts due from these subsidiaries to the Group; and (iii) a deed of settlement in respect of the repayment and settlement of the loans or advances to a then controlling Shareholder. Completion of such agreements and deed took place on 20 June 2006; and

(b) upon the completion of a share sale agreement entered into between, among others, Dragon Hill and a then controlling Shareholder on 20 June 2006 and the subsequent general offers, Dragon Hill and parties acting in concert with it own in aggregate approximately 51.62% of the entire issued share capital of the Company as at the Latest Practicable Date.

5. FINANCIAL AND BUSINESS PROSPECTS OF THE GROUP

For the year ended 31 December 2005, the Group recorded a revenue of $12.3 million and a loss before tax of $8.4 million. The revenue of the Group decreased by $9.6 million as compared to the year ended 31 December 2004, of which $8.8 million was from the securities investment and $1 million was from the securities dealing and margin finance businesses.

The loss before tax for the year increased from $6.2 million in 2004 to $8.4 million in 2005. Such increase in loss before tax was mainly due to the Group recorded the loss arising from the impairment in value of trading right for Hong Kong Stock Exchange of $2.3 million. The loss before tax in current year mainly comprises administrative and operating expenses and financial cost on borrowings.

The Group announced on 30 March 2006 the change of controlling shareholder of the Company, namely Dragon Hill, together with certain restructuring. The new controlling shareholder intends to continue the existing business of the Group and will conduct a more detailed review of the operations of the Group with a view to develop a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise. The Rights Issue is proposed to enhance the capital base of the Company and provide additional general wholly capital and if opportunity arise, for investments in properties in Hong Kong.

6. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the amount of the net proceeds of the Rights Issue and the internal resources available to the Group, in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for at least the next 12 months from date of this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted consolidated net tangible assets of the 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 Group at any future date.

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group illustrating how the Rights Issue might have affected the unaudited pro forma net tangible assets of the Group as if the Rights Issue had been completed on 31 December 2005.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the unaudited pro forma consolidated balance sheet of the Group as at 31 December 2005 as extracted from its published circular dated 29 April 2006 (the "Circular") as set out in Appendix II "Pro Forma Financial Information of the Remaining Group" of the Circular and adjusted to reflect the effect of the Rights Issue.

Unaudited pro forma consolidated net assets value of the Group as at 31 December 2005	Intangible assets	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted net tangible assets value upon completion of the Rights Issue	Unaudited pro forma consolidated net tangible assets value per share immediately before the Rights Issue	Unaudited pro forma adjusted net tangible assets value per share upon completion of the Rights Issue
HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
21,494,267	(827,246)	8,702,006	29,369,027	0.034	0.032

Notes:

1. This represented the Group's trading rights on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc., as at 31 December 2005.

2. The estimated net proceeds from the Rights Issue is based on the subscription price of HK$0.03155 per Rights Share, after deducting the estimated related expenses of approximately HK$1 million.

3. The calculation of the unaudited pro forma consolidated net tangible assets value per share immediately before the Rights Issue is based on the unaudited pro forma consolidated net tangible assets as at 31 December 2005 of HK$20,667,021, net of intangible assets of HK$827,246, and the existing 615,024,175 ordinary shares in issue as at the Latest Practicable Date, but has not taken into account the effect of the possible exercise of the outstanding Convertible Preference Shares.

4. The calculation of the unaudited pro forma adjusted net tangible assets value per share upon completion of the Rights Issue is based on the pro forma adjusted net tangible assets value of HK$29,369,027 and 922,536,262 enlarged ordinary shares expected to be in issue immediately after the completion of the Rights Issue, but has not taken into account the effect of the possible exercise of the outstanding Convertible Preference Shares.

LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

ERNST & YOUNG
安永會計師事務所

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

17 August 2006

The Board of Directors
Magnum International Holdings Limited

Dear Sirs

We report on the unaudited pro forma financial information of Magnum International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out in Appendix II to the Prospectus (the "Prospectus") of the Company dated 17 August 2006 which has been prepared by the directors for illustrative purposes only, to provide information about how the rights issue of the Company might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma statement of adjusted consolidated net tangible assets to the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of Opinion

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

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

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

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

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

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

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this prospectus have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this prospectus misleading.

2. SHARE CAPITAL AND OPTIONS

(a) Share capital

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

	Shares	*$*
Authorised share capital	100,000,000,000	100,000,000
Issued and fully paid up share capital as at the Record Date	615,024,175	615,024.175
Rights Shares to be issued pursuant to the Rights Issue	307,512,087	307,512.087
Issued and fully paid up share capital upon completion of the Rights Issue	922,536,262	922,536.262

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 a total of 1,521,400,000 Convertible Preference Shares carrying rights to convert into 1,521,400,000 Shares at the conversion price of $0.03155 per Share at any time immediately upon issue of the Convertible Preference Shares and until conversion of all Convertible Preference Shares in full. With effect from 17 August 2006, the conversion price of the Convertible Preference Shares will be adjusted from $0.03155 per Share to $0.02372 per Share and the number of Shares to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares will be adjusted from 1,521,400,000 Shares to 2,023,615,935 Shares.

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.

3. DISCLOSURE OF INTERESTS BY DIRECTORS

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 Shares:

Name of Director	**Capacity**	**Class of Shares held**	**Number of Shares held**
Lee Shing	Beneficial Owner	Ordinary Shares	624,993,767 *(Note 1)*
Lee Shing	Beneficial Owner	Convertible non-redeemable preference shares	1,521,400,000 *(Note 2)*

Notes:

(1) Such 624,993,767 Shares are held by Dragon Hill, which is wholly owned by Mr. Lee, these interests are calculated by assuming (i) none of the Qualifying Shareholders (save for Dragon Hill) has taken up any provisional allotments of the Right Shares; and (ii) all the Underwritten Shares are taken up by Dragon Hill pursuant to the Underwriting Agreement. Mr. Lee is taken to be interested in those 624,993,767 Shares held by Dragon Hill under the SFO.

(2) Such 1,521,400,000 Convertible Preference Shares are held by Dragon Hill, which is wholly owned by Mr. Lee. Mr. Lee is taken to be interested in those 1,521,400,000 Convertible Preference Shares under the SFO. With effect from 17 August 2006, the conversion price of the Convertible Preference Shares will be adjusted from $0.03155 per Share to $0.02372 per Share and the number of Shares to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares will be adjusted from 1,521,400,000 Shares to 2,023,615,935 Shares.

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

As at the Latest Practicable Date, save for the interest of Mr. Lee through his shareholding interests in Dragon Hill, 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.

4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

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
Dragon Hill	Beneficial owner	624,993,767	67.75% *(Notes 1, 2)*
Mr. Lee	Attributable interest of controlled corporation	624,993,767	67.75% *(Notes 1, 2)*
Pasmina Overseas Inc.	Beneficial owner	66,013,175	10.73% *(Notes 1, 3)*
Yuwira International Corp.	Beneficial owner	43,599,000	7.09% *(Notes 1, 3)*

Notes:

(1) All interests stated above represent long positions.

(2) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee. Mr. Lee is therefore deemed to have an interest in the Shares in which Dragon Hill is interested. Accordingly, the interest held by each of Dragon Hill and Mr. Lee refers to the same parcel of shares. These interests are calculated by assuming (i) none of allotments of the Qualifying Shareholders (save for Dragon Hill) takes up any provisional allotments of the Right Shares; and (ii) all the Underwritten Shares are taken up by Dragon Hill pursuant to the Underwriting Agreement.

(3) These interests are calculated without taking account of the Shares to be issued under the Rights Issue.

5. LITIGATION

Save as the legal action brought by Mr. Chan King Kwong Willy against Magnum International Securities Limited and Magnum International Finance Limited in High Court Action No. 131 of 2003 with 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.

6. QUALIFICATIONS AND CONSENT OF EXPERT

Ernst & Young 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:

Name	Qualification
Ernst & Young	Certified Public Accountants

As at the Latest Practicable Date, Ernst & Young did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Ernst & Young did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to any member of the Group, since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. 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 dated 18 February 2005 whereby the Company agreed to issue and Magnum (Guernsey) Limited ("MGL") agreed to subscribe a convertible bond and promissory note ("First Subscription Agreement");

(b) a deed of termination of the First Subscription Agreement dated 8 April 2005;

(c) a conditional subscription agreement dated 8 April 2005 whereby the Company agreed to issue and Unichina Enterprises Limited agreed to subscribe a convertible bond upon and subject to the terms and conditions of such subscription agreement, which subsequently became null and void on 31 July 2005;

(d) a conditional compromise deed dated 8 April 2005 to facilitate the settlement of all the outstanding loans or advances extended by MGL, Magnum Enterprises Sdn Bhd ("MESB") and Magnum Investment Limited ("MIL") to the Group and interest thereon, which subsequently became null and void on 31 July 2005;

(e) a subscription agreement dated 30 March 2006 whereby the Company agreed to issue and Dragon Hill agreed to subscribe for the Convertible Preference Shares which was completed on 20 June 2006;

(f) a disposal agreement dated 30 March 2006 whereby 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, which was completed on 20 June 2006;

(g) a deed of settlement dated 30 March 2006 in respect of the repayment and settlement of the outstanding loans extended by MGL, MESB and MIL to the Group, which took place on 20 June 2006;

(h) the Underwriting Agreement; and

(i) an agreement dated 3 August 2006 whereby Hilcrest Limited, a wholly-owned subsidiary of the Company, agreed to acquire a property.

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.

8. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office	Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
Principal place of business in Hong Kong	1301A, 13/F, Bank of America Tower 12 Harcourt Road Central, Hong Kong
Company secretary	Leung Siu Kuen
Qualified accountant	Leung Siu Kuen
Legal advisers to the Company	*As to Hong Kong law:* Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central Hong Kong *As to Bermuda law:* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	Ernst & Young
Reporting accountants in relation to the Rights Issue	Ernst & Young
Hong Kong branch share registrar	Tengis Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Standard Chartered Bank (Hong Kong) Limited DBS Bank (Hong Kong) Limited The Hongkong and Shanghai Banking Corporation Limited
Underwriter	Dragon Hill Development Limited

9. EXPENSES

The expenses in connection with the Rights Issue, including financial and legal advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately $1 million and will be payable by the Company.

10. PARTICULARS OF THE DIRECTORS

(a)

Name	Address	Nationality
Executive Directors		
Mr. Lee Shing	Flat A, 16th Floor, Seaview Garden, 31 Cloud View Road, Hong Kong	Chinese
Ms. Liu Yaling	Room 4-504, Building 7, Sunshine Garden, No. 58 Hudieshan Rd., Liuzhou City, Guangxi Province, China	Chinese
Mr. Wang Shaohua	No. 1, Chuo Feng Street, Chun Shan Zhen, Liu Jiang Xian, Liu Zhou City, Guang Xi State, China	Chinese
Mr. Pei Qingrong	No. 8–3 Hongbo, Yuyuan, Huangqitun Police Substation, Chuanying District, Jilin City, PRC	Chinese
Independent non-executive Directors		
Mr. Yu Xiumin	No. 502, Gate 4, Building 20, Nanling Campus, Jilin University, No. 5988, Renmin Avenue, Changchun, P.R. China	Chinese
Mr. Zuo Duofu	#701, 76 Guang Li Lu, Tian He District, Guang Zhou, PRC	Chinese
Mr. Cheng Kin Wah, Thomas	Room 2907, Block A, Carson Mansion, 117 King's Road, North Point, Hong Kong	Chinese

(b) Qualifications

Executive Directors:

Mr. LEE Shing

Mr. Lee, aged 49, 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 a PRC company in Jilin, the PRC, namely 吉林市吉山汽車部件製造有限公司 (Jilin City Jishan Car Spare Parts Manufacturing Limited), which is principally engaged in the manufacturing of car spare parts, and a Hong Kong company, namely Dragon Hill Development Limited, which has invested in a property development project in Dongguan, the PRC and which used to be engaged in trading of papers, construction materials, plastic and car spare parts. 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.

Ms. LIU Yaling

Ms. Liu, aged 30, 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 over 8 years of experience in the finance and accounting industry in the PRC.

Mr. WANG Shaohua

Mr. Wang, aged 70, an executive Director. He has extensive experience in the car manufacturing industry in the PRC.

Mr. PEI Qingrong

Mr. Pei, aged 70, an executive Director. He is a senior engineer in car manufacturing in the PRC. He has extensive experience in the car manufacturing industry in the PRC.

Independent non-executive Directors:

Mr. YU Xiumin

Mr. Yu, aged 46, an independent non-executive Director. He holds a doctorate degree in engineering. Mr. Yu has over 7 years of experience in the engine and machinery related teaching and research.

Mr. ZUO Duofu

Mr. Zuo, aged 62, 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, an independent non-executive Director, 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.

11. LEGAL EFFECT

This prospectus and the enclosed PAL and EAF and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions of Sections 44A and 44B of the Companies Ordinance insofar as it is applicable).

12. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of Prospectus Documents, having attached thereto the written consent referred to under the paragraph headed "Qualification and consent of expert" in this appendix, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. A copy of each of the Prospectus Documents has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda.

13. MISCELLANEOUS

(a) Mr. Leung Siu Kuen is the company secretary and the qualified accountant of the Company. Mr. Leung is a member of Hong Kong Institute of Certified Public Accountants and an Associate of the Chartered Institute of Management.

(b) As at the Latest Practicable Date, none of the Directors has any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(c) The English text of the Prospectus Documents shall prevail over the Chinese text in the case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (Saturdays, Sundays and public holidays excepted) at the office of 1301A, 13/F, Bank of America Tower 12 Harcourt Road Central, Hong Kong from the date of this prospectus up to and including 31 August 2006:

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

(b) the annual reports of the Company for the two years ended 2004 and 2005;

(c) the letter from Ernst & Young dated 17 August 2006 on the unaudited pro forma financial information of the Group, the text of which is set out on pages 65 to 66 of this prospectus;

(d) the material contracts referred to in the paragraph headed "Material contracts" of this appendix;

(e) a circular in relation to, inter alias, the deed of settlement, the disposal of an indirect wholly-owned subsidiary and the subscription agreement dated 29 April 2006 issued by the Company; and

(f) the written consent referred to in the paragraph headed "Qualification and consent of expert" of this appendix.