



# Magnum International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 305)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

### RESULTS

The directors of Magnum International Holdings Limited (the “Company”) herein present the unaudited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the comparative figures as follows:

### Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
		2006	2005
	Notes	HK\$	HK\$
REVENUE	3	<b>4,706,918</b>	3,627,190
Other income and gains	3	<b>34,059,536</b>	85,651
Cost of trading equity investments sold		<b>(1,419,621)</b>	452,593
Administrative expenses		<b>(6,726,153)</b>	(6,620,656)
Other operating expenses		<b>(2,474,224)</b>	(2,251,611)
Finance costs		<b>(3,244,616)</b>	(3,207,213)
<b>PROFIT/(LOSS) BEFORE TAX</b>	6	<b>24,901,840</b>	(7,914,046)
Tax	7	<b>—</b>	<b>—</b>
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b><u>24,901,840</u></b>	<b><u>(7,914,046)</u></b>
<b>EARNINGS/(LOSS) PER SHARE</b>	9		
Basic		<b>4.05 (cents)</b>	(1.29) (cents)
Diluted		<b>1.16 (cents)</b>	N/A
<b>INTERIM DIVIDEND</b>	10	<b><u>Nil</u></b>	<b><u>Nil</u></b>

## Condensed Consolidated Balance Sheet

	Unaudited 30 June 2006 <i>Notes</i> <i>HK\$</i>	Audited 31 December 2005 <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	1,985	151,189
Investment properties	—	43,920,000
Intangible assets	<u>827,246</u>	<u>827,246</u>
Total non-current assets	<u>829,231</u>	<u>44,898,435</u>
<b>CURRENT ASSETS</b>		
Loans receivable	12,804,255	14,969,290
Accounts receivable	1,668,855	1,196,327
Prepayments and other debtors	1,308,348	2,405,800
Short term investments	1,556,641	1,910,949
Client trust bank accounts	1,724,921	2,797,641
Cash and bank equivalents	<u>5,642,479</u>	<u>7,581,554</u>
Total current assets	<u>24,705,499</u>	<u>30,861,561</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	3,328,001	3,643,550
Other payables and accruals	3,079,212	51,560,285
Tax payable	<u>52,034</u>	<u>52,034</u>
Total current liabilities	<u>6,459,247</u>	<u>55,255,869</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>18,246,252</u>	<u>(24,394,308)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	19,075,483	20,504,127
<b>NON-CURRENT LIABILITIES</b>		
Amount due to former immediate holding company	—	42,999,147
Amount due to former intermediate holding company	—	30,920,000
Deferred tax liabilities	<u>—</u>	<u>411,507</u>
Total non-current liabilities	<u>—</u>	<u>74,330,654</u>
NET ASSETS/(LIABILITIES)	<u>19,075,483</u>	<u>(53,826,527)</u>
<b>EQUITY/(DEFICIENCY IN ASSETS)</b>		
Issued capital	11      615,024	61,502,418
Convertible preference shares	12      48,000,170	—
Reserves	<u>(29,539,711)</u>	<u>(115,328,945)</u>
Total equity/(net deficiency in assets)	<u>19,075,483</u>	<u>(53,826,527)</u>

## Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2006 HK\$	Capital reduction HK\$ (Note 11)	Issue of convertible preference shares HK\$ (Note 12)	Disposal of subsidiaries HK\$ (Note 8)	Profit for the period HK\$	As at 30 June 2006 HK\$
Issued share capital	61,502,418	(60,887,394)	—	—	—	<b>615,024</b>
Convertible preference shares	—	—	48,000,170	—	—	<b>48,000,170</b>
Share premium account	168,315,330	—	—	—	—	<b>168,315,330*</b>
Contributed surplus	36,548,052	60,887,394	—	—	—	<b>97,435,446*</b>
Fixed assets revaluation reserve	1,731,450	—	—	(1,731,450)	—	—
Accumulated losses	(321,923,777)	—	—	1,731,450	24,901,840	<b>(295,290,487)*</b>
<b>Total</b>	<b>(53,826,527)</b>	<b>—</b>	<b>48,000,170</b>	<b>—</b>	<b>24,901,840</b>	<b>19,075,483</b>

  

	As at 1 January 2005 HK\$	Loss for the period HK\$	As at 30 June 2005 HK\$
Issued share capital	61,502,418	—	<b>61,502,418</b>
Share premium account	168,315,330	—	<b>168,315,330*</b>
Contributed surplus	36,548,052	—	<b>36,548,052*</b>
Fixed assets revaluation reserve	1,731,450	—	<b>1,731,450*</b>
Accumulated losses	(313,432,985)	(7,914,046)	<b>(321,347,031)*</b>
<b>Total</b>	<b>(45,335,735)</b>	<b>(7,914,046)</b>	<b>(53,249,781)</b>

\* The consolidated reserves in the unaudited condensed consolidated balance sheet comprise share premium account, contributed surplus, fixed assets revaluation reserve and accumulated losses with a total debit balance of HK\$29,539,711 (2005: HK\$ 114,752,199).

## Notes to condensed interim financial report

### 1. BASIS OF PRESENTATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), 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 (the “HKICPA”).

The principal accounting policies and basis of preparation used in the unaudited condensed financial statements are consistent with those adopted in the preparation of the annual financial statements of the Group for the year ended 31 December 2005, except for the adoption of the following new HKFRS that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option

The amendment to HKAS 21 relates to the treatment of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation. It allows inter-company loans denominated in any currency to be part of a net investment in a foreign operation and to recognize foreign exchange volatility on such loans funding foreign operations in exchange fluctuation reserve in the consolidated financial statements. The adoption of the amendment to HKAS 21 has resulted in a change in accounting policy relating to foreign currency translation. The adoption of this amendment did not affect the Group's results of operations for the period or financial position as at 30 June 2006.

HKAS 39 Amendment "The Fair Value Option" restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss. The adoption of this amendment did not affect the Group's results of operations for the period or financial position as at 30 June 2006.

### **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 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7 and HK(IFRIC)-Int 9 do not apply to the activities of the Group. HK(IFRIC)-Int 8 does not have any impact on the Group's financial statements in the period of initial application. HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

## **2. PRINCIPAL ACTIVITIES**

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

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

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Group is Dragon Hill Development Limited ("Dragon Hill"), which is incorporated in Samoa.

### 3. REVENUE, OTHER INCOME AND GAINS

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

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Revenue</b>			
Commissions and interest income from securities dealing and margin finance		1,635,855	2,285,215
Interest income from consumer finance		502,260	365,342
Property rental income		1,100,700	976,632
Proceeds from the sale of equity investments at fair value through profit or loss		<u>1,468,103</u>	<u>—</u>
		<u><b>4,706,917</b></u>	<u><b>3,627,190</b></u>
<b>Other income</b>			
Dividend income from listed investments		17,790	13,125
Recovery of bad debts		962,276	—
Others		<u>158,017</u>	<u>72,526</u>
		<u><b>1,138,083</b></u>	<u><b>85,651</b></u>
<b>Gains</b>			
Unrealised gains on equity investments at fair value through profit or loss		439,584	—
Gain on disposal of subsidiaries	8	12,408,167	—
Gain on the waiver of loan advances and related interest by the former holding companies and a former fellow subsidiary	5(ii)	<u>20,073,702</u>	<u>—</u>
		<u><b>32,921,453</b></u>	<u><b>—</b></u>
		<u><b>34,059,536</b></u>	<u><b>85,651</b></u>

#### 4. SEGMENT INFORMATION

The Group's operating business are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments:

##### Business segments

	Unaudited six months ended 30 June 2006				
	Securities dealing and margin finance HK\$	Securities Investment HK\$	Consumer finance HK\$	Property holding HK\$	Consolidation HK\$
<b>Segment revenue:</b>					
Services provided to external customers	1,640,803	1,468,103	502,260	—	3,611,166
Other revenue	134,587	17,790	—	—	152,377
Rental income	—	—	—	1,100,700	1,100,700
	<u>1,775,390</u>	<u>1,485,893</u>	<u>502,260</u>	<u>1,100,700</u>	<u>4,864,243</u>
<b>Segment results</b>	<u>(2,303,763)</u>	<u>635,316</u>	<u>(427,233)</u>	<u>12,914,274</u>	10,818,594
Unallocated revenue and gains					21,498,991
Unallocated expenses					(4,555,207)
Unallocated finance costs					<u>(2,860,538)</u>
Profit before tax					24,901,840
Tax					<u>—</u>
Profit for the period					<u>24,901,840</u>

Unaudited six months ended 30 June 2005

	Securities dealing and margin finance <i>HK\$</i>	Securities Investment <i>HK\$</i>	Consumer finance <i>HK\$</i>	Property holding <i>HK\$</i>	Consolidation <i>HK\$</i>
<b>Segment revenue:</b>					
Services provided to external customers	2,285,215	—	365,343	976,632	3,627,190
Other revenue	<u>48,226</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>48,226</u>
 Total Revenue	 <u><u>2,333,441</u></u>	 <u><u>—</u></u>	 <u><u>365,343</u></u>	 <u><u>976,632</u></u>	 <u><u>3,675,416</u></u>
 <b>Segment results</b>	 <u><u>(2,717,160)</u></u>	 <u><u>—</u></u>	 <u><u>(438,726)</u></u>	 <u><u>(27,506)</u></u>	 <u><u>(3,183,392)</u></u>
 Unallocated revenue and gains					37,425
Unallocated expenses					(1,967,537)
Unallocated finance costs					<u>(2,800,542)</u>
 Loss before tax					(7,914,046)
Tax					<u>—</u>
 Loss for the period					<u><u>(7,914,046)</u></u>

## 5. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b><i>HK\$</i></b>	<b><i>HK\$</i></b>
Interest expenses charged by former immediate holding company (note i)	<b>1,412,584</b>	1,495,323
Interest expenses charged by former intermediate holding company (note i)	<b>1,832,032</b>	1,700,268
Waiver of loan advances and related interest by the former holding companies and a former fellow subsidiary (note ii)	<b>20,073,302</b>	—
Management fee income charged to a former fellow subsidiary (note iii)	<u><b>22,950</b></u>	<u>—</u>
	<u><u><b>23,340,868</b></u></u>	<u><u>3,195,591</u></u>

(b) Outstanding balances with related parties

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Amount due to former immediate holding company	—	65,418,436
Amount due to former intermediate holding company	—	55,531,255
Interest payable to former immediate holding company	—	22,419,289
Interest payable to former intermediate holding company	—	24,611,255
Interest payable to former fellow subsidiary	—	246,457
	<u>—</u>	<u>168,226,692</u>

(c) Compensation of key management personnel of the Group

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Short term employee benefits	<b>763,943</b>	1,060,710
Post-employment benefits	<b>356,710</b>	53,036
	<u><b>1,120,653</b></u>	<u>1,113,746</u>

*Notes:*

- (i) The interest expenses charged by Magnum Guernsey Limited (“MGL”), the former immediate holding company, and Magnum Enterprise Sdn Bhd (“MESB”), the former intermediate holding company, during the period arose from their respective advances to the Group. The advances were unsecured, bore interest at annual effective rates ranging from 6.5% to 8% and were fully settled at the balance sheet date. MGL and MESB ceased to be the holding companies of the Group on 20 June 2006.
- (ii) During the period, the Group entered into a deed of settlement with Dragon Hill, MGL, MESB, and Magnum Investment Limited (“MIL”), a former fellow subsidiary, to settle the outstanding advances and related interest payables due by the Group to MGL, MESB and MIL at 20 June 2006 with an aggregate amount of HK\$124,440,764 by HK\$104,367,062. The payable of HK\$104,367,062 was fully settled on 20 June 2006 by (a) the sale consideration of the Lismore Group of HK\$56,366,892 (note 8); and (b) the subscription proceeds of HK\$48,000,170 (note 12) from the issue of the Convertible Preference Shares, resulting in a gain on the waiver of loan advances and related interest of HK\$20,073,702. MIL ceased to be the fellow subsidiary of the Group on 20 June 2006.
- (iii) Management fee income was related to the administrative services provided to MIL. The fee was charged at a monthly rate of HK\$4,050.



## 6. PROFIT/(LOSS) BEFORE TAX

**Unaudited**  
**Six months ended 30 June**  
**2006**                      **2005**  
**HK\$**                         **HK\$**

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

Depreciation	<b>1,507</b>	27,702
Employee benefits expense (including directors' remuneration):		
Wages and salaries	<b>1,694,519</b>	3,378,843
Pension scheme contributions	<b>45,134</b>	<u>303,793</u>
	<b>1,741,160</b>	<u>3,710,338</u>
 Minimum lease payments under operating leases in respect of land and buildings	 <b>1,100,700</b>	 <u>976,632</u>
 and after crediting:		
Bank interest income	<b>103,042</b>	174,944
Interest income for loans receivable	<b>1,267,093</b>	<u>1,096,668</u>
	<b>1,370,135</b>	1,271,612
 Gain on disposal of equity investments at fair value through profit or loss	 <b>48,482</b>	 <u>—</u>

## 7. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 30 June 2006 and 30 June 2005.

## 8. DISPOSAL OF SUBSIDIARIES

On 20 June 2006, the Group disposed of its entire 100% equity interest in Lismore Properties Limited and its subsidiaries (collectively the "Lismore Group") to MGL, who ceased to be the Group's immediate holding company on the same date, for a consideration of HK\$56,366,892, resulting in a gain on disposal of HK\$12,408,167. The Lismore Group was engaged in property investment.

The results of the Lismore Group for the periods ended 30 June 2006 and 2005 are presented below:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
REVENUE — gross rental income	<b>1,100,700</b>	976,632
Administrative expenses	<b>(552,178)</b>	(973,839)
Other operating expenses	<u><b>(42,415)</b></u>	<u>(30,299)</u>
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<u><b>506,107</b></u>	<u>(27,506)</u>

The carrying amounts of the assets and liabilities of the Lismore Group immediately before the disposal were as follows:

	<i>HK\$</i>
Net liabilities disposed of:	
Property, plant and equipment	197,905
Investment properties	43,920,000
Prepayments, deposits and other receivables	444,169
Cash and bank balances	692,643
Other payables and accruals	(884,485)
Deferred tax liabilities	(411,507)
Amounts due to the Group	<u>(56,366,891)</u>
	(12,408,166)
Gain on disposal of subsidiaries	12,408,167
Amounts due to the Group disposed of	<u>56,366,891</u>
Sale consideration	<u><u>56,366,892</u></u>

The net cash flows incurred by the Lismore Group are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Net cash inflow/(outflow) from operating activities and total net cash inflow/(outflow)	<u><b>619,380</b></u>	<u>(100,997)</u>

## 9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share amounts is based on the net profit/(loss) for the period attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the net profit for the period attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Earnings</b>		
Net profit/(loss) attributable to shareholders for the period used in the basic earnings/(loss) per share calculation	<u><b>24,901,780</b></u>	<u><b>(7,914,046)</b></u>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u><b>615,024,175</b></u>	<u><b>615,024,175</b></u>
Effect of dilution — weighted average number of ordinary shares:		
Convertible preference shares	<b>1,521,400,000</b>	N/A
Share options	<u><b>7,200,000</b></u>	<u><b>N/A</b></u>
	<u><b>2,143,624,175</b></u>	

## **10. INTERIM DIVIDEND**

The Board resolved not to declare any interim dividend for the period (six months ended 30 June 2005: Nil).

## 11. SHARE CAPITAL

	Unaudited 30 June 2006 HK\$	Audited 31 December 2005 HK\$
Authorised:		
1,000,000,000,000 ordinary shares of HK\$0.001 each	100,000,000	—
1,000,000,000 ordinary shares of HK\$0.10 each	—	100,000,000
	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
615,024,175 ordinary shares of HK\$0.001 each	615,024	—
615,024,175 ordinary shares of HK\$0.10 each	—	61,502,418
	<u>615,024</u>	<u>61,502,418</u>

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

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

## 12. CONVERTIBLE PREFERENCE SHARES

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

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

No Convertible Preference Shares were converted during the period. The exercise in full of the conversion rights attached to the outstanding 1,521,400,000 Convertible Preference Shares in issue at 30 June 2006 would have, with the present capital structure of the Company, resulted in the issue of a further 1,521,400,000 additional ordinary shares.

As disclosed in note 13(a) below, upon the completion of the Rights Issue (as defined hereafter) on 5 September 2006, the conversion price of the Convertible Preference Shares was adjusted to HK\$0.02372 per ordinary share. With the present capital structure of the Company, the exercise in full of the conversion rights would have resulted in a further 2,023,615,935 additional ordinary shares.

### **13. POST BALANCE SHEET EVENTS**

- (a) On 28 July 2006, the Company proposed to raise approximately HK\$9,700,000, before expenses, by issuing 307,512,087 ordinary shares (the “Rights Share”) at a price of HK\$0.03155 per ordinary share by way of the rights issue (the “Rights Issue”) on the basis of one Rights Share for every two ordinary shares held by the existing shareholders. As a result, 307,512,087 ordinary shares were allotted and issued on 5 September 2006. The details of the Rights Issue were set out in the Company’s announcement dated 28 July 2006, the Company’s circular dated 17 August 2006 and other subsequent announcements.
- (b) On 3 August 2006, Hilcrest Limited, a wholly-owned subsidiary of the company, entered into a sale and purchase agreement to purchase a property for a consideration of HK\$15,300,000.

On 18 August 2006, Jenpoint Limited, another wholly-owned subsidiary of the company, entered into a provisional sale and purchase agreement to purchase a property for a consideration of HK\$9,880,000.

Further details of the above acquisitions were set out in the Company’s announcements dated 3 August 2006 and 18 August 2006, respectively.

### **14. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 25 September 2006.

### **BUSINESS REVIEW**

On 30 March 2006, the Company and Dragon Hill Development Limited (“Dragon Hill”) jointly announced that Magnum (Guernsey) Limited (“MGL”) (former immediate holding company of the Company) and Dragon Hill have entered into a share sale agreement (“Share Sale Agreement”), pursuant to which, MGL has conditionally agreed to sell and Dragon Hill has conditionally agreed to purchase a total of 316,973,680 issued shares of the Company, representing 51.54% equity interest in the Company. The details of the Share Sale Agreement and other related agreements were set out in the Company’s announcement dated 30 March 2006 and the Company’s circular dated 29 April 2006.

On 23 May 2006, the Company and Dragon Hill jointly announced that all the resolutions relating to the conditions of the Share Sale Agreement were approved by the independent shareholders at the special general meeting held on the same date. The details of the results and resolutions of the Special General Meeting can be referred to the announcement of 23 May 2006.

As a result of the changes mentioned above, for the six months ended 30 June 2006, the Group recorded a gain of HK\$12.9 million from the disposal of the Lismore Group and a gain of HK\$20.1 million on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary, details of which are set out in notes 8 and 5(ii) to the interim report, respectively.

The revenue from securities dealing dropped to HK\$1.6 million as compared to that of the six months ended 30 June 2005. Such decrease is mainly due to intense competition of local security houses and retail banks which adversely affected the market share of the group.

The segment of securities investment recorded a contribution of HK\$0.6 million for the six months ended 30 June 2006 (nil for the six months ended 30 June 2005). Management will regularly review its corporate strategies and seek for opportunities to explore its prospect and develop this segment.

## **FUTURE PROSPECTS**

The Hong Kong security market has been changing rapidly in these few years which in turn, will affect our securities dealing business. With the withdrawal of minimum commission and more retail banks participate in securities business, it will be a challenge for all local security houses. The management is exploring different ways to retain our existing clients and to broaden our client base.

The Group is also constantly looking for new business opportunities. As the economy gradually improves and market sentiment picks up, the Board believes the Group can achieve better results in the second half of the year ahead.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Comment on segment information**

During the period under review, the turnover of the securities brokering business accounted for over 36% of the turnover of the Group. Geographically, the turnover generated by businesses in Hong Kong accounted for all the turnover of the Group.

### **Liquidity and capital structure**

There was no long-term and bank borrowings as at 30 June 2006 and 30 June 2005. The cash and cash equivalents as at 30 June 2006 were held in Hong Kong dollars, United States dollars and Philippines pesos.

### **Exposure to fluctuation in exchange rates**

Since the Group's main business is securities brokering in Hong Kong, its exposure to fluctuations in exchange rates and currencies is minimal.

### **Remuneration of employees**

At 30 June 2006, the Group had 21 employees, including directors. The Group continuously recruits new sales and marketing staff. The remuneration of employees is reviewed annually. Staff benefits include a medical scheme, provident fund, a share option scheme and a discretionary bonus based on performance.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES**

Apart from as disclosed above and in the section "SHARE OPTION SCHEME" relating to the Company's share option schemes and the section "CONVERTIBLE PREFERENCE SHARES", at no time during the six-month period were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the “Scheme”). The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options
	At 1 January 2006	Lapsed during the period	At 30 June 2006		
Employees in aggregate	11,250,000	(4,050,000)	7,200,000	8 July 2002	8 July 2002 to 7 July 2012
Exercise price of share options*:					HK\$0.111
Price of Company’s shares at grant date of option**:					HK\$0.104

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

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

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

At 30 June 2006, the Company had 7,200,000 share options outstanding under the Scheme which represented approximately 1.17% 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 7,200,000 additional ordinary shares of the Company and additional share capital of HK\$7,200 and share premium of HK\$792,000 (before issue expenses).

Subsequent to the balance sheet date, on 13 July 2006, 7,200,000 share options had been tendered for cancellation under the mandatory unconditional and offer for cancellation of all outstanding options at the offer price of HK\$0.001 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.

## PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period under review.



## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Main Board Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the interim report, except for the following deviations:

### **Code Provision A.2.1**

Code Provision A.2.1 stipulated that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. The Chairman and CEO of the Company is Mr. Lee Shing who is primarily responsible for leading the Board, ensuring the effectiveness on all aspects of its role, whereas clearly established responsibilities for running of the business operations of the Group lie with different designated senior executives.

The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a professional and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group.

### **Code Provision A.4.1**

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term, subject to re-election. The Company’s independent non-executive directors are not appointed for a specified term, but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company’s Bye-Laws.

### **Code provision A.4.2**

Code Provision A.4.2 stipulated that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company’s bye-laws, at each annual general meeting, one-third of the directors for the time being or, if their number is not 3 or a multiple of 3, the number nearest to one-third shall retire from office provided that notwithstanding anything herein, the chairman of the directors and the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

In order to ensure compliance with the above Code Provision A.4.2, relevant amendments to the Bye-Laws of the Company will be proposed for approval by the shareholders at the annual general meeting to be held in 2007 such that every director shall be subject to retirement by rotation at least once every three years.

### **Code provision B.1.1**

The Company did not establish a remuneration committee with specific terms of reference during the six months ended 30 June 2006. It is the intention of the Board to establish a remuneration committee in the future.

## **COMPLIANCE WITH MODEL CODE**

The Company has adopted its own code of securities transactions by directors (“Own Code”) on terms no less exactly than the required standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) of the Listing Rules.



Having made specific enquiry of all directors, save as already disclosed elsewhere in this Report, directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and in the Own Code throughout the six months period ended 30 June 2006. The Company has also established its own written guidelines for relevant employees of the Company who are likely to be in possession of the unpublished price-sensitive information of the Company in respect of their dealings in the securities of the Company.

## **AUDIT COMMITTEE**

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

The unaudited interim financial statements for the six months ended 30 June 2006 have been reviewed by the Audit Committee.

## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

All information as required under paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

By order of the Board

**Lee Shing**  
*Chairman*

Hong Kong, 25 September 2006

As at the date of this announcement, the Board comprises:

### **Executive Directors**

Mr. Lee Shing (Chairman)  
Ms. Liu Yaling  
Mr. Wang Shaohua  
Mr. Pei Qingrong

### **Independent Non-Executive Directors**

Mr. Yu Xiumin  
Mr. Zuo Duofu  
Mr. Cheng Kin Wah, Thomas

*Please also refer to the published version of this announcement in **The Standard**.*