



VALUE CONVERGENCE HOLDINGS LIMITED  
匯 盈 控 股 有 限 公 司

2003 THIRD QUARTERLY REPORT



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of VALUE CONVERGENCE HOLDINGS LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to VALUE CONVERGENCE HOLDINGS LIMITED. The directors of VALUE CONVERGENCE HOLDINGS LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



The board (the "Board") of directors (the "Directors") of Value Convergence Holdings Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three month and nine month period ended 30th June 2003, together with the unaudited comparative figures for the corresponding periods in 2002.

## HIGHLIGHTS

- Turnover for the three month and nine month period ended 30th June 2003 amounted to approximately HK\$22,857,000 and HK\$52,192,000 respectively, an increase of approximately 497.4% and 521.3% over the corresponding periods in 2002.
- Loss attributable to shareholders for the three month and nine month period ended 30th June 2003 amounted to approximately HK\$2,369,000 and HK\$27,074,000 respectively, a decrease of approximately HK\$3,851,000 and HK\$57,362,000 respectively over the corresponding periods in 2002, representing approximately 61.9% and 67.9% respectively.
- The Board does not recommend the payment of an interim dividend for the nine month period ended 30th June 2003.

## BUSINESS REVIEW

Completion of the acquisition (the "acquisition") of the entire issued share capital of three subsidiaries, namely VC CEF Brokerage Limited, VC CEF Futures Limited and VC CEF Capital Limited (collectively the "VC CEF companies") (formerly known as CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited respectively) from CEF Brokerage Holdings Limited and CEF Holdings Limited, companies owned by Cheung Kong (Holdings) Limited and Canadian Imperial Bank of Commerce, took place on 18th December 2002. The consideration for the acquisition amounting to approximately HK\$116.6 million (excluding direct expenses in relation to the acquisition) was satisfied in cash.

The total consideration of the acquisition was funded partly by internal resources of the Group and partly by net proceed of rights issue of the Company of 1,020,664,287 rights shares at HK\$0.10 per rights share in the proportion of three rights shares for every two then existing shares held with a bonus issue in the proportion of two bonus shares for every three subscribed and fully paid rights shares (collectively the "rights issue"). An aggregate of 1,701,107,141 new shares comprising 1,020,664,287 rights shares and 680,442,854 bonus shares were issued on 5th February 2003. The total net proceeds obtained from the rights issue were approximately HK\$97.6 million after direct expenses.



Out of the said new shares, an aggregate of 1,007,582,287 rights shares and 671,721,524 bonus shares were issued to Melco International Development Limited (“Melco”), a company whose shares are listed on the main board of the Stock Exchange, as underwriter of the rights issue. Subsequently, on 3rd March 2003, Melco sold a total of 70,000,000 shares in the Company to an independent third party with a view to maintaining the 20% public float requirement of the shares of the Company under the GEM Listing Rules. As a result, Melco held an aggregate of 1,609,303,811 shares (160,930,381 shares after the Company’s capital reorganization mentioned below), representing approximately 67.57% of the total issued share capital of the Company, and the Company becomes a subsidiary of Melco.

Upon completion of the acquisition, the Group has diversified its principal activities from the provision of comprehensive online trading and related systems to financial institutions and intermediaries principally in Asia to securities, futures and options brokerage and trading on the Hong Kong and overseas stock exchanges, capital market and corporate finance advisory services, offering a comprehensive range of quality financial services for markets focused on Hong Kong, Macau and PRC, thereby generating new sources of income and complementing its existing technology business.

Further, the name of the Company was changed from iAsia Technology Limited and 亞洲網上交易科技有限公司 to Value Convergence Holdings Limited and 匯盈控股有限公司 respectively with effect from 13th January 2003. Such change of names was made pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 10th December 2002 and the approval from the Registrar of Companies in Hong Kong. In addition, the Company will change its financial year end date from 30th September to 31st December from year 2003 onwards. Accordingly, the Company will issue its next annual report for the fifteen month period ending 31st December 2003.

On 21st February 2003, the Company announced a proposal for capital reorganization (“Capital Reorganization”) under which the paid up and the nominal value of each of the 2,381,549,999 issued shares of the Company would be reduced by HK\$0.09 from HK\$0.10 to HK\$0.01 (“Capital Reduction”) and every 10 adjusted shares of HK\$0.01 each would be consolidated into one reorganized share of HK\$0.10 (“Share Consolidation”), whereby the Company’s share capital account would be reduced by the amount of HK\$214,339,499.91 to HK\$23,815,499.99. Thereafter, the amount standing to the credit of the share premium account of the Company together with such part of credit arising from the Capital Reduction would be applied towards the elimination of all accumulated loss of the Company as at the date of the relevant petition to the High Court of Hong Kong (“Court”). The credit arising from the Capital Reduction would be credited to a capital reserve account. An extraordinary general meeting was held on 9th April 2003 during which the said capital reorganization was passed by the shareholders. The relevant petition for the Capital Reduction and the cancellation of the share premium account (“Petition”) was made to the Court on 15th April 2003. The hearing of the Petition for confirmation of the Capital Reduction was held on 27th May 2003 during which the Capital Reduction was approved. The effective date of the Capital Reorganization was 28th May 2003.



The Group's business development continues to proceed along three main directions: expanding the revenue base of existing businesses profitably; continuously improving the quality of products and services, and, at the same time, increasing the products range; and exploring new business opportunities through organic growth or strategic acquisition.

### **Technology business**

During the nine month period ended 30th June 2003, the Group had uninterruptedly committed to carrying out research and development works so as to keep expanding its products range and improving its trading solutions services to cope with the stringent demands of both existing and potential clients. Its ongoing enhancements and proven systems and services to meet the change of financial needs in the capital market have gained the trust of new clients purchasing and subscribing our products and services. In addition, following the acquisition, the Group has started to make full use of its existing technology platform so as to improve the operational and cost efficiency and to enhance the competitiveness of the investment banking business of the VC CEF companies. With the Group's solid technology infrastructure and support, it is expected that the operation of the VC CEF companies will be more rationalized to achieve better operational and cost efficiency, enabling it to expand faster and generate stronger returns.

On top of the sales and licenses of the software solutions and provision of related services, during the nine month period ended 30th June 2003, the Group had through its subsidiaries, namely Elixir Group Limited and Elixir Group (Macau) Limited ("Elixir Group"), which have formed strategic alliances with certain world-famous hardware suppliers, offering clients in Hong Kong, Macau and the Pearl Delta Region of PRC with full range of hardware systems that complement the Group's software products ranging from entry-level workstations to enterprise-class servers together with a wide range of system integration services including the provision of e-business solutions, office automation application, hosting and outsourcing service and related information technology consultancy services with a view to helping clients' business maximize its potential. Since incorporation, Elixir Group has successfully obtained certain prominent companies in Macau, such as Sociedade de Jogos de Macau, S.A., Companhia de Electricidade de Macau – CEM, S.A. and Seng Heng Bank Limited, as its clients.



## **Brokerage and corporate finance businesses**

Since the acquisition of the VC CEF companies, the Group has expanded its business to securities, futures and options brokerage and trading on the Hong Kong and overseas stock exchanges, capital market and corporate finance advisory services. A broad and comprehensive range of investment banking services are offered to regional and international clients through the VC CEF companies.

After thorough review and evaluation on the brokerage business subsequent to the acquisition, VC CEF Brokerage Limited and VC CEF Futures Limited now offer one-stop financial services to institutional, corporate, high net worth and private clients with a comprehensive range of products including local and overseas securities dealing, securities margin financing, placement and sub-underwriting, securities borrowing and lending, short selling, futures and options trading, derivatives trading, structured products and advisory services. In addition, during the past few months, a proficient team of research professionals has been reinforced through a wholly owned subsidiary of the Group, VC CFN Research Limited, to provide independent insightful research and analytic reports, from general research, specific investment and financial analyses to distinct project feasibility studies on global and regional economy, listed companies and private enterprises, so as to provide the most helpful analysis to assist clients in grasping and taking advantages of market opportunities.

In respect of the corporate finance advisory services, the Group has through our experienced professional advisors from VC CEF Capital Limited in helping clients gain access to equity capital markets, mergers and acquisitions opportunities, debt financing arrangements and project finance solutions in the Greater China Region.

## **FINANCIAL REVIEW**

Despite the SARS epidemic, which had adversely affected the global and local economies, during the review quarter, the Group had achieved an approximately 29.4% growth in turnover over the previous quarter. The turnover for the three month period ended 30th June 2003 was approximately HK\$22,857,000, representing an increase of approximately 497.4% as compared with the turnover in the corresponding period in 2002.

Turnover for the nine month period ended 30th June 2003 was approximately HK\$52,192,000, representing an increase of approximately 521.3% of the turnover in the corresponding period in 2002 and an increase of approximately 406.1% of the turnover for the year ended 30th September 2002.

Online system sales and related support services generated a total turnover of approximately HK\$27,388,000 for the nine month period ended 30th June 2003, representing approximately 52.5% of the total turnover during this period. The significant increase of turnover as compared to the same period last year was largely due to the great effort made by Elixir Group in promoting and selling hardware systems and related services which generated a total turnover of approximately HK\$22,373,000 for the nine month period ended 30th June 2003, representing approximately 42.9% of the total turnover for this period.



Subsequent to the acquisition, after thorough review of the Group's combined business operations of both technology business and brokerage and corporate finance business with a view to evaluating the position of each individual business unit and to effecting necessary strategic and structural changes that would serve the best interests of the Group and shareholders of the Company, the Group has implemented a wide range of pro-active measures to tightly monitor the operating and capital expenditures. Such measures include headcount review and a series of cost control measures designed to achieve maximum synergy from the acquisition. The financial merits brought in by the acquisition have started to show and materialise during the three month period ended 30th June 2003.

Through the VC CEF companies, the Group's principal revenue stream was expanded to include revenue generated from brokering and dealing for clients in securities and future and options contracts and provision of financing services such as margin financing, securities underwriting, placing, arrangement, management and advisory. The total turnover generated from such businesses amounted to approximately HK\$15,510,000 and HK\$24,804,000 respectively for the three month period ended 30th June 2003 and for the period commencing from the completion of the acquisition to 30th June 2003, representing approximately 29.7% and 47.5% respectively of the total turnover for the nine month period ended 30th June 2003.

Loss attributable to shareholders for the three month and nine month period ended 30th June 2003 amounted to approximately HK\$2,369,000 and HK\$27,074,000 respectively, representing a decrease of approximately HK\$3,851,000 and HK\$57,362,000 respectively over the corresponding periods in 2002, representing approximately 61.9% and 67.9% respectively.

After implementing rational cost control measures such as headcount review which lead to redundancy costs of approximately HK\$2.5 million, the trim down of the Group's business in the United Kingdom due to continuous sluggish global economy involved significant costs in staff cuts, contracts termination and assets written off of approximately HK\$2.4 million, and removal costs and related expenses of approximately HK\$0.8 million which were incurred to centralize the VC CEF companies' head office and two branches. These costs were provided in the accounts during the first six months of the current financial year. The Directors believe that with the continuous growth of its turnover after diversification of the Group's business, expansion of its revenue stream, products and services range during the nine month period ended 30th June 2003, the operating results for the current financial year is promising.

As at 30th June 2003, the Group's shareholders' funds were approximately HK\$127,350,000 (30th June 2002: HK\$52,792,000). The Group's gearing ratio as at 30th June 2003, expressed as a percentage of total borrowings over total assets, was approximately 22.2% (30th June 2002: Zero).



## **FUTURE PROSPECTS**

Combining the strength and expertise of the Group's powerful management and professional team and strong support from Melco, the Group is confident that it can achieve the goal of becoming a regional premier investment banking group in Hong Kong, Macau and PRC. To complement its existing financial services, the Group has established a new subsidiary, VC CFN Finance Limited, aimed at supporting clients in investment plans through traditional secured and unsecured lending to innovative structured financing. Furthermore, the Group will establish an office in Macau for provision of investment banking services, comprising securities brokerage and corporate finance services, to clients in Macau in the quarter ahead. This will be a major milestone of the Group's investment banking business and a stepping-stone to the development of such business in other regions of PRC.

The Directors will continue to strive for opportunities that can leverage on the Group's current businesses and sales network, including further acquisition of business that will enhance the Group's profitability when suitable opportunities arise.





## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) Three month period ended 30th June		(Unaudited) Nine month period ended 30th June	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	(2)	22,857	3,826	52,192	8,400
Cost of sales of hardware systems		(2,816)	—	(17,140)	—
		<b>20,041</b>	3,826	<b>35,052</b>	8,400
Other revenues	(2)	557	247	1,103	724
Changes in work-in-progress		(278)	(10)	104	(254)
Staff costs		(8,485)	(4,354)	(26,739)	(15,154)
Depreciation		(2,912)	(2,113)	(8,188)	(7,997)
Amortisation of intangible assets		(671)	—	(1,455)	(2,227)
Provision for bad and doubtful debts		(58)	—	(123)	—
Impairment of fixed assets		—	—	—	(11,534)
Impairment of goodwill		—	—	—	(46,395)
Commission expenses		(4,071)	(275)	(7,100)	(570)
Other operating expenses		(6,385)	(3,541)	(19,698)	(8,860)
Operating loss		<b>(2,262)</b>	(6,220)	<b>(27,044)</b>	(83,867)
Finance costs		(276)	—	(435)	(1)
Share of losses of associated companies		—	—	—	(568)
Loss for the period		<b>(2,538)</b>	(6,220)	<b>(27,479)</b>	(84,436)
Minority interests		169	—	405	—
Loss attributable to shareholders		<b>(2,369)</b>	(6,220)	<b>(27,074)</b>	(84,436)
Basic loss per share (HK cents) (As restated)	(4)	<b>(0.99)</b>	(8.06)	<b>(15.90)</b>	(114.44)



## NOTES TO THE ACCOUNTS

### 1. Basis of preparation of the accounts

These unaudited accounts have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinances and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The principal accounting policies and methods of computation used in the preparation of these unaudited accounts are consistent with those used in the annual accounts for the year ended 30th September 2002. Certain comparative figures in the accounts have been reclassified to conform with the current period's presentation.

### 2. Revenues and turnover

The Group is principally engaged in the provision of comprehensive online trading and related systems to licensed financial institutions and intermediaries principally in Asia, broking and dealing for clients in securities and future and option contracts mainly on the Hong Kong Stock Exchange ("HKSE") and Hong Kong Futures Exchange ("HKFE") and the provision of other related financial services including margin financing, securities underwriting, and placing, arrangement, management and advisory, and investment holding. Revenues recognised during the three month and nine month period ended 30th June 2003, together with the comparative figures for the corresponding periods in 2002, are as follows:

	Three month period ended 30th June		Nine month period ended 30th June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>				
Online trading and back office system sales and related support services	7,347	3,826	27,388	8,400
Brokerage commission from dealing in securities on HKSE and overseas exchanges and future and option contracts on HKFE	8,920	–	15,531	–
Underwriting, sub-underwriting, placing and sub-placing commission on HKSE and overseas exchanges	1,780	–	1,780	–
Arrangement, management, advisory and other fee income	3,348	–	4,880	–
Trading of securities	261	–	261	–
Interest income from clients	1,201	–	2,352	–
	<b>22,857</b>	<b>3,826</b>	<b>52,192</b>	<b>8,400</b>
<b>Other revenues</b>				
Interest income from authorized institutions and others	108	233	331	586
Others	449	14	772	138
	<b>557</b>	<b>247</b>	<b>1,103</b>	<b>724</b>
<b>Total revenues</b>	<b>23,414</b>	<b>4,073</b>	<b>53,295</b>	<b>9,124</b>



### 3. Taxation

No provision for Hong Kong or overseas profits tax has been made in the accounts as the Group has no estimated assessable profits during the nine month period ended 30th June 2003 (2002: HK\$Nil).

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable.

### 4. Loss per share

The calculation of the basic loss per share for the three month and nine month period ended 30th June 2003 is based on the Group's unaudited loss attributable to shareholders of approximately HK\$2,369,000 and HK\$27,074,000 respectively (three month and nine month period ended 30th June 2002: loss of approximately HK\$6,220,000 and HK\$84,436,000) and the weighted average number of 238,154,999 and 170,324,354 ordinary shares (three month and nine month period ended 30th June 2002: 77,185,039 and 73,782,975 ordinary shares) in issue during the respective periods after adjustments of the number of shares in issue prior to the rights issue on 5th February 2003 by the factor of 1.36, and the Share Consolidation, being part of the Capital Reorganization, which took effect on 28th May 2003. The basic loss per share for the three month and nine month period ended 30th June 2002 has been restated accordingly.

Diluted loss per share has not been presented for the three month and nine month period ended 30th June 2003 and their corresponding periods in 2002 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.



## 5. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1st October 2001	48,489	-	(38,942)	-	9,547
Loss attributable to shareholders	-	-	(84,436)	-	(84,436)
Premium from issue of shares	74,546	-	-	-	74,546
Expenses incurred in connection with issue of shares	(4,465)	-	-	-	(4,465)
Exchange differences arising on translation of accounts of an overseas subsidiary	-	-	-	176	176
Balance at 30th June 2002	<u>118,570</u>	<u>-</u>	<u>(123,378)</u>	<u>176</u>	<u>(4,632)</u>
Balance at 1st October 2002	118,362	-	(130,103)	844	(10,897)
Capital reduction	-	214,340	-	-	214,340
Capital reduction against accumulated losses	-	(90,582)	90,582	-	-
Transfer to accumulated losses	(45,878)	-	45,878	-	-
Loss attributable to shareholders	-	-	(27,074)	-	(27,074)
Issue of shares by capitalization of the share premium account	(68,044)	-	-	-	(68,044)
Expenses incurred in connection with issue of shares	(4,440)	-	-	-	(4,440)
Exchange differences arising on translation of accounts of an overseas subsidiary	-	-	-	(15)	(15)
Balance at 30th June 2003	<u>-</u>	<u>123,758</u>	<u>(20,717)</u>	<u>829</u>	<u>103,870</u>

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine month period ended 30th June 2003 (2002: HK\$Nil).

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the nine month period ended 30th June 2003 or at any time during such period.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 30th June 2003, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the HKSE, were as follows:

**(i) Interests in shares of the Company ("Shares")**

<b>Name of Directors</b>	<b>Nature of interests</b>	<i>Notes</i>	<b>Number of Shares interested</b>	<b>Approximate percentage of Shares interested</b>
Dr. Ho Hung Sun, Stanley	Corporate	(1)	7,384,651	3.10%
	Personal	(7)	735,000	0.31%
Mr. Ho Yau Lung, Lawrence	Corporate	(2)	4,232,627	1.78%
	Personal	(7)	1,226,057	0.51%
Dr. Lee Jun Sing	Corporate	(3)	6,299,702	2.65%
	Personal	(7)	3,627,567	1.52%
Mr. Ko Chun Fung, Henry	Corporate	(4)	4,237,025	1.78%
	Personal	(7)	3,627,567	1.52%
Mr. Cheng Kar Shing, Peter	Corporate	(5)	5,280,981	2.22%
	Personal	(7)	735,000	0.31%
Mr. Fung Hoo Wing, Thomas	Corporate	(6)	5,280,981	2.22%



Notes:

1. Dr. Ho Hung Sun, Stanley will be taken to be interested in 7,384,651 Shares (originally 73,846,513 Shares prior to the Share Consolidation) as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of the Company.
2. Mr. Ho Yau Lung, Lawrence will be taken to be interested in 4,232,627 Shares (originally 42,326,273 Shares prior to the Share Consolidation) as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of the Company.
3. Dr. Lee Jun Sing will be taken to be interested in 6,299,702 Shares (originally 62,997,029 Shares prior to the Share Consolidation) as a result of him being beneficially interested in the entire issued share capital of Best Summit International Limited which in turn holds approximately 2.65% of the issued share capital of the Company.
4. Mr. Ko Chun Fung, Henry will be taken to be interested in 4,237,025 Shares (originally 42,370,251 Shares prior to the Share Consolidation) as a result of him being beneficially interested in 51% of the issued share capital of Capital Speed Limited which in turn holds approximately 1.78% of the issued share capital of the Company.
5. Mr. Cheng Kar Shing, Peter will be taken to be interested in 5,280,981 Shares (originally 52,809,819 Shares prior to the Share Consolidation) as a result of him being beneficially interested in the entire issued share capital of Potassium Corp. which in turn is beneficially interested in 50% of the issued share capital of Newtop Limited which in turn holds approximately 2.22% of the issued share capital of the Company. The 5,280,981 Shares represent the same interest held by Newtop Limited and are therefore duplicated between Mr. Fung Hoo Wing, Thomas and Mr. Cheng Kar Shing, Peter.
6. Mr. Fung Hoo Wing, Thomas will be taken to be interested in 5,280,981 Shares (originally 52,809,819 Shares prior to the Share Consolidation) as a result of him being beneficially interested in  $33\frac{1}{3}\%$  of the issued share capital of Kateman International Ltd. which in turn is beneficially interested in 50% of the issued share capital of Newtop Limited which in turn holds approximately 2.22% of the issued share capital of the Company.
7. The personal interests of the relevant Directors represent their respective derivative interests in the Company comprising the physically settled options as more particularly mentioned in sub-section headed "Derivative interests" below.



**(ii) Derivative interests**

Pursuant to the pre-IPO share option plan adopted by the Company on 14th March 2001 (“Pre-IPO Share Option Plan”) and the share option scheme adopted by the Company on 29th November 2001 (“Share Option Scheme”) as respectively described in the section headed “Details of Outstanding Share Options Granted” below, as at 30th June 2003, the Directors of the Company had share options granted by the Company to subscribe Shares in the Company as follows:

Name of Director	Date of grant	Notes	Exercise price HK\$	Number of underlying Shares comprised in the options outstanding as at 30th June 2003	Expiry date
Dr. Ho Hung Sun, Stanley	6th April 2001	(1)	3.6	735,000	8th October 2005
Mr. Ho Yau Lung, Lawrence	6th April 2001	(1)	3.6	735,000	8th October 2005
	9th July 2002	(1) & (2)	1.0	491,057	8th July 2012
Dr. Lee Jun Sing	6th April 2001	(1)	3.6	3,136,510	8th October 2005
	9th July 2002	(1) & (2)	1.0	491,057	8th July 2012
Mr. Ko Chun Fung, Henry	6th April 2001	(1)	3.6	3,136,510	8th October 2005
	9th July 2002	(1) & (2)	1.0	491,057	8th July 2012
Mr. Cheng Kar Shing, Peter	6th April 2001	(1)	3.6	735,000	8th October 2005

Notes:

- As disclosed on page 15 of the circular of the Company concerning the capital reorganization involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of Shares issuable on the exercise of the outstanding options granted pursuant to the Pre-IPO Share Option Plan and the Share Option Scheme were adjusted as a result of the Share Consolidation which took place on 28th May 2003.
- The granting of options on 9th July 2002 pursuant to the Share Option Scheme was reviewed and approved by the independent non-executive Directors of the Company.



The options are exercisable in accordance with the terms of the Pre-IPO Share Option Plan and the Share Option Scheme at any time during the following periods and in the following manners:

<b>Exercisable period</b>	<b>Percentage of underlying Shares comprised in the options which become exercisable</b>
<b>For options granted on 6th April 2001 pursuant to the Pre-IPO Share Option Plan:</b>	
Commencing from the business day immediately following the first six months of the commencement of the trading of the Shares on GEM	Up to 50%
Commencing from the business day immediately following the first anniversary of the commencement of the trading of the Shares on GEM and ending approximately 4.5 years after the date of grant	All Shares in respect of which the option has not been previously exercised
<b>For options granted on 9th July 2002 pursuant to the Share Option Scheme:</b>	
Commencing from the date of grant up to the date falling six months thereafter	Up to 50%
Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date of grant	All Shares in respect of which the option has not been previously exercised
During the nine month period ended 30th June 2003, none of the Directors had exercised his options.	





(iii) Interests in shares and equity derivatives of Melco

Name of Directors	Nature of interests	Notes	Number of shares of Melco interested	Approximate percentage of shares of Melco interested
Dr. Ho Hung Sun, Stanley	Corporate	(1)	1,585,000	1.09%
	Personal	(1)	8,216,185	5.66%
	Family	(1)	214,727	0.15%
Mr. Ho Yau Lung, Lawrence	Corporate	(2)	36,525,675	25.14%
	Personal	(3)	1,210,871	0.83%

Notes:

1. Dr. Ho Hung Sun, Stanley will be taken to be interested in 1,585,000 shares of Melco as a result of him being beneficially interested in the respective entire issued share capitals of Sharikat Investments Ltd. and Dareset Ltd. which in turn hold an aggregate of approximately 1.09% of the issued share capital of Melco. Apart from that, Dr. Ho and his spouse personally hold 8,216,185 and 214,727 shares of Melco respectively.
2. Mr. Ho Yau Lung, Lawrence will be taken to be interested in 36,525,675 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 25.14% of the issued share capital of Melco.
3. The personal interests of Mr. Lawrence Ho represents his derivative interests in Melco comprising the physically settled options which were granted on 8th March 2002 and may be exercised, as for 605,435 options, during the period from 8th September 2002 to 7th March 2012 and as for the other 605,436 options, during the period from 8th March 2003 to 7th March 2012, at an exercise price of HK\$1.38 per Melco's share.

Save as disclosed above, as at 30th June 2003, none of the Directors or chief executives of the Company or their respective associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the minimum standards of dealing by directors of listed issuers as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.



## SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 30th June 2003, shareholders (other than Directors or chief executives of the Company) who have interests or short positions in the shares or 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 were as follows:

<b>Name</b>	<b>Number of Shares held</b>	<b>Approximate shareholding percentage</b>
Melco International Development Limited ( <i>Note</i> )	160,930,381	67.57%

*Note:* The said 160,930,381 Shares (originally 1,609,303,811 Shares prior to the Share Consolidation) were held by Melco Finance and Technology Limited, which is a wholly-owned subsidiary of Melco International Development Limited.

Save as disclosed, as at 30th June 2003, the Directors are not aware of any other person who has an interest or short position in the shares or 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, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

**DETAILS OF OUTSTANDING SHARE OPTIONS GRANTED****(i) Pre-IPO share option plan**

As at 30th June 2003, options to subscribe for an aggregate of 9,740,208 underlying Shares (originally 97,402,081 underlying Shares prior to the Share Consolidation) granted on 6th April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO Share Option Plan were outstanding. The following are details of the outstanding Pre-IPO Share Options:

Categories of grantees	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options	Exercise price per Share HK\$	Pre-IPO Share Options duration
Directors of the Company	5	8,478,020	3.6 (Note)	6th April 2001 to 8th October 2005
Employees	3	1,262,188	3.6 (Note)	6th April 2001 to 8th October 2005
Total		<u>9,740,208</u>		

Note: As disclosed on page 15 of the circular of the Company concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of Shares issuable on the exercise of the outstanding options granted pursuant to the Pre-IPO Share Option Plan were adjusted as a result of the share consolidation which took place on 28th May 2003.

Details of the grant of Pre-IPO Share Options to the Directors of the Company are disclosed in the sub-section headed "Derivative interests" under the section of "Directors' and Chief Executives' Interests in the Company and its associated corporations" above.

During the nine month period ended 30th June 2003, certain Pre-IPO Share Options to subscribe for a total of 147,708 underlying shares (originally 1,477,083 underlying shares before making adjustment due to the Share Consolidation) which had been granted to one employee lapsed as the relevant employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of the Group. Since the date of the grant of the Pre-IPO Share Options up to 30th June 2003, none of the Pre-IPO Share Options was exercised.

A summary of the major terms of the Pre-IPO Share Option Plan is set out at pages 184-186 of the Company's prospectus dated 23rd March 2001.



## (ii) Share option scheme

As at 30th June 2003, options to subscribe for an aggregate of 4,836,912 underlying Shares (originally 48,369,128 underlying Shares prior to the Share Consolidation) which has been granted on 9th July 2002 ("Share Options") pursuant to the Share Option Scheme, were outstanding. The following are details of the outstanding Share Options:

Categories of grantees	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Share Options	Exercise price per Share HK\$	Share Options duration
Directors of the Company	3	1,473,171	1.0 (Note)	9th July 2002 to 8th July 2012
Employees	34	2,430,733	1.0 (Note)	9th July 2002 to 8th July 2012
Other eligible persons	5	933,008	1.0 (Note)	9th July 2002 to 8th July 2012
Total		<u>4,836,912</u>		

Note: As disclosed on page 15 of the circular of the Company concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of Shares issuable on the exercise of the outstanding options granted pursuant to the Share Option Scheme were adjusted as a result of the share consolidation which took place on 28th May 2003.

Details of the grant of Share Options to the Directors of the Company are disclosed in the sub-section headed "Derivative interests" under the section of "Directors' and Chief Executives' Interests in the Company and its associated corporations" above.

During the nine month period ended 30th June 2003, certain Share Options to subscribe for a total of 73,658 underlying shares (originally 736,586 underlying shares prior to the Share Consolidation) granted to two employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of the Group. Since the date of the grant of the Share Options up to 30th June 2003, none of the Share Options was exercised.

A summary of the major terms of the Share Option Scheme is set out at pages 76-85 of the circular of the Company dated 12th November 2001.



## **CORPORATE GOVERNANCE**

The Company has complied throughout the period with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

The Company's audit committee was formed on 14th March 2001 comprising the independent non-executive Directors of the Company, Attorney Lorna Patajo-Kapunan and Mr. Tsui Yiu Wa, Alec. The terms of reference of the audit committee have been established with regard to Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to (i) review the Group's annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board; and (ii) review and supervise the financial reporting process and internal control procedures of the Group.

The audit committee has reviewed this quarterly report of the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the nine month period ended 30th June 2003.

## **COMPETING INTERESTS**

Dr. Ho Hung Sun, Stanley, the Chairman and an executive Director of the Company, is also the chairman and a director of Seng Heng Bank Limited in Macau ("Seng Heng Bank"). As part of the business of Seng Heng Bank consists of securities brokerage and financial advisory services, the Directors believe that there is a potential risk that such part of business of Seng Heng Bank may compete with the investment banking business to be developed by the Group in Macau.

Save as disclosed above, none of the Directors or the initial management shareholders of the Company (as defined in the prospectus of the Company dated 23rd March 2001 and the GEM Listing Rules) or their respective associates had confirmed that, none of them had any business or interest in a business which competes or may compete with the business of the Group.

## **SPONSOR'S INTERESTS IN THE GROUP**

First Shanghai Capital Limited ("FSCL") and the Company have entered into a sponsor's agreement, pursuant to which, FSCL will receive a fee for acting as a sponsor under Rules 6.50 to 6.58 of the GEM Listing Rules for a term commencing from the date of commencement of the dealings in the shares of the Company on GEM (being 9th April 2001) and ending on the last day of the second full financial year after such listing. In the light of the change of the Company's financial year end date from 30th September to 31st December from year 2003 onwards and in accordance with Rule 6.01 of the GEM Listing Rules, the term of the sponsor's agreement shall end on 31st December 2003.



Pursuant to a non-binding memorandum of understanding dated 4th July 2000 ("Memorandum") entered into between the Company and First eFinance Limited ("First eFinance"), a fellow subsidiary of FSCL, First eFinance has agreed to subscribe to the online financial trading services of the Company.

Further, pursuant to a software license agreement and a maintenance service agreement both dated 23rd November 2001 (collectively "Agreements") respectively entered into between iAsia Online Systems Limited ("iAsia Online"), the Company's wholly-owned subsidiary, and First eFinance, iAsia Online has agreed to grant to First eFinance a non-exclusive license to use its software for supporting securities trading and to provide First eFinance with the maintenance services of the software. During the nine month period ended 30th June 2003, the Group has not charged First eFinance for the relevant services performed under the Memorandum (2002: HK\$278,000) and has charged approximately HK\$49,000 (2002: HK\$644,000) for license fee and maintenance fee under the Agreements.

In addition, pursuant to a software license agreement dated 15th January 2003 entered into between iAsia Online and First Shanghai Futures Limited ("FSF"), a fellow subsidiary of FSCL, iAsia Online has agreed to grant to FSF a non-exclusive license to use its software for supporting futures trading. During the nine month period ended 30th June 2003, the Group has charged approximately HK\$6,000 being the deposit payment of the license fee.

Besides, during the nine month period ended 30th June 2003, two fellow subsidiaries of FSCL, First eFinance and First Shanghai Management Services Limited have purchased certain hardware systems and solutions amounting to HK\$67,461 from a subsidiary of the Company, namely, Elixir Group Limited.

As at 30th June 2003, neither FSCL nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

By Order of the Board  
**Value Convergence Holdings Limited**  
**HO Yau Lung, Lawrence**  
*President & Vice Chairman*

Hong Kong, 12th August 2003