Value Convergence Holdings Limited

Annual Report 2003

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

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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 ("GEM Listing Rules") 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.

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Corporate Information

Executive Directors

Dr. HO Hung Sun, Stanley *(Chairman)*
Mr. HO Yau Lung, Lawrence
(President & Vice Chairman)
Dr. LEE Jun Sing
Mr. KO Chun Fung, Henry

Non-executive Directors

Mr. CHENG Kar Shing, Peter
Mr. FUNG Hoo Wing, Thomas
Ms. LEONG On Kei, Angela

Independent Non-executive Directors

Mr. TSUI Yiu Wa, Alec
Attorney PATAJO-KAPUNAN, Lorna

Registered Office, Head Office and Principal Place of Business

28/F., The Centrium
60 Wyndham Street
Central
Hong Kong

Company Homepage/Website

http://www.valueconvergence.com

Company Secretary

Mr. Tsang Yuen Wai, Samuel

Qualified Accountant

Ms. FUNG Wai Har, Amanda *AHKSA, FCCA*

Compliance Officer

Mr. KO Chun Fung, Henry

Audit Committee

Attorney PATAJO-KAPUNAN, Lorna *(Chairperson)*
Mr. TSUI Yiu Wa, Alec

Authorised Representatives

Mr. KO Chun Fung, Henry
Dr. LEE Jun Sing

Principal Bankers

Standard Chartered Bank Limited
Shop No. 16, G/F and Lower G/F
New World Center
16-18 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Central
Hong Kong

Share Registrar and Transfer Office

Abacus Shares Registrars Limited
G/F., BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code

8101

The period covered by this report has been extended by three months as a result of a change of the Company's financial year end from 30th September to 31st December. During the 15-month period covered by this report (1st October 2002 to 31st December 2003), the Group has turned its business around and all of its operations have achieved growth momentum. Further, most of the Group's subsidiaries recorded profits in the second half of 2003.

During the past 15-month period, the Company successfully acquired three financial services businesses from Cheung Kong (Holdings) Limited and Canadian Imperial Bank of Commerce. As a result, the Company expanded its business to investment banking and financial services through the group companies, VC CEF Brokerage Limited, VC CEF Futures Limited and VC CEF Capital Limited. A carefully planned and successfully executed costs rationalisation programme saw the operating expense of these businesses reduced by 30% in the first quarter of 2003. This was followed by organizational restructuring, enhancement of quality sales force, introduction of innovative products and service packages and sourcing of new deals from the Company's new offices in Shenzhen and other PRC cities. These efforts paid off – the group's financial services businesses went from substantial loss in the first half of 2003 to profit earning in the second half. Turnover improved by about 125% as compared to 2002's figure, while market share increased by 43% over the same period.

Apart from financial services businesses, the Group's information technology business also achieved a successful turnaround. The group's IT operation in Hong Kong, the iAsia division, continued its success in securing quality new clients in 2003, and some products like foreign exchange trading system gained significant market share. The group's Macau IT operation, the Elixir division, became a prominent IT outsourcing partner and gaming machine IT specialist.

The Group opened its Macau headquarters in August 2003 and its Shenzhen office in January 2004. These new offices make development of the Group's business in Macau and PRC easier. Further, the Group participated in various important corporate events, such as Macau International Chinese Entrepreneurs Convention 2003, The Second Annual Forum (Hong Kong) for Development of PRC Privately-Owned Enterprises, Listing and Financing Opportunities for Macau Enterprises, Macau IT week 2003, and VC CEF Brokerage Seminar 2004 at Shenzhen. Such participation has raised the Group's profile in financial and technological industries considerably.

President's Statement

With the Severe Acute Respiratory Syndrome (SARS) epidemic behind us and the Closer Economic Partnership Arrangement (CEPA) beginning to show its positive effects, Hong Kong and Macau economies are anticipated to grow in 2004. The influx of foreign funds and the increasing number of IPOs from China are expected to continue in 2004. Hong Kong's capital market is set to have a rebound, and this provides a very good setting for the taking off of the Group's financial services businesses. The great efforts in the past 15 months to consolidate and strengthen the Group's operations enable the Group to capture the business opportunities arising from the rebound effectively. As a result, I am confident that the Group's businesses will continue their upwards trend in the coming year.

I would like to thank all of our staff and management for their exemplary hard work and dedications, without which this has not been possible. I am certain that I can count on their continued support and loyalty in the coming year.

Ho Yau Lung, Lawrence
President and Vice Chairman

Hong Kong, 18th March 2004

Business Review

Corporate events

Completion of the acquisition ("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 "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$124.4 million (including direct expenses in relation to the acquisition) was satisfied in cash. Upon completion of the acquisition, the Group has diversified its principal activities to include the investment banking and financial services business in addition to the original technology business thereby generating new sources of income.

The consideration of the acquisition was funded partly by internal resources of the Group and partly by net proceeds of rights issue of the Company of 1,020,664,287 rights shares at HK$0.10 per rights share on the basis of three rights shares for every two then existing shares held with a bonus issue on the basis 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 deduction of direct expenses.

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 滙盈控股有限公司 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, upon the completion of the acquisition, the Company has changed its financial year end date from 30th September to 31st December from year 2003 onwards. The Directors consider that it is more appropriate to adopt the same year end date of the VC CEF companies acquired during the period, which companies are expected to generate majority of the revenue and account for majority of the assets of the Group subsequent to the acquisition. Accordingly, this results announcement contains the audited consolidated results for the 15-month period ended 31st December 2003.

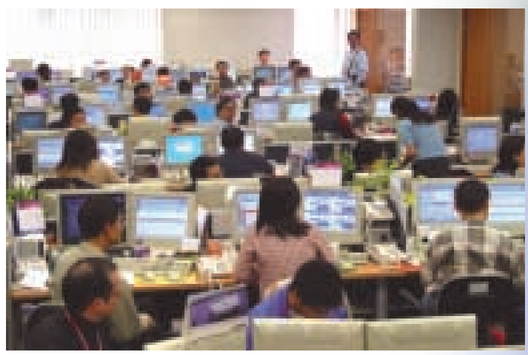
The Group opened its Macau headquarters in August 2003 and its Shenzhen office in January 2004. These new offices make development of the Group's business in Macau and PRC easier. Further, the Group participated in various important corporate events, such as Macau International Chinese Entrepreneurs Convention 2003, The Second Annual Forum (Hong Kong) for Development of PRC Privately-Owned Enterprises, Listing and Financing Opportunities for Macau Enterprises, Macau IT week 2003, and VC CEF Brokerage Seminar 2004 at Shenzhen. Such participation has raised the Group's profile in financial and technological industries considerably.

Business development directions

The Group's business development continues to proceed along three main directions, namely, 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.

Investment banking and financial services

Since the acquisition of the VC CEF companies, the Group has expanded its business to investment banking and financial services business including the 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 quality investment banking services is offered to regional and international clients through the VC CEF companies.



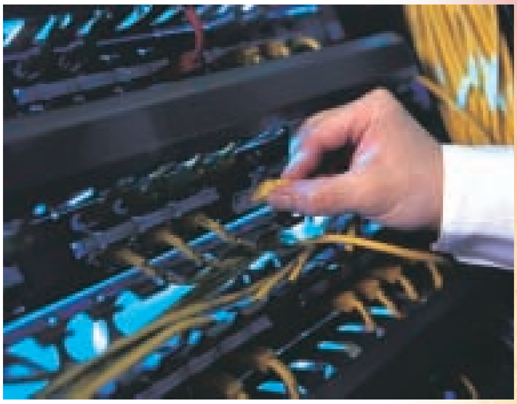
After thorough review and evaluation of the brokerage business subsequent to the acquisition, VC CEF Brokerage Limited and VC CEF Futures Limited now offer one-stop financial services to institutional, corporate, high net worth and private clients with a comprehensive range of products including local 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, a new team of seasoned research professionals has been hired 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 clients to help them seize market opportunities. A solid institutional and corporate sales team has been set up to serve institutional and corporate clients of the securities brokerage division.

In August 2003, VC CFN Corporation Limited, a subsidiary of the Company, has submitted an application to Monetary Authority of Macau (the "Authority") for a financial service licence to conduct securities and futures trading and brokerage business in Macau. In response to the Authority's request, further documents and information have been provided to the Authority for assessment of the application.

In respect of the corporate finance advisory services, VC CEF Capital Limited has helped clients gain access to equity capital markets, mergers and acquisitions opportunities, debt financing arrangements and project finance solutions in the Greater China Region. During the period under review, VC CEF Capital Limited actively participated in several IPO transactions in different capacities including sponsor and underwriter. The Group will continue to enhance the market profile of VC CEF Capital Limited through participating in more transactions. More professionals will be hired to explore the business opportunities in both Macau and PRC so as to implement the Group's expansion strategies.

Technology solution systems sales and related services

The Group's technology business principally involves the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries principally in Asia. During the 15-month period ended 31st December 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 its 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, the operation of the VC CEF companies has been more rationalized to achieve better operational and cost efficiency, enabling it to expand faster and generate stronger returns.



On top of the sales and licensing of the software solutions and provision of related services, during the 15-month period ended 31st December 2003, the Group had through its subsidiaries, namely Elixir Group Limited ("Elixir") and Elixir Group (Macau) Limited (collectively "Elixir Group"), offered clients in Hong Kong, Macau and the Pearl Delta Region of PRC full range of hardware systems and services that complement the Group's software products. These hardware systems range from entry-level workstations to enterprise-class servers and include a wide range of system integration services (for example, e-business solutions, office automation application, hosting and outsourcing service and related information technology consultancy services) with a view to assisting clients in maximizing their businesses potential. Notwithstanding the relatively short period of business operation, Elixir Group has formed strategic alliances with certain world-famous hardware suppliers and has successfully obtained certain prominent companies in Macau, such as Sociedade de Jogos de Macau, S.A. ("SJM"), Companhia de Electricidao de Macau – CEM, S.A. and Seng Heng Bank Limited, as its clients.

On 20th January 2003 and 16th July 2003, Elixir had entered into two separate service arrangements with SJM for the provision of system integration and system network services to SJM for a total amount of approximately HK$6.7 million. By virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of SJM, such service arrangements constituted connected transactions for the Company under the GEM Listing Rules. Details of these connected transactions had been disclosed in the announcements of the Company dated 21st January 2003 and 17th July 2003 respectively.

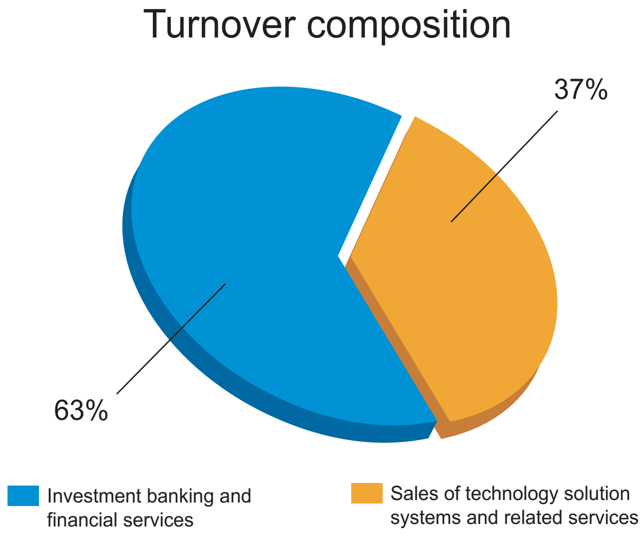
In view of the good quality of works and services that had been provided by Elixir to SJM under the said connected transactions, on 6th October 2003, Elixir had conditionally entered into another service arrangement with SJM for the provision of system integration services and related maintenance services for the respective aggregate amounts of approximately US$6.5 million (HK$50.7 million) and US$0.61 million (HK$4.68 million), which were measured up to the financial year ending 31st December 2005. As it was expected that the transactions contemplated under the new service arrangement would extend over a period of time and would take place on an ongoing basis, the new service arrangement constituted continuing connected transactions for the Company under the GEM Listing Rules. Details of such continuing connected transactions had been disclosed in the announcement and the circular of the Company dated 9th October 2003 and 31st October 2003 respectively. An extraordinary general meeting was held on 19th November 2003 for the independent shareholders to approve the said continuing connected transactions.

On 17th December 2003, Elixir Group (Macau) Limited had entered into a service arrangement with Mocha Slot Group Limited for the provision of information technology related services (consisting of system integration services and system network services) to Mocha Slot for a consideration of about US$258,000 (about HK$2 million). Mr. Lawrence Ho, who is president and vice chairman of the Company, has more than 30% equity interest in and is a director of Mocha Slot. By virtue of this, Mocha Slot Group Limited is a connected person of the Company and the transaction constituted connected transaction of the Company under the GEM Listing Rules. Details of this connected transaction had been disclosed in the announcement of the Company dated 17th December 2003.

Financial Review

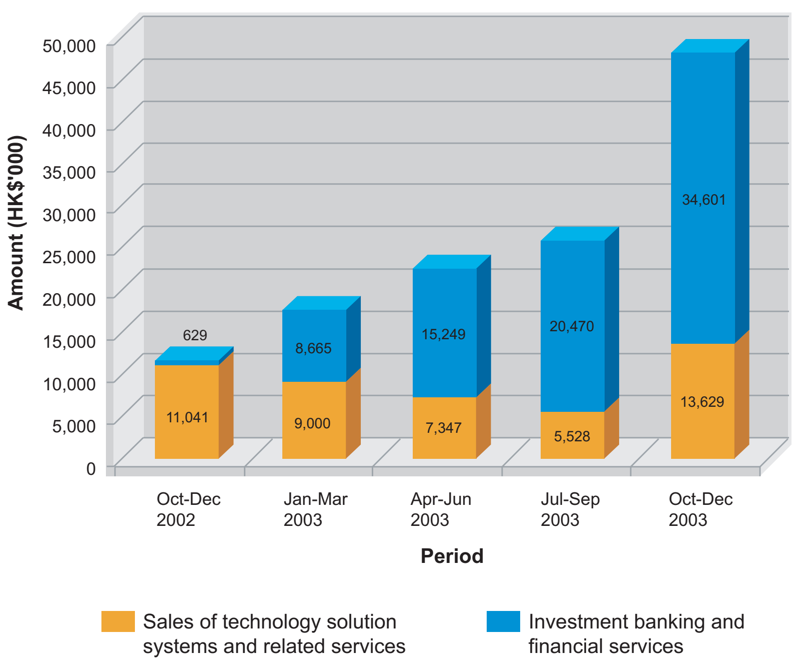
The SARS epidemic has adverse impact on the economy of Hong Kong during the first half of 2003. However, the market and investment sentiments have been continuously recovering in the post SARS period starting from June 2003. For instance, the Hang Seng Index has risen by approximately 31% from June 2003 to close at 12,575 at end of December 2003 and average daily market turnover of the Hong Kong stock market including GEM improved from approximately HK$6.6 billion for the nine months ended 30th June 2003 to approximately HK$13.6 billion for the six months ended 31st December 2003. The Group's brokerage business has benefited from the increased stock market activities and recorded major business improvements. Our daily turnover outperformed the market and increased by more than 210% for the six months ended 31st December 2003 over the nine months ended 30th June 2003. Also, the liberalization of the commission rate on 1st April 2003 has only moderate impact to the Group's brokerage commission revenue.

Turnover for the 15-month period ended 31st December 2003 was approximately HK$126,159,000, representing an increase of approximately 11 times as compared to the turnover for the year ended 30th September 2002.



Sales of technology solution systems and related services generated a total turnover of approximately HK$46,545,000 for the 15-month period ended 31st December 2003, representing approximately 36.9% of the total turnover during the period. The significant increase in turnover as compared to the previous 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$37,881,000 for the current period, representing approximately 30% of the total turnover. Subsequent to the acquisition, the Group's revenue stream was expanded to include revenue from brokerage services for securities, future and options contracts as well as the provision of financing services such as margin financing, securities underwriting, placing, arrangement, assets management and advisory. The total turnover generated from such businesses amounted to approximately HK$79,614,000 for the 15-month period ended 31st December 2003, representing approximately 63.1% for the period. Benefited from the increased activities of the Hong Kong stock market in the second half of year 2003 and the cost rationalization programme of the Group, the Group's investment banking and financial services has achieved an approximately 124.4% growth in the total turnover during the six month period ended 31st December 2003 over the first six month period ended 30th June 2003 since the acquisition; and become profit making in the second half of year 2003.

Turnover growth



As mentioned above, subsequent to the acquisition, we have performed a thorough review of the Group's combined business operations with a view to evaluate each of the individual business unit and to effect strategic and operational changes where necessary. In this respect, the Group has implemented a wide range of strategic and operational initiatives to the various operating units including, inter alia, manpower review and cost control so as to achieve maximum synergy within the Group. The management believes that these initiatives, coupled with the expansion of its revenue stream, will generate higher returns for the Group's shareholders in the near future.

Loss attributable to shareholders for the 15-month period ended 31st December 2003 amounted to approximately HK$31,936,000, representing a decrease of approximately HK$59,225,000 (65%) over the year ended 30th September 2002. Major causes that contributed to the loss for the current period are as follows:

(1) The adverse impact of SARS epidemic to the various operating units during first half of year 2003;

(2) One-off provisions for the impairment of fixed assets for online trading systems and long term investment of approximately HK$3,080,000 and HK$1,200,000 respectively;

(3) High depreciation charges amounted to approximately HK$13,870,000 for the 15-month period ended 31st December 2003 of which approximately HK$8,749,000 was contributed from the technology business. However, substantial part of the related fixed assets has been fully depreciated as at 31st December 2003 and the depreciation charges will be significantly lower going forward;

(4) The amortization charge for goodwill arising from the acquisition for the 15-month period ended 31st December 2003 amounted to approximately HK$2,282,000;

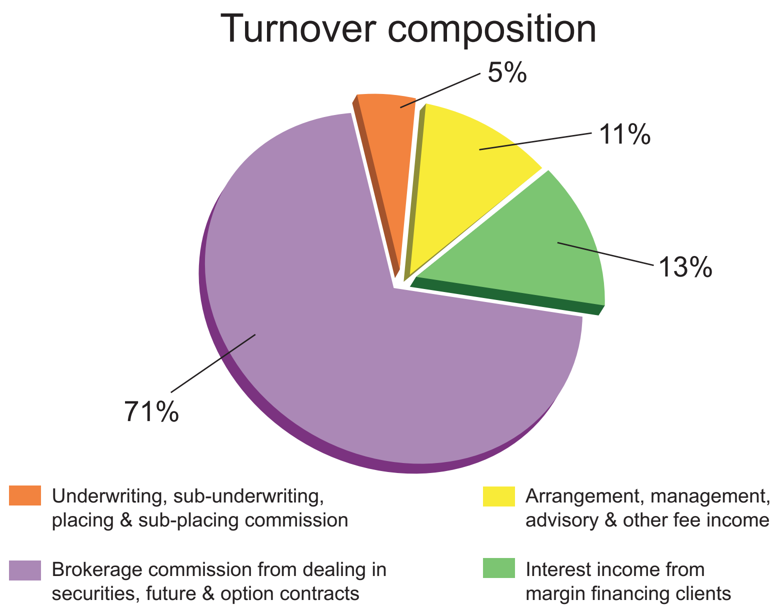
(5) The inclusion of approximately HK$2,270,000 non-recurring redundancy costs, annual leaves compensation, payment in lieu of notices and severance payments arising from the manpower review initiative as mentioned above. Also, the staff and related costs were high before the implementation of the initiatives as mentioned above in the first half of year 2003.

Segmental performance

Segmental information is presented in respect of the Group's business segments. Since the acquisition of the VC CEF companies, the Group's businesses are reclassified into the technology business including the technology solution systems sales and provision of related services; and the investment banking and financial services including securities broking and dealing, futures and options dealing, and capital market and corporate finance services. The activities of the business segments were mainly based in Hong Kong and Macau during the 15-month period ended 31st December 2003. The Group presented its segmental information based on the nature of their operations and the products/ services they produced/provided.

Analysis by business segment

The technology business contributed approximately 36.9% of the Group's turnover and amounted to approximately HK$46,545,000 for the 15-month period ended 31st December 2003 as compared to approximately HK$10,313,000 for the year ended 30th September 2002. This segment recorded a net operating loss of approximately HK$11,220,000 for the 15-month period ended 31st December 2003 as compared to net operating loss of approximately HK$42,124,000 for the year ended 30th September 2002, representing a decrease of HK$30,904,000.



During the 15-month period ended 31st December 2003, turnover and net operating loss for the investment banking and financial services amounted to approximately HK$79,614,000 and HK$2,513,000 respectively.

Analysis by geographical segment

During the period under review, Hong Kong and Macau were the major markets of the Group's business. For the 15-month period ended 31st December 2003, turnover of the Group from the Hong Kong and Macau markets amounted to approximately HK$101,757,000 (80.7% of the total turnover) and HK$24,402,000 (19.3% of the total turnover) respectively.

Net operating loss for the Hong Kong and Macau markets amounted to approximately HK$12,554,000 and HK$678,000 respectively. In view of the continuous development of Elixir Group's business in Macau, it is anticipated that the Group's technology business in Macau would become a major contributor of this business segment's revenue in the subsequent periods.

Due to continuous sluggish global economy, the Group has temporarily closed the business operations in United Kingdom.

Liquidity and financial resources

The Group financed its business operations from the cash revenues derived from operating activities, suppliers' credit, short-term bank loans, overdrafts and shareholders' loan.

The Group has obtained banking facilities of HK$140 million from various banks as at 31st December 2003 and HK$30 million of these banking facilities will be secured by margin clients' listed securities. As at 31st December 2003, the Group did not utilize any banking facilities.

As at 31st December 2003, the Group has borrowed HK$160 million loan from its ultimate holding company, which is repayable upon written notice of the ultimate holding company. The loan is primarily used to finance the expansion of the Group's investment banking and financial services businesses.

As at 31st December 2003, net current assets, cash available to the Group and shareholders' funds (other than the trust accounts) amounted to approximately HK$84,626,000 (30th September 2002: HK$41,985,000), HK$102,190,000 (30th September 2002: HK$30,219,000) and HK$123,488,000 (30th September 2002: HK$57,147,000) respectively.

The Group adopts a prudent treasury policy. The majority of the bank balances and cash are denominated in Hong Kong dollars and deposited in short term fixed deposits. It is the intention of the management to maintain a minimum exposure to foreign exchange risks.

Capital structure

Subsequent to the rights issue, the bonus issue and the Share Consolidation (as mentioned below) during the period under review, the total number of issued ordinary shares of the Company as at 31st December 2003 was 238,154,999 shares of HK$0.10 each (30th September 2002: 680,442,858 of HK$0.10 each).

As stated in the section "Business Review", out of the 1,701,107,141 new shares of the Company issued pursuant to the rights issue, 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. As at 31st December 2003, Melco held an aggregate of 160,930,381 shares (originally 1,609,303,811 shares before adjustment due to the Share Consolidation mentioned below), representing approximately 67.57% of the total issued share capital of the Company. Since 5th February 2003, being the date of completion of the rights issue and bonus issue, the Company has become a subsidiary of Melco.

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 then issued ordinary 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 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.

Material acquisitions, significant investments and their performance

During the 15-month period ended 31st December 2003, the Group had completed the acquisition of the VC CEF companies. Details of this acquisition are set out in the section headed "Business Review" and "Financial Review" above. Apart from this, the Group did not have any other significant investments and capital commitments during the period.

Headcount/employees' information

As at 31st December 2003, the Group employed a total of 184 employees, of which 169 are located in Hong Kong while the remaining employees are located in Macau and the PRC. As at 30th September 2002, 43 employees are located in Hong Kong and the remaining six are located in Macau and the United Kingdom.

Employee costs, including staff costs, Directors' emoluments and staff sales commission, amounted to approximately HK$76,238,000 for the 15-month period ended 31st December 2003 (year ended 30th September 2002: approximately HK$19,877,000). The significant increase was due to the substantial increase in number of employees after the acquisition as well as the redundancy costs incurred during the 15-month period ended 31st December 2003.

The Group's employees are selected and promoted based on suitability for the position offered. The salary and related benefits of the employees, including medical coverage, provident funds and overtime allowances, are rewarded on a performance related basis and the general remuneration structure of the Group and is subject to annual review by the management. Also, training and development programmes are provided to the employees of the Group on an ongoing basis. In addition, the Group offered the pre-IPO share option plan and the share option scheme under which options are granted to employees of the Group in recognizing their contributions and in retaining employees who will continue to make valuable contribution to the Group. Details of the share options granted to the employees as at 31st December 2003 are stated in the section headed "Details of outstanding share options granted" below.

Charges on group assets

As at 31st December 2003, the Group has pledged certain bank deposits amounting to approximately HK$184,000 (30th September 2002: HK$Nil) to secure letters of guarantee granted to a subsidiary for admission to business tender applications.

In addition, the Company has provided corporate guarantees for its subsidiaries, Elixir Group and VC CEF Brokerage Limited, to suppliers and a bank respectively for obtaining credit and banking facilities granted to these subsidiaries.

Gearing ratio

As at 31st December 2003, the Group's gearing ratio, expressed as a percentage of total borrowings (including bank loans and overdrafts and the loan from the ultimate holding company) over shareholders' equity, was approximately 1.3 times (30th September 2002: Zero).

Foreign exchange exposure

It is the Group's policy for each operating entity to operate in local currencies to minimize its currency risk as far as possible. The Group's principal businesses are conducted and recorded in Hong Kong dollars. The impact of foreign exchange exposure of the Group is minimal and therefore, no hedging against foreign currency exposure is considered necessary.

Future plans for material investments or capital assets

As at 31st December 2003, the Group had no future plans for material investments or capital assets other than those stated in the business plans set out in the section headed "Business Objectives" in the prospectus dated 23rd March 2001 (as adjusted by the circular of the Company dated 16th November 2002).

Future prospects

In view of the Group's strong and professional management team and the strong support from Melco, the Group is confident that it can become a regional premier investment banking group in Hong Kong, Macau and PRC. In particular, the Group's application for a financial intermediary license in Macau is underway but it is unsure whether such licence will be granted and if granted, when it will be granted. However, if this is granted, we believe that this will be the first of such licence being granted by the Macau Government to a financial entity and the Group will be in a unique position to provide full-fledged investment banking services to investors and clients in Macau. This will then be a major milestone of the Group's investment banking business in building a regional premier investment banking group.

With the signing of the Closer Economic Partnership Arrangement (CEPA) by the PRC with Hong Kong and Macau respectively, we are confident that the Group would be better positioned to expand our China business and to assist the mainland customers and counterparts to develop and expand their businesses. The Group has recently established offices in Macau and Shenzhen in August 2003 and January 2004 respectively and aims to increase its presence in the PRC by establishing more offices in key strategic cities such as Beijing and Shanghai in the near future as this will help grow and promote the Group's core businesses.

The Group 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.

Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the actual business progress as measured against the statement of business objectives set out in the prospectus of the Company dated 23rd March 2001 ("IPO Prospectus") (as adjusted by the circular of the Company dated 16th November 2002 regarding the acquisition of the VC CEF companies ("VSA Circular")) for the twelve month period ended 30th September 2003.

Since the acquisition of the VC CEF companies constituted a material change in the general character or nature of the original business of the Company mentioned in the IPO Prospectus, hence, the Company has, as disclosed in the VSA Circular, modified certain aspects of its original business objectives from 18th December 2002, being the date of completion of the acquisition, onwards.

Combined business objectives as stated in the IPO Prospectus for the period from 1st October 2002 to 17th December 2002 and in the VSA Circular for the period from 18th December 2002 to 30th September 2003	**Actual business progress for the period from 1st October 2002 to 30th September 2003**
1. Market Penetration	
Concentrate to explore business opportunities for market entry, alliance, joint venture or acquisition by the Group principally in the PRC.	Due to the continuing weakness in the global Internet markets, the Group has slowed down the exploration of technology related business opportunities in other parts of the world save and except for the PRC market which continues to show encouraging signs for demand for technological products. The business development and expansion spearheaded by Elixir Group in Macau and the Pearl Delta Region was a good example of such achievement.
Continue to review and implement marketing plan for new markets and new services.	Due to the sluggish global economy, management adopted a more cautious approach for expansion to these overseas markets, plans of which were either delayed or temporarily suspended and will not resume until the market conditions in these countries improve. Accordingly, more resources were spared and put in the expansion of new but complementary business and services for local market including the diversification of the Group's business to the investment banking services through acquisition of the VC CEF companies.

Comparison of Business Objectives with Actual Business Progress

Combined business objectives as stated in the IPO Prospectus for the period from 1st October 2002 to 17th December 2002 and in the VSA Circular for the period from 18th December 2002 to 30th September 2003	Actual business progress for the period from 1st October 2002 to 30th September 2003
Introduce full-fledged financial services combining the traditional investment banking services and the state-of-art technology to both institutional and retail clients.	Following the acquisition of the VC CEF companies in mid-December 2002, the Group has diversified its business to the provision of financial services including dealing in securities and commodities, advising on securities and commodities, corporate finance and asset management. Technology elements were added to such services through adoption and usage of the Group's own trading and accounting systems when serving the clients so as to increase business efficiency.
2. Strategic Alliance	
Continue evaluation and strengthening of existing strategic relationship.	Strategic alliances were formed by the Group with certain world-famous hardware suppliers with a view to offering hardware systems services to the existing and potential clients complementing the Group's front office and back office software products.
Acquire VC CEF companies, which will diversify and expand the original business of provision of online financial trading systems and services to securities brokering, commodity trading and corporate finance services.	The Company has completed acquisition for the entire issued share capital of VC CEF companies on 18th December 2002, which have diversified and expanded the Group's original business of provision of online financial trading systems and services to securities broking, commodity trading and corporate finance services. Such diversification of business constituted a material change to the general character or nature of business of the Group and was approved by the independent shareholders of the Company at the extraordinary general meeting held on 10th December 2002.
Continue to seek synergistic acquisition and merger opportunities to further extend services/markets of the Group.	The Group continued to adopt an open attitude towards all potential business opportunities, an example of which was the acquisition of VC CEF companies.

Comparison of Business Objectives with Actual Business Progress

Combined business objectives as stated in the IPO Prospectus for the period from 1st October 2002 to 17th December 2002 and in the VSA Circular for the period from 18th December 2002 to 30th September 2003	Actual business progress for the period from 1st October 2002 to 30th September 2003
3. ASP Services	
Continue to provide application service providers ("ASP") services in respect of online trading system to existing and potential clients principally in Hong Kong and the PRC.	For certain clients in Hong Kong who do not want to invest in technology systems amidst the uncertain market conditions, the Group has offered ASP services in respect of its trading systems to them as a substituted solution.
In addition to ASP business model, continue to sell or grant non-exclusive license of online trading system to existing and potential clients principally in Hong Kong and the PRC.	Prior to the diversification of business to the financial industry, the sale and grant of non-exclusive license of online trading systems remained the principal revenue stream of the Group.
4. Access Devices	
Continue development of other access channels to enhance service offering if the internet trading improves in the capital market in Hong Kong.	The Group has temporarily delayed the development of new access channels due to the non-popularity of online trading through electronic medium other than Internet in Hong Kong financial market.
5. Content Development	
Continue to explore market needs and develop contents to enhance value added services.	The Group has no present intention to resume the development of financial content by itself.
Form strategic alliance with other financial content providers to maintain and continue content services to existing and potential clients.	Nevertheless, in order to provide the services in a more cost-efficient manner, the Group has formed and maintained strategic alliance with other financial content providers in the market which are more specialized and experienced in the field. With the assistance of such providers, the Group has continued and provided financial content services to existing and potential clients.

Comparison of Business Objectives with Actual Business Progress

Combined business objectives as stated in the IPO Prospectus for the period from 1st October 2002 to 17th December 2002 and in the VSA Circular for the period from 18th December 2002 to 30th September 2003	Actual business progress for the period from 1st October 2002 to 30th September 2003
6. Research and Development	
Continue dedicating resources in research and development for developing new products and improving existing products so as to extend the client base and strengthen the revenue sources.	The Group has dedicated resources in research and development for developing new products and improving existing products so as to extend the client base and strengthen the revenue sources. One of the good examples is the launching of the Group's self-developed Foreign Exchange Margin Trading System and Mutual Fund Settlement System in October 2002 and November 2002 respectively. In addition to the above new systems, the development of the new version of the back office settlement systems targeting for high-end users is now underway and is expected to be completed in the first half of 2004.
Continue to improve the quality of management information and sharing of information amongst staff.	The Group has implemented processes to improve the quality of management information and sharing of information amongst staff.
7. Business integration	
For the period ending 31st March 2003, the Company will strive to integrate its own business and workforce with those of VC CEF companies. Also the Company will begin to conduct thorough review of the business operation of the VC CEF companies and devise business strategies aiming to improve the operating efficiency and expand the client base and income stream of the VC CEF companies.	Immediately after the acquisition of VC CEF companies, thorough strategic and operational reviews has been performed and the necessary initiatives have been implemented which include, inter alia, the rationalisation of manpower and costs as well as the strengthening and increase of products range and services. For example, the Group has commenced stock borrowing and lending services and has reinforced its research team with a view to providing a more comprehensive financial analytical services and support to its clients.

Comparison of Business Objectives with Actual Business Progress

Combined business objectives as stated in the IPO Prospectus for the period from 1st October 2002 to 17th December 2002 and in the VSA Circular for the period from 18th December 2002 to 30th September 2003	Actual business progress for the period from 1st October 2002 to 30th September 2003
For the period from 1st April 2003 to 30th September 2003, the Company will continue the business review of the Group and will begin to implement any new business strategies for the VC CEF companies with the emphasis on leveraging on the synergies arising from the merger.	The Group has made the application to Monetary Authority of Macau for a financial service licence to conduct securities and futures trading and brokerage business in Macau to seize the financial market opportunities in Macau. If the application is successful, the Group will be able to offer clients and investors in Macau to trade the financial products of the Hong Kong stock market through usage of the Group's trading systems.

Use of Proceeds

The net proceeds raised from the Company's public listing on 9th April 2001 were approximately HK$51 million.

As stated in the VSA circular and 2002 Annual Report, the Directors have resolved to reallocate certain amounts of the original funding to finance other business objectives of the Group for the period from 1st October 2002 to 30th September 2003. As at 30th September 2003, the net proceeds were used as follows:

	Actual amount used as at 30th September 2003 *HK$ million*
Enhance infrastructure development	6
Research and development to expand capacity to deliver services	6
Explore synergistic acquisition and investment opportunities	21
General working capital	18
Total	51

The Directors are pleased to present their report together with the audited accounts of Value Convergence Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the 15-month period ended 31st December 2003.

Principal activities

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 15 to the accounts.

An analysis of the Group's performance for the 15-month period ended 31st December 2003 by business and geographical segments is set out in note 4 to the accounts.

Results and appropriations

The results of the Group for the 15-month period ended 31st December 2003 are set out in the consolidated profit and loss account on page 45.

The directors do not recommend the payment of a dividend.

Reserves

Movements in reserves of the Group and the Company during the 15-month period ended 31st December 2003 are set out in note 21 to the accounts.

Donations

Charitable and other donations made by the Group during the 15-month period ended 31st December 2003 amounted to HK$2,500.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

Interests capitalised

Interests capitalised by the Group during the 15-month period ended 31st December 2003 amounted to HK$359,000.

Share capital

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

Distributable reserves

As at 31st December 2003, the Company had no distributable reserves calculated under section 79B of the Companies Ordinance (2002: HK$Nil).

Retirement benefits schemes

Details of the Group's retirement benefits schemes are set out in notes 2(s) and 11 to the accounts.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the past four financial periods/years is set out on page 88.

Purchase, sale or redemption of the Company's listed securities

The Company has not redeemed any of its shares during the 15-month period ended 31st December 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the 15-month period ended 31st December 2003.

Directors

The Directors during the 15-month period ended 31st December 2003 and up to the date of this report are:

Executive Directors

Dr. HO Hung Sun, Stanley
Mr. HO Yau Lung, Lawrence
Dr. LEE Jun Sing
Mr. KO Chun Fung, Henry

Non-executive Directors

Mr. CHENG Kar Shing, Peter
Mr. FUNG Hoo Wing, Thomas
Ms. LEONG On Kei, Angela

Independent non-executive Directors

Mr. TSUI Yiu Wa, Alec
Attorney PATAJO-KAPUNAN, Lorna

In accordance with Article 101 of the Company's Articles of Association, all the Directors, except the chairman of the Board and the vice-chairman of the Board, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' service contracts

Each of Mr. Ko Chun Fung, Henry and Mr. Ho Yau Lung, Lawrence has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

– each service contract is of three years duration commencing on 1st April 2001 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of three years;

– the monthly salary for Mr. Ko Chun Fung, Henry for the period from 1st October 2002 to 31st December 2003 was HK$90,000. The monthly salary of Mr. Ho Yau Lung, Lawrence for the period from 1st October 2002 to 31st December 2003 was HK$50,000. Under the respective terms of the services agreements of the said Directors, the monthly salary of each of them shall be reviewed annually by the Board of Directors provided that the rate of increment shall not be more than 70% of the then monthly salary of such Director for the preceding period;

– each of Mr. Ko Chun Fung, Henry and Mr. Ho Yau Lung, Lawrence is entitled to such management bonus by reference to the operating results of the Group and the performance of the Director as the Board of Directors may approve;

– an end-of-year bonus in the sum equal to the Director's then one month's salary to be payable on the last day of December of each year during the term of the service agreement provided that if the appointment is terminated prior to the last day of December, the Director shall only be entitled to a proportionate part of such end-of-year bonus in respect of the period of service during the relevant year up to the date of termination; and

– each such Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board of Directors regarding the amount of annual salary and management bonus payable to himself.

Save as disclosed above, as at 31st December 2003, none of the Directors of the Group has entered into 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).

Directors' Interests in Contracts

Other than as disclosed in note 23 to the accounts, 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 15-month period ended 31st December 2003 or at any time during such period.

Directors' and Chief Executives' interests in the Company and its associated corporations

As at 31st December 2003, the relevant 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 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 required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the HKSE, were as follows:

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

Name of Directors	Nature of interests	*Note*	Number of Shares interested	Shareholding percentage
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.

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

Notes: (continued)

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 $^{1}/_{3}$% 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 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 new share option scheme adopted by the Company on 29th November 2001 ("New Share Option Scheme") as respectively described in the section headed "Details of Outstanding Share Options Granted" below, as at 31st December 2003, the following Directors of the Company had share options granted by the Company to subscribe Shares in the Company as follows:

Name of Directors	**Date of grant**	*Note*	**Exercise price per share** *HK$*	**Number of underlying Shares comprised in the options outstanding as at 31st December 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:

1. As disclosed on p.24 of the circular of the Company concerning the issue of rights and bonus shares dated 9th January 2003 and as disclosed on page 15 of the circular of the Company concerning the capital reorganisation 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 New Share Option Scheme were adjusted as a result of the issue of rights and bonus shares and Capital Reorganization which took place on 5th February 2003 and 28th May 2003 respectively.

2. The grant of options on 9th July 2002 pursuant to the New Share Option Scheme had been 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 New Share Option Scheme at any time during the following periods and in the following manners:

Exercisable period	**Percentage of underlying Shares comprised in the options which become exercisable**
For options granted on 6th April 2001 pursuant to the Pre-IPO Share Option Plan:	
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
For options granted on 9th July 2002 pursuant to the New Share Option Scheme:	
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

As at 31st December 2003, none of the Directors had exercised his options.

Other than as disclosed above, during the period, neither the Company nor any of its subsidiaries a party to any arrangements to enable the Directors of the Group to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors of the Group nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Other than as disclosed above, neither the Directors of the Group nor the chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

(iii) Interests in shares and equity derivatives of Melco

Name of Directors	Nature of interests	*Note*	Number of shares of Melco interested	Approximate percentage of shares of Melco interested
Dr. Ho Hung Sun, Stanley	Corporate	(1)	2,377,500	1.07%
	Personal	(1)	12,324,275	5.55%
	Family	(1)	322,092	0.15%
Mr. Ho Yau Lung, Lawrence	Corporate	(2)	57,754,512	26.02%
	Personal		1,816,306	0.82%

Notes:

1. Dr. Ho Hung Sun, Stanley will be taken to be interested in 2,377,500 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 1.07% of the issued share capital of Melco. Apart from that, Dr. Ho and his spouse personally hold 12,324,275 and 322,092 shares of Melco respectively.

2. Mr. Ho Yau Lung, Lawrence will be taken to be interested in 57,754,512 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 26.02% of the issued share capital of Melco.

Save as disclosed above, as at 31st December 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 its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and 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 maintained by the Company referred to therein, or which are required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the HKSE.

Substantial shareholders

As at 31st December 2003, so far as is known to the Directors of the Company, the following persons (other than a director or chief executive of the Company) had 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 an 3 of Part XV of the SFO:

Name	Number of Shares held	Shareholding percentage
Melco Finance and Technology Limited *(Note)*	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 above, as at 31st December 2003, so far as known to the Directors, there is no other person who had interest or short position in the shares and underlying shares (including interests in share options), if any, 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 was, directly or indirectly, interested in 10% 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

The Pre-IPO share option plan was adopted by the Company on 14th March 2001 ("Pre-IPO Share Option Plan") to recognize and motivate the contribution of executive management and to provide certain directors and employees of the Company with a direct economic interest in attaining the long term business objectives of the Company. The Pre-IPO Share Option Plan will expire on 8th October 2005. Under the Pre-IPO Share Option Plan, the board of Directors may, at its discretion, invite employees and Directors of the Group to take up options at HK$1.00 per option to subscribe for shares of the Company. As at 31st December 2003, options comprising an aggregate of 9,740,208 underlying Shares granted on 6th April 2001 ("Pre-IPO Share Options") at an exercise price of HK$3.60 per Share (after adjustment arising for the issue of rights and bonus shares and Capital Reorganization as detailed in the Section "Management Discussion and Analysis") were outstanding, which represents approximately 4.1% of the shares of the Company in issue as at 31st December 2003. The exercise price represents a discount of 30% of the IPO offer price. The Pre-IPO Share Options have duration of approximately 4.5 years from the date of grant. According to the Pre-IPO Share Option Plan, any Pre-IPO Share Option granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Group. The following are details of the outstanding Pre-IPO Share Options (after the aforesaid adjustments):

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	Pre-IPO Share Options duration
			HK$	
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	8	9,740,208		

Note: As disclosed on p.24 of the circular of the Company concerning the issue of rights and bonus shares dated 9th January 2003 and as disclosed on page 15 of the circular of the Company concerning the capital reorganisation, 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 issue of rights and bonus shares and Capital Reorganization which took place on 5th February 2003 and 28th May 2003 respectively.

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 15-month period ended 31st December 2003, certain Pre-IPO Share Options to subscribe for a total of 516,979 underlying shares (originally 1,477,083 underlying shares before the aforesaid adjustments) 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 31st December 2003, none of the Pre-IPO Share Options was exercised or cancelled.

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) New share option scheme

The new share option scheme ("New Share Option Scheme") was adopted by the Company on 29th November 2001 (which supersedes the previous share option scheme of the Company adopted on 14th March 2001). The purpose of the New Share Option Scheme is established as an incentive to recognize and acknowledge the contributions that had or may have made by the participants to the Group and also provide them an opportunity to have a personal stake in the Company with the view to motivate them to optimise their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing business relationship with them whose contributions are beneficial to the long term growth of the Group. The Directors may at their discretion grant options to the employees or Directors of the Group or such other persons who are eligible for participation in the scheme to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the New Share Option Scheme at HK$1.00 per option payable by each participant to the Company on acceptance of the offer of an option.

The total number of shares that may be issued pursuant to the exercise of all outstanding options granted under the New Share Option Scheme and any other schemes including the Pre-IPO Share Plan is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the New Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the issued share capital of the Company from time to time unless further shareholders' approval has been obtained. According to the terms of the New Share Option Scheme, options granted to connected person, who is also a substantial shareholder or independent non-executive director of the Company, in excess of 0.1% of the issued shares of the Company or with a value in excess of HK$5 million in the twelve month period up to the date of the grant must be approved by the Company's shareholders in general meetings. Also pursuant to the New Share Option Scheme, no option may be granted to any one person within any twelve month period if the underlying shares of such option exceed 1% of the issued share capital of the Company from time to time unless otherwise approved by the Company's shareholders in general meetings.

As at 31st December 2003, options comprising an aggregate of 4,228,002 underlying Shares granted on 9th July 2002 ("New Share Options") pursuant to the New Share Option Scheme at an exercise price of HK$1.0 per Share (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in the Section "Management Discussion and Analysis"), were outstanding, which represents 1.8% (2002: 7.2%) of the shares of the Company in issue as at 31st December 2003. The adjusted closing price of the Company's shares immediately before 9th July 2002 was HK$0.65. The New Share Options have duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012. Accordingly to the New Share Option Scheme, any New Share Option's granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Group. The following are details of the outstanding New Share Options as at 31st December 2003 (after the aforesaid adjustments):

Categories of grantees	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the New Share Options**	**Exercise price per Share**	**New Share Options duration**
			HK$	
Directors of the Company	3	1,473,171	1.0 *(Notes 1 & 2)*	9th July 2002 to 8th July 2012
Employees	26	1,821,823	1.0 *(Notes 1 & 2)*	9th July 2002 to 8th July 2012
Other eligible persons	5	933,008	1.0 *(Notes 1 & 2)*	9th July 2002 to 8th July 2012
Total	34	4,228,002		

Notes:

1. As disclosed on p.24 of the circular of the Company concerning the issue of rights and bonus shares dated 9th January 2003 and as disclosed on page 15 of the circular of the Company concerning the capital reorganisation, 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 New Share Option Scheme were adjusted as a result of the issue of rights and bonus shares and Capital Reorganization which took place on 5th February 2003 and 28th May 2003 respectively.

2. The grant of options on 9th July 2002 pursuant to the New Share Option Scheme had been reviewed and approved by the independent non-executive Directors of the Company.

Details of the grant of New 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 15-month period ended 31st December 2003, certain New Share Options to subscribe for a total of 682,569 underlying shares (originally 6,825,696 underlying shares before the aforesaid adjustments) granted to ten 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 New Share Options up to 31st December 2003, none of the New Share Options was exercised or cancelled.

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

The exercise price for New Share Option will be a price determined by the Board and notified to each grantee and will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of offer of the New Share Option, which must be a trading day and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the New Share Option; and (iii) the nominal value of a Share.

Management contracts

There exists a service agreement under which Melco International Development Limited, the Company's ultimate holding company, provides various services to companies within the Group in respect of which a yearly service fee is payable. The agreement can be terminated by mutual consent or by either party with immediate written notice if the other party commits a material breach or certain specified events happen to the other party.

Major suppliers and customers

During the 15-month period ended 31st December 2003, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases for the 15-month period ended 31st December 2003 attributable to the Group's major suppliers in respect of the sales of technology solution systems and related services are as follows:

Purchases

– the largest supplier	– 26%
– five largest suppliers combined	– 77%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

Connected transactions

Significant related party transactions entered by the Group during the 15-month period ended 31 December 2003 are disclosed in note 23 to the accounts. Those constitute connected transactions under the GEM Listing Rules, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, are as follows:

(1) On 20th January 2003 and 16th July 2003, Elixir had entered into two separate service arrangements with SJM for the provision of system integration and system network services to SJM for a total amount of approximately HK$6.7 million. By virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of SJM, such service arrangements constituted connected transactions for the Company under the GEM Listing Rules. Details of these connected transactions had been disclosed in the announcements of the Company dated 21st January 2003 and 17th July 2003 respectively.

(2) On 17th December 2003, Elixir Group (Macau) Limited had entered into a service arrangement with Mocha Slot Group Limited for the provision of information technology related services (consisting of system integration services and system network services) to Mocha Slot for a consideration of about US$258,000 (about HK$2 million). Mr. Lawrence Ho, who is president and vice chairman of the Company, has more than 30% equity interest in and is a director of Mocha Slot. By virtue of this, Mocha Slot Group Limited is a connected person of the Company and the transaction constituted connected transaction of the Company under the GEM Listing Rules. Details of this connected transaction had been disclosed in the announcement of the Company dated 17th December 2003.

The directors of the Company (including the independent non-executive directors) confirmed that the above connected transactions were arrived at after arm's length negotiations and are upon normal commercial terms, in the usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and considered that the term of the Service Arrangements are fair and reasonable.

(3) On 6th October 2003, Elixir had conditionally entered into another service arrangement with SJM for the provision of system integration services and related maintenance services for the respective aggregate amounts of approximately US$6.5 million (HK$50.7 million) and US$0.61 million (HK$4.75 million), which were measured up to the financial year ending 31st December 2005. As it was expected that the transactions contemplated under the new service arrangement would extend over a period of time and would take place on an ongoing basis, the new service arrangement constituted continuing connected transactions for the Company under the GEM Listing Rules. The annual total amount payable by SJM to Elixir will not exceed US$3 million (HK$23.34 million), US$4 million (HK$31.12 million) and US$1 million (HK$7.8 million) for each of the three financial years ending 31st December 2005 respectively ("Annual Caps"). Details of such continuing connected transactions had been disclosed in the announcement and the circular of the Company dated 9th October 2003 and 31st October 2003 respectively. During the period ended 31st December 2003, a deposit amounted to approximately US$1.3 million (HK$10.1 million) had been received by Elixir from SJM. Caps to be set for the remaining term of the agreement after year 2003 shall be determined in due course and are proposed to be approved on an annual basis by independent shareholders if the Annual Caps exceed the higher of HK$10,000,000 and 3% of the net tangible assets of the Company at that time.

This continuing connected transaction has been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the continuing connected transaction has been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (d) had not exceeded the relevant caps referred to above.

The auditors of the Company have also confirmed that the continuing connected transaction (a) had received the approval from the Company's board of directors; (b) was in accordance with the pricing policies of the Group for transaction with SJM; (c) had been entered into in accordance with the relevant agreements governing such transaction; and (d) had not exceeded the said Annual Caps.

Board practices and procedures

Throughout the 15-month period ended 31st December 2003, the Company was in compliance 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.

During the 15-month period ended 31st December 2003, the audit committee met several times to review the Company's circulars, reports and accounts, and provided advice and recommendations to the Board.

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 includes 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, as at 31st December 2003, none of the Directors or the substantial shareholders or the management shareholders of the Company or their respective associates 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 has ended 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 First Shanghai Capital Limited, 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 15-month period ended 31st December 2003, the Group has not charged First eFinance for the relevant services performed under the Memorandum (2002: HK$278,000) but has charged approximately HK$69,000 (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 15-month period ended 31st December 2003, the Group has charged approximately HK$36,000 being the payments of the license fee.

Besides, during the 15-month period ended 31st December 2003, two fellow subsidiaries of FSCL, First eFinance and First Shanghai Management Services Limited have purchased certain hardware systems and solutions amounting to approximately HK$67,000 from a subsidiary of the Company, namely, Elixir Group Limited.

Furthermore, pursuant to a loan agreement dated 18th September 2003, the Company has borrowed from First Shanghai Finance Limited, a fellow subsidiary of FSCL, a sum of HK$30 million at the interest rate of 7% per annum, for on-lending the same to the Company's wholly owned subsidiary, VC CEF Brokerage Limited, for general working capital purpose. The said loan was repaid in full on 25th September 2003 and the total amount of interest paid by the Company to First Shanghai Finance Limited was approximately HK$40,000.

As at 31st December 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.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Value Convergence Holdings Limited
Ho Yau Lung, Lawrence
President & Vice Chairman

18th March 2004

Biographical Details of Directors and Senior Management

Executive Directors

Dr. HO Hung Sun, Stanley, aged 82, joined the Group in February 2000. Dr. Ho is an outstanding entrepreneur in Asia with various key positions in both Hong Kong and Macau. In Hong Kong, he holds the positions of Group Executive Chairman of Shun Tak Holdings Limited and Chairman of Melco International Development Limited and President of The Real Estate Developers Association of Hong Kong. In Macau, he is Managing Director of Sociedade de Turismo e Diversoes de Macau, S.A.R.L. and Sociedade de Jogos de Macau, S.A., Vice-Chairman of CAM – Macau International Airport Company Limited, Chairman of Seng Heng Bank Limited, and Chairman of Macau Jockey Club.

Apart from being the holder of honorary doctorates of social sciences from The University of Hong Kong, The Hong Kong Polytechnic University and University of Macau, Dr. Ho holds a number of key positions in the following academic and political bodies: Standing Committee member, the 10th National Committee of the Chinese People's Political Consultative Conference; Member, Court (1982-2003) and Council (1984-2003) of The University of Hong Kong; Honorary Lifetime Chairman, The University of Hong Kong Foundation for Educational Development and Research; Founding Member, Court of The Hong Kong Polytechnic University; Vice-President, Preparatory Committee for the Macau Special Administrative Region (1998-1999); Trustee, Foundation for the Co-operation and Development of Macau Member, Economic Council of Macau Special Administrative Region; as well as Council Member, University of Macau.

Dr. Ho is also a vice patron of the Community Chest of Hong Kong, a member of the board of trustees of the Better Hong Kong Foundation, and a patron of the Society of the Academy for Performing Arts.

Mr. HO Yau Lung, Lawrence, aged 27, joined the Group in October 2000. Mr. Lawrence Ho is the son of Dr. Stanley Ho, the founder of the Shun Tak Group and Sociedade de Turismo e Diversões de Macau, S.A.R.L.. Mr. Ho was appointed as President and Vice Chairman of the Group with effect from August 2002. Within six months of joining the Group, he spearheaded the public listing of the Company on the GEM board of the Stock Exchange and was instrumental in its subsequent mergers and acquisitions. In addition, Mr. Ho was appointed as Managing Director of Melco International Development Limited ("Melco") in November 2001, after he made and completed a General Offer for shares of the company on the main board of the Stock Exchange. Mr. Ho is responsible for overseeing the overall strategic development, management and operations of the Group and Melco. Mr. Ho is Vice-Chairman of The Chamber of Hong Kong Listed Companies Limited, Director of Guangzhou Luhu Golf & Country Club, Member of The Chinese People's Political Consultative Conference, Shanghai Committee and Member of Science and Technology Council of Macau Special Administrative Region. Prior to joining the Group and Melco, Mr. Ho worked at Jardine Fleming in the Asian derivative group, where he was responsible for marketing and structuring of Asian derivative products. Prior to that, he worked in the credit risk management department of the Citibank N.A. He graduated from the University of Toronto, Canada with a Bachelor of Arts degree, majoring in Commerce.

Biographical Details of Directors and Senior Management

Dr. LEE Jun Sing, aged 57, joined the Group in January 2000 and is the co-founder of the Group with Mr. Ko Chun Fung, Henry. Dr. Lee graduated with a Doctor of Philosophy in Physical Chemistry from Indiana University, the United States, and did his postdoctoral research at John Hopkins University, the United States. Dr. Lee is also a director of numerous companies including Globalwide Shipping Limited, Guangzhou Luhu Golf & Country Club, isinolaw Limited, Southchina International Enterprise Limited, Bio-Cancer Treatment International Limited, Overseas (Far East) Limited, Ningbo Yong Feng, Razor Blade Company Limited and Lisco Investment Company Limited and Managing Director of Vast Honour Development Limited.

Mr. KO Chun Fung, Henry (Chief Executive Officer and Compliance Officer), aged 44, joined the Group in December 1999 and is the co-founder of the Group with Dr. Lee. Mr. Ko received an Australian Postgraduate Course Award to study a master degree in business Administration at the Australian Graduate School of Management. Being a veteran and pathfinder in the Asian telecom industry, Mr. Ko continues to be a key player in the field today. In 1993, Mr. Ko joined one of the most successful telecom companies in Hong Kong, Star Paging (Taiwan) Limited as a General Manager. He was promoted to be an Executive Director of Star Telecom Group in 1996, and he spearheaded the company's PCS license bidding which had led to a major success of the organization. Mr. Ko was responsible for the re-alignment of the Star Telecom Group, and had successfully forged joint venture agreements with Pacific Electric Wire and Cable, NTTI, ITOCHU, Ucom and Telecom Finland in Asian Pacific region. In 1997, he founded Star Telecom Overseas (Cayman Islands) Limited when he has brought in Baring Communications Equity Asia (BCEA) on board as a shareholder; he continues to pursue telecom and Internet investment opportunities in Asia Pacific.

Non-Executive Directors

Mr. CHENG Kar Shing, Peter, aged 51, joined the Group in October 2000 as an executive director. Mr. Cheng changed his role from executive director to non-executive director with effect from 5th November 2002. Mr. Cheng is a director of New World Development Co. Ltd., New World Services Ltd., New World China Land Limited, NWD (Hotels Investments) Ltd., Macao Water Supply Company Limited and Polytown Company Limited. Mr. Cheng is also an Executive Director of Billybala Holdings Limited, a company listed on the GEM board of the Stock Exchange. Mr. Cheng has over 20 years of experience in property development and investment business.

Mr. FUNG Hoo Wing, Thomas, aged 48, joined the Group in January 2000. Mr. Fung is a prominent businessman holding directorships for various private companies engaging in different industries including gem, interior decoration, real estate, and other finance related businesses. With the knowledge of precious stones gained during his 5 years' apprenticeship. Mr. Fung started to operate his own gem business in his early twenties and became a very successful expert in the gem industry. Subsequently, Mr. Fung diversified his business to include the real estate, interior decoration, as well as finance and commodity related businesses.

Ms. LEONG On Kei, Angela, aged 42, joined the Group in April 2000. Ms. Leong has been actively involved in public and community services in China, Hong Kong and Macau. Starting from 1993, her success from being elected to be a member of the second meeting of the fifth session of the Standing Committee of San Shui City Chinese People's Political Consultative Congress has proven her solid identity in the public and community services in China. Most recently she has been re-elected to be the Chairperson of San Shui Overseas Friendship Association Council. On business, Ms. Leong has a broad involvement with the golf industry, where she is the Deputy Chairman and Executive Director of Jiangmen Wuyi Golf Course & Entertainment Co., Ltd.

Independent Non-Executive Directors

Mr. TSUI Yiu Wa, Alec, aged 54, joined the Group in November 2000. He holds a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering from the University of Tennessee and has completed the program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. Mr. Tsui is currently Chairman of the Hong Kong Securities Institute and Chief Executive of WAG Financial Services Group Limited. He has been the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Prior to that, he was the chief executive of iRegent Group Limited, a Hong Kong listed investment company from August 2000 to February 2001. Mr. Tsui joined the Stock Exchange in 1994 as Executive Director of the Finance and Operations Services Division and became the Chief Executive in 1997. Later from March to July 2000, he was the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited. He was responsible for the merger and listing of the Hong Kong Exchanges and Clearing Houses and was special consultant to the demutualization and listing project of Kuala Lumpur Stock Exchange.

Attorney PATAJO-KAPUNAN, Lorna, aged 51, joined the Group in November 2000. Attorney P. Kapunan has been an active law practitioner in the Philippines for many years. She is a graduate from the University of the Philippines, College of Law and also majored in AB Political Science. Attorney P. Kapunan has a number of professional involvements throughout her legal career. The most recent ones include Chairman, Intellectual Property Alumni Association (IPAA); Country Group President, Asean Patent Attorneys Association (APAA), Regional President, Asean Intellectual Property Association (ASEAN IP) and Vice President, Philippines Women Trial Lawyers Association. Attorney P. Kapunan is a senior partner of Roco Kapunan Migallos Perez & Luna Law Offices and her fields of practice include corporate, litigation, intellectual property and family laws.

Senior Management

Mr. NG Man Hoi, Paul *(Chief Operating Officer, VC CEF Brokerage Limited),* aged 46, possesses over 18 years of experience in the finance and banking industry. He joined the CEF Group in 1992 and was transferred to the present VC CEF Brokerage Limited in December 2001. During his service with the CEF Group, Mr. Ng had assumed the positions of Group Financial Controller and Head of Group Operations & System, and had worked in Singapore for about 3 years. Prior to joining the CEF Group, he held responsible positions at The Chase Manhattan Bank, N. A. and Dao Heng Bank in the areas of financial management and management information systems. Mr. Ng holds a Master of Business Administration from Newport University, U.S.A.

Biographical Details of Directors and Senior Management

Mr. YUNG Ka Tim, Timothy *(Managing Director, Institutional and Corporate Sales, VC CEF Brokerage Limited)* aged 47, joined the Group in May 2003. Before joining VC CEF Brokerage Limited, he was the Managing Director and Head of Institutional Sales at ICEA Securities Limited. Started in 1982, Mr. Yung has more than 15 years experience in the areas of institutional broking and corporate finance at senior levels with Vickers Da Costa, Smith New Court/Merrill Lynch, ING Barings, and Prudential Bache. At one time, Mr. Yung was also the Chief Executive of Furama Hotel Enterprises Limited. Mr. Yung was educated in the United Kingdom and qualified as a fellow of the Chartered Association of Certified Accountants.

Mr. YIP Chi Chiu, Eric *(Managing Director, Origination, VC CEF Capital Limited)*, aged 46, joined the Group in 2002. His responsibilities include helping PRC enterprises obtain overseas listings and financing and enterprises investing in PRC obtain funding arrangements. Mr. Yip graduated from the Chinese University of Hong Kong with a Bachelor degree, majoring in Economics. Mr. Yip has extensive experience in investment banking industry. Prior to joining the Group, he held senior positions with CEF Capital Limited and The Long-Term Credit Bank of Japan, Limited (now known as Shinsei Bank, Limited).

Mr. LO Chun Wing, Albert *(Managing Director, Capital Markets & Structured Transactions, VC CEF Capital Limited)*, aged 48, joined the Group in September 2003. Mr. Lo's responsibility at VC CEF Capital Limited includes providing corporate finance advice on mergers and acquisitions and takeover of listed companies, financing engineering and restructuring and assessment of investment opportunities. Mr. Lo is a senior corporate finance executive, having held key roles at a number of reputable Hong Kong and Canadian companies (including those of Managing Director and Chairman of Credit Committee of ING Capital Markets (Hong Kong) Limited). He holds a Bachelor of Commerce (Accounting) degree from Concordia University, Canada, and a Master of Arts (Electronic Business) degree from City University of Hong Kong. Mr. Lo is an accountant by profession.

Mr. IP Kam Lun, Andrew *(Chief Operating Officer, iAsia Online Systems Limited)*, aged 42, joined the Group in February 2001. He holds an Honours degree in Electronic & Electrical Engineering from the University of Loughborough in England. Mr. Ip has over 20 years experience in information technology, telecommunications and finance industry. Prior to joining iAsia, Mr. Ip worked on a series of software contracts responsible to design and develop financial settlement and risk management systems of FX, securities, Futures, Index Options, Unit Trust and Currency Options. He has a proven track record of system implementation for over 50 banks and financial institutions.

Mr. Ip developed the first on line real time foreign exchange margin trading system running on network for banks and financial institutions to revaluate client portfolio and company position. Mr. Ip gained his management consulting experience while working in Coopers & Lybrand HK and gained strong telecommunications knowledge in Cable & Wireless Systems. Mr. Ip was responsible for implementing layouts and functions about Contact Management System and Front-end System.

Mr. TURNER, Neil, *(Technical Director, Elixir Group Limited)* aged 49, joined the Group in April 2000. Mr. Turner was educated in the United Kingdom at Sandown Grammar School, on the Isle of Wight, and Nottingham University, where he graduated in 1976. He had extensive experience in dealing with the problems of early commercial use of the Internet and provided solutions for many of them. Mr. Turner's last role before joining the Group involved the design and control of network security to financial standards, to satisfy the exacting demands of a trans-national investment bank. With this practical experience and keen attention to technical detail, he is able to provide the Group with a quality technical infrastructure.

Mr. Turner has been in commercial information technology industry for 24 years, at companies ranging from heavy industry to investment banking. For a majority part of that period he worked in the city of London for the merchant bank Kleinwort Benson Limited, later a member of the Dresdner Bank AG Group. He initially worked on various business applications: payroll, accounting, commercial banking, foreign exchange and securities trading. His first experience of working in Hong Kong was when he installed the loan/deposit and interest accruals systems for Kleinwort Benson. He soon gravitated towards more technical involvement with systems and communications, which has been his main activity ever since.

Mr. TSANG Yuen Wai, Samuel *(Company Secretary, Value Convergence Holdings Limited)*, aged 49, joined the Group in January 2004. Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary of Melco International Development Limited, the Company's ultimate parent company, Mr. Tsang oversees the legal, corporate and compliance matters of the Group and Melco Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 15 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management.

Ms. FUNG Wai Har, Amanda *(Chief Financial Officer, Value Convergence Holdings Limited)*, aged 32, joined the Group in January 2000. Ms. Fung received her Honours Degree in Accountancy from Hong Kong Polytechnic University in 1994 and then gained extensive experience in providing professional financial advices to clients from various industries in Hong Kong and China since her graduation.

Ms. Fung is a member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group, Ms. Fung was working for Deloitte Touche Tohmatsu. She was mainly responsible for supervising and managing the financial and compliance audits for listed & public companies, especially in trading and banking industries. She had extensive experience in reviewing the operation systems, especially the treasury and loans systems, the policies and procedures compliances, and financial information for local financial institutions. Ms. Fung has also gained extensive insight into acquisition transactions, floatation and bonds issues activities in local and overseas markets in the past.

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
VALUE CONVERGENCE HOLDINGS LIMITED
(formerly known as iAsia Technology Limited)
(incorporated in Hong Kong with limited liability)

We have audited the accounts of Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) (the "Company") and its subsidiaries (together as the "Group") on pages 45 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards and, when appropriate, with reference to Practice Note 820 "The audit of licensed corporations and associated entities of intermediaries" issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's loss and cash flows for the period from 1st October 2002 to 31st December 2003 and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th March 2004

Consolidated **Profit and Loss Account**

For the period from 1st October 2002 to 31st December 2003

	Note	**Period from 1st October 2002 to 31st December 2003** *HK$'000*	Year ended 30th September 2002 *HK$'000* *(Note 1 & 26)*
Turnover	3, 23(e)	**126,159**	10,313
Cost of sales of computer hardware and software		**(27,942)**	(44)
		98,217	10,269
Other revenues	3	**696**	846
Realised gain on trading of other investments		**9,228**	–
Unrealised gain on holding of other investments		**958**	–
Changes in work-in-progress		**(140)**	(72)
Staff costs	11	**(48,709)**	(19,350)
Depreciation of fixed assets		**(13,870)**	(10,125)
Amortisation of intangible assets		**(2,808)**	(2,227)
Provision for doubtful receivables		**(2,056)**	(40)
Impairment of fixed assets		**(3,080)**	(11,534)
Impairment of investment securities – unlisted equity securities		**(1,200)**	–
Impairment of intangible assets		**–**	(46,396)
Commission expenses		**(31,119)**	(527)
Other operating expenses	23(e)	**(34,350)**	(11,591)
Operating loss	5	**(28,233)**	(90,747)
Finance costs	6, 23(e)	**(3,773)**	(1)
Share of losses of associated companies		**–**	(568)
Loss before taxation		**(32,006)**	(91,316)
Taxation	7	**–**	–
Loss after taxation		**(32,006)**	(91,316)
Minority interests		**70**	155
Loss attributable to shareholders	8	**(31,936)**	(91,161)
Basic loss per share (HK cents)	10	**(16.2)**	(118.1)
Diluted loss per share	10	**N/A**	N/A

Consolidated **Balance Sheet**

As at 31st December 2003

	Note	**As at 31st December 2003 HK$'000**	As at 30th September 2002 HK$'000
Non-current assets			
Fixed assets	13,23(e)	**9,773**	13,232
Intangible assets	14	**22,998**	–
Investment securities			
– unlisted equity securities		**800**	2,000
Deposits and fundings for investment banking and financial services business		**4,219**	–
Other non-current assets		**1,072**	–
Current assets			
Inventories	16	**1,817**	916
Other investments	17	**40,638**	–
Trade receivables, prepayments, deposits and other receivables	2(r),18, 23(b)	**240,836**	14,840
Due from an investee company	23(a)	**4**	4
Pledged bank deposits		**184**	–
Bank balances and cash	2(r)	**102,190**	30,219
		385,669	45,979
Current liabilities			
Trade payables, accruals and other payables	19, 23(c)	**136,303**	3,994
Amount due to ultimate holding company	23(a)	**4,673**	–
Amount due to a fellow subsidiary	23(a)	**67**	–
Loan from ultimate holding company	23(d)	**160,000**	–
		301,043	3,994
Net current assets		**84,626**	41,985
Total assets less current liabilities		**123,488**	57,217
Financed by:			
Share capital	20	**23,815**	68,044
Reserves	21	**99,673**	(10,897)
Shareholders' funds		**123,488**	57,147
Minority interests		**–**	70
		123,488	57,217

Ho Yau Lung, Lawrence
Director

Ko Chun Fung, Henry
Director

Balance Sheet

As at 31st December 2003

	Note	**As at 31st December 2003** *HK$'000*	As at 30th September 2002 *HK$'000*
Non-current assets			
Investments in subsidiaries	15	**253,367**	61,625
Current assets			
Other investments	17	**40,638**	–
Trade receivables, prepayments, deposits and other receivables	18	**3,467**	11,550
Bank balances and cash		**5,790**	14,409
		49,895	25,959
Current liabilities			
Accruals and other payables		**901**	1,649
Amount due to ultimate holding company	23(a)	**3,447**	–
Amount due to a fellow subsidiary	23(a)	**67**	–
Loan from ultimate holding company	23(d)	**160,000**	–
		164,415	1,649
Net current (liabilities)/assets		**(114,520)**	24,310
Total assets less current liabilities		**138,847**	85,935
Financed by:			
Share capital	20	**23,815**	68,044
Reserves	21	**115,032**	17,891
Shareholders' funds		**138,847**	85,935

Ho Yau Lung, Lawrence
Director

Ko Chun Fung, Henry
Director

Consolidated Cash Flow Statement

For the period from 1st October 2002 to 31st December 2003

	Note	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000 (Note 1)
Net cash outflow from operating activities	24(a)	**(58,515)**	(22,379)
Investing activities			
Purchase of subsidiaries net of cash and cash equivalents acquired	24(c)	**(105,626)**	19,965
Expenses paid in connection with acquisition of subsidiaries		**–**	(3,306)
Deposits paid for acquisition of subsidiaries		**–**	(10,779)
Proceeds from disposal of other investments included in the net assets of subsidiaries acquired		**21,000**	–
Interest income from authorised financial institutions		**421**	849
Purchase of fixed assets		**(7,723)**	(2,071)
Sale of fixed assets		**11**	259
Purchase of investment securities – unlisted equity securities		**–**	(2,000)
Purchases of other investments less proceeds from subsequent disposals		**(30,452)**	–
Increase in other non-current assets		**(931)**	–
Increase in pledged bank deposits		**(184)**	–
Net cash (outflow)/inflow from investing activities		**(123,484)**	2,917
Financing activities	24(b)		
Loan from ultimate holding company		**160,000**	–
Contribution from minority shareholders		**–**	225
Net proceeds from issue of rights shares		**97,627**	10,412
Interest paid		**(3,773)**	–
Net cash inflow from financing		**253,854**	10,637
Increase/(decrease) in cash and cash equivalents		**71,855**	(8,825)
Cash and cash equivalents at the beginning of period/year		**30,219**	37,926
Effect of change in foreign currency translation		**116**	1,118
Cash and cash equivalents at the end of period/year		**102,190**	30,219
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**102,190**	30,219

Consolidated Statement of Changes in Equity

For the period from 1st October 2002 to 31st December 2003

	Note	**Period from 1st October 2002 to 31st December 2003 *HK$'000***	Year ended 30th September 2002 *HK$'000* *(Note 1)*
Total equity balance at the beginning of the period/year		**57,147**	54,547
Loss attributable to shareholders	21	**(31,936)**	(91,161)
Issue of shares	20(a)	**102,067**	97,590
Expenses incurred with issue of shares	21	**(4,440)**	(4,673)
Exchange differences arising on translation of accounts of an overseas subsidiary	21	**650**	844
Total equity balance at the end of the period/year		**123,488**	57,147

1 Change of financial year end date

In order to be coterminous with the financial year end date of the subsidiaries acquired during the period, the financial year end date of the Company was changed from 30th September to 31st December. In consequence, the comparative amounts for the consolidated profit and loss account, consolidated cash flow statement, consolidated statement of changes in equity, and the related notes to the accounts are not directly comparable.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current period, the Group has early adopted Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. Management considered that the adoption of SSAP 12 does not have material impact to the accounts of the Group.

The principal accounting policies below have taken into account the adoption of the new standard.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired during the period are included in the consolidated profit and loss account from the effective date of acquisition.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 Principal accounting policies (continued)

(d) Revenue recognition

Revenues arising from sales of technology solution systems and related services are recognised on the following bases:

- Revenue from sales of computer hardware and software are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

- Sale of trading and back-office systems are recognised upon satisfactory delivery and/or installation of the system to the customers.

- System customisation and network support fees are recognised on completion of the customisation and network support work which generally coincides with the time when the customised software and network support is accepted by the customers.

- Revenues from content management and subscription, data management, hosting services, ASP licence fees and hook up fees are recognised when the services are rendered.

- Revenue from provision of maintenance services is recognised on a straight-line basis the period of the respective agreements.

- Messaging fees are recognised on an accrual basis in accordance with the terms of the corresponding agreements.

Revenues arising from investment banking and financial services are recognised on the following bases:

- All transactions related to securities trading, futures and options contracts dealings and commission income are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.

- Underwriting commission, sub-underwriting commission, placing commission and sub-placing commission are recognised in the profit and loss account in accordance with the terms of the underlying agreement or deal mandate when relevant services are rendered.

- Arrangement, management, advisory and other fee income are recognised when the relevant services are rendered.

- Interest income from margin financing clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2 Principal accounting policies (continued)

(d) Revenue recognition (continued)

Interest income from authorised financial institutions is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

(e) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

(ii) Trading rights

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE. Trading rights are recognised as intangible assets and amortised using the straight-line method over their estimated useful lives.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

2 Principal accounting policies (continued)

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents purchase price and other direct attributable costs of bringing the asset to its working condition for its intended use. Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their unexpired periods of the leases or three years whichever is shorter. Depreciation of other fixed assets is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Office furniture and equipment	20-50%
Computer equipment and software	25-60%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements to fixed assets are recognised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Investment in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2 Principal accounting policies (continued)

(g) Investment in securities (continued)

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) Contracts in progress

Contact revenue and contact costs are recognised based on the percentage of completion method as detailed in note 2(d). When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on contracts, under current liabilities. Costs incurred in the period in connection with future activity on a contract are excluded and shown as work-in-progress included in inventories.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2 Principal accounting policies (continued)

(k) Inventories

Inventories comprise stocks and work in progress.

Stocks are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Accounting policy for work-in-progress is set out in note 2(i).

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Principal accounting policies (continued)

(n) Deferred taxation (continued)

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(p) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated in Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(q) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(r) Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off balance sheet items. As at 31st December 2003, the Group maintained trust accounts with Hong Kong Futures Exchange Clearing Corporation Limited in conjunction with its future brokerage business and authorised institutions as a result of its normal business transactions with amounts of approximately HK$6,116,000 (30th September 2002: nil) and HK$249,349,000 (30th September 2002: nil) respectively, which are not dealt with in the accounts.

2 Principal accounting policies (continued)

(s) Employee benefits

(i) Pension obligations

The Group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also contributes to the Mandatory Provident Fund ("MPF") scheme which is available to all employees. Contributions to the MPF scheme by the employees are calculated as a percentage of employees' basic salaries with a maximum of HK$1,000 per employee per month and are expensed as incurred. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

(ii) Employee leave and long service payment entitlement

Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of acquisition.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, intangible assets, investment securities, other non-current assets, inventories, other investments, trade receivables, prepayments, deposits and other receivables, due from an investee company, pledged bank deposits and bank balances and cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

3 Revenues and turnover

The Group is principally engaged in (i) sales of technology solution systems and related services to customers principally in Asia; (ii) broking and dealing for clients in securities and future and option contracts mainly on the HKSE and HKFE and the provision of other related financial services including margin financing, securities underwriting, placing, advisory services and investment holding (collectively referred to as "investment banking and financial services" thereafter). Revenues recognised during the period are as follows:

	Period from 1st October 2002 to 31st December 2003 *HK$'000*	Year ended 30th September 2002 *HK$'000* *(Note 1)*
Turnover:		
(i) Sales of technology solution systems and related services	**46,545**	10,313
(ii) Investment banking and financial services:		
Brokerage commission from dealing in securities on HKSE and overseas exchanges and future and option contracts on HKFE	**56,292**	–
Underwriting, sub-underwriting, placing and sub-placing commission on HKSE and overseas exchanges	**4,089**	–
Arrangement, management, advisory and other fee income	**9,030**	–
Interest income from margin financing clients	**10,203**	–
	79,614	–
	126,159	10,313
Other revenues:		
Interest income from authorised institutions and banks	**421**	789
Dividend income	**176**	–
Sundry income	**99**	57
	696	846
Total revenues	**126,855**	11,159

4 Segment information

Primary reporting format – business segments

For the period from 1st October 2002 to 31st December 2003, the Group was organised into two main business segments:

(i) Sales of technology solution systems and related services

(ii) Investment banking and financial services

The business segments of investment banking and financial services were acquired during the period. Other operations of the Group are not of a sufficient size to be reported separately.

	Period from 1st October 2002 to 31st December 2003		
	Sales of technology solution systems and related services HK$'000	Investment banking and financial services HK$'000	Total HK$'000
Segment revenues			
Turnover	46,545	79,614	126,159
Other revenues	241	455	696
	46,786	80,069	126,855
Segment results	(11,220)	(2,513)	(13,733)
Unallocated costs			(14,500)
Operating loss			(28,233)
Finance costs			(3,773)
Loss before taxation			(32,006)
Taxation			–
Loss after taxation			(32,006)
Minority interests			70
Loss attributable to shareholders			(31,936)

4 Segment information (continued)

	Period from 1st October 2002 to 31st December 2003			
	Sales of technology solution systems and related services HK$'000	Investment banking and financial services HK$'000	Unallocated HK$'000	Total HK$'000
Segment assets	25,662	389,105	9,764	424,531
Segment liabilities	23,323	113,443	164,277	301,043
Capital expenditure	2,113	19,792	–	21,905
Depreciation of fixed assets	8,749	3,974	1,147	13,870
Amortisation of intangible assets	–	2,808	–	2,808
Provision for doubtful receivables	122	1,934	–	2,056
Impairment of fixed assets	3,080	–	–	3,080
Impairment of investment securities	–	–	1,200	1,200

No business segment analysis for the year ended 30th September 2002 is presented as over 90% of the Group's turnover and contribution to the operating loss during the year ended 30th September 2002 were attributable to the sales of technology solution systems and related services.

Secondary reporting format – geographical segments

	Period from 1st October 2002 to 31st December 2003/ as at 31st December 2003			
	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong	101,757	(12,554)	401,398	19,566
The People's Republic of China excluding Hong Kong ("PRC")	–	(501)	614	564
United Kingdom	–	–	992	–
Macau	24,402	(678)	20,727	1,775
	126,159	(13,733)	423,731	21,905
Unallocated costs		(14,500)		
Operating loss		(28,233)		
Investment securities			800	
Total assets			424,531	

4 Segment information (continued)

	Year ended/as at 30th September 2002			
	Turnover	Segment results	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*		*(Note 1)*
Hong Kong	10,257	(37,746)	49,258	20,944
United Kingdom	–	(4,031)	8,703	1,075
Macau	56	(347)	1,250	41
	10,313	(42,124)	59,211	22,060
Unallocated costs		(48,623)		
Operating loss		(90,747)		
Investment securities			2,000	
Total assets			61,211	

5 Operating loss

Operating loss is stated after charging/(crediting) the following:

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
	HK$'000	*HK$'000*
		(Note 1)
Auditors' remuneration	**452**	411
Operating leases on land and buildings	**7,100**	2,074
Loss on disposal of fixed assets	**555**	434
Net exchange (gain)/loss	**(48)**	18

6 Finance costs

	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000 (Note 1)
Interest on bank loans and overdrafts	**2,320**	–
Interest on loan from ultimate holding company and a fellow subsidiary	**1,772**	–
Others	**40**	1
Total borrowing costs incurred	**4,132**	1
Less: interest on bank loans and overdrafts capitalised	**(359)**	–
	3,773	1

7 Taxation

No provision for Hong Kong or overseas profits tax has been made in the accounts as the Group has no estimated assessable profit for the period from 1st October 2002 to 31st December 2003 (2002: nil).

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000 (Note 1)
Loss before taxation	**(32,006)**	(91,316)
Calculated at a taxation rate of 17.5% (2002: 16%)	**5,601**	14,611
Effect of different taxation rates in Macau	**(5)**	(2)
Tax loss which could not be carried forward	**–**	(100)
Expenses not deductible for taxation purpose	**(399)**	(7,780)
Utilisation of previously unrecognised tax losses	**71**	–
Unrecognised deferred tax assets arising from estimated tax losses	**(5,268)**	(6,729)
Taxation charge	**–**	–

7 Taxation (continued)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group and the Company have estimated unrecognised tax losses of HK$285,603,000 and HK$68,447,000 (2002: HK$13,380,000 and HK$6,287,000) respectively to carry forward against future taxable income. These estimated tax losses have no expiry date but were subject to the approval of the Hong Kong Inland Revenue Department and the tax bureau of Macau.

8 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK$44,715,000 (2002: HK$66,547,000).

9 Dividends

No dividends have been paid or declared by the Company during the period from 1st October 2002 to 31st December 2003 (2002: nil).

10 Loss per share

The calculation of the basic loss per share for the period from 1st October 2002 to 31st December 2003 is based on the Group's loss attributable to shareholders of approximately HK$31,936,000 (year ended 30th September 2002: HK$91,161,000) and the weighted average number of 197,634,724 ordinary shares (year ended 30th September 2002: 77,198,235 ordinary shares, restated) in issue during the respective periods after adjustment 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 of every 10 shares to 1 share, on 28th May 2003 (please refer to note 20 for details). The basic loss per share for the year ended 30th September 2002 has been restated accordingly.

Diluted loss per share has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

11 STAFF COSTS (INCLUDE DIRECTORS' EMOLUMENTS)

	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000 (Note 1)
Wages and salaries	**45,657**	17,932
Staff welfare	**876**	236
Unutilised annual leave	**788**	–
Termination benefits	**2,270**	549
Pension costs – contributions to defined contribution plans	**1,845**	647
Forfeiture of pension contributions	**(2,700)**	(14)
Reversal of provision for long services payment	**(27)**	–
	48,709	19,350

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

Details of the emoluments paid to the directors of the Company are as follow:

	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000 (Note 1)
Fees	**300**	167
Salaries, allowances and benefits in kind	**2,100**	3,107
Retirement benefit costs	**30**	33
	2,430	3,307

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' remuneration (continued)

None of the independent non-executive directors received any emoluments except for director fees of approximately HK$150,000 (2002: HK$84,000) and HK$150,000 (2002: HK$83,000) which were paid to each of the two independent non-executive directors respectively for the period from 1st October 2002 to 31st December 2003 and were included in the directors' emoluments as disclosed above.

Two (2002: Three) executive directors of the Company received emoluments of approximately HK$1,365,000 and HK$765,000 (2002: HK$1,272,000, HK$999,000 and HK$869,000) respectively for the period from 1st October 2002 to 31st December 2003. Save as disclosed in note 22, no other emoluments were received by the directors during the period from 1st October 2002 to 31st December 2003.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the period/year are as follows:

	Number of individuals	
	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
Directors	**1**	3
Employees	**4**	2
	5	5

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments payable to directors are reflected in note (a) above. The emoluments payable to 4 (year ended 30th September 2002: 2) employees during the period/year are as follows:

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
	HK$'000	*HK$'000*
		(Note 1)
Salaries, allowances and benefits in kind	**10,922**	1,776
Retirement benefit costs	**56**	55
	10,978	1,831

The emoluments of the above employees fell within the following bands of:

	Number of individuals	
	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
HK$nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$1,500,000	**2**	–
HK$1,500,001 – HK$2,000,000	**1**	–
More than HK$2,000,000	**1**	–
	4	2

(c) During the period, no (2002: nil) directors or the above highest paid individuals waived or agreed to waive any emoluments. No (2002: nil) emoluments have been paid to the directors of the Company or the above highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

13 Fixed assets

	Group			
	Leasehold improvements	**Office furniture and equipment**	**Computer equipment and software**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st October 2002	1,793	867	39,744	42,404
Acquisition of subsidiaries *(Note 24(c))*	–	6,662	7,520	14,182
Additions	4,941	1,456	1,326	7,723
Write-off	–	–	(16,902)	(16,902)
Disposals	(1,115)	(690)	(929)	(2,734)
Exchange translation	29	10	7	46
At 31st December 2003	5,648	8,305	30,766	44,719
Accumulated depreciation				
At 1st October 2002	632	426	28,114	29,172
Acquisition of subsidiaries *(Note 24(c))*	–	3,730	3,902	7,632
Charge for the period	1,694	1,524	10,652	13,870
Impairment charge	–	–	3,080	3,080
Write-off	–	–	(16,902)	(16,902)
Disposals	(868)	(542)	(522)	(1,932)
Exchange translation	15	4	7	26
At 31st December 2003	1,473	5,142	28,331	34,946
Net book value				
At 31st December 2003	4,175	3,163	2,435	9,773
At 30th September 2002	1,161	441	11,630	13,232

14 Intangible assets

	Group		
	Trading rights	**Goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1st October 2002	–	48,623	48,623
Acquisition of subsidiaries *(note 24(c))*	5,066	21,987	27,053
Write-off	–	(48,623)	(48,623)
At 31st December 2003	5,066	21,987	27,053
Accumulated amortisation and impairment			
At 1st October 2002	–	48,623	48,623
Acquisition of subsidiaries *(note 24(c))*	1,247	–	1,247
Amortisation charge	526	2,282	2,808
Write-off	–	(48,623)	(48,623)
At 31st December 2003	1,773	2,282	4,055
Net book value			
At 31st December 2003	3,293	19,705	22,998
At 30th September 2002	–	–	–

The addition of goodwill during the period arose from acquisitions of VC CEF Brokerage Limited, VC CEF Futures Limited and VC CEF Capital Limited during the period (see note 24(c) for further details). The goodwill is amortised over their estimated useful lives of 10 years.

Trading rights are amortised over their estimated useful lives of 10 years.

15 Investments in subsidiaries

	Company	
	As at 31st December 2003	As at 30th September 2002
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**4,785**	4,785
Due from subsidiaries *(note a)*	**355,570**	120,526
Due to subsidiaries *(note a)*	**(58,784)**	–
Provision for amounts due from subsidiaries	**(48,204)**	(63,686)
	248,582	56,840
	253,367	61,625

Notes:

(a) Included in the amounts due from/(to) subsidiaries are loans to a subsidiary of HK$110 million which are interest-bearing at prime rate minus two per cent per annum. HK$50 million of the loans to a subsidiary are repayable by July 2005, while the remaining have no fixed terms of repayment.

Other amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(b) The following is a list of the principal subsidiaries of the Group at 31st December 2003:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued share capital**	**Effective interest held**
iAsia Online Systems Limited*	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1 each	100%
Elixir Group Limited*	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	77.5%
Elixir Group (Macau) Limited	Macau	Provision of hardware and software in Macau	2 ordinary shares of MOP450,000 and MOP50,000 each	77.5%
VC CFN Corporation Limited*	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
VC CEF Brokerage Limited#	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	100%

15 Investments in subsidiaries (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
VC CEF Futures Limited#	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	100%
VC CEF Capital Limited#	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	100%
VC CFN Capital (Shenzhen) Limited**	PRC	Provision of consultancy services in the PRC	—	100%
VC CFN Investments Limited	Hong Kong	Provision of security investment service to group companies in Hong Kong	2 ordinary shares of HK$1 each	100%
iAsia Services Limited*	Hong Kong	Provision of management service to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	100%
iAsia Network Solutions Limited*	British Virgin Islands	Provision of system customisation and network support services in Hong Kong	1 ordinary share of US$1 each	100%
iAsia Technology (Asia) Limited*	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%

* Shares held directly by the Company

\# Acquired by the Group during the period (note 24(c))

** Incorporated in December 2003 and the registered capital amounted to HK$1,000,000 was paid up in early March 2004

16 Inventories

	Group	
	As at 31st December 2003	As at 30th September 2002
	HK$'000	*HK$'000*
Merchandise	**1,776**	735
Work-in-progress	**41**	181
	1,817	916

As at 31st December 2003, no inventory was carried at net realisable value (2002: nil).

17 Other investments

	Group and Company	
	As at 31st December 2003	As at 30th September 2002
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	**40,638**	–
Market value of the listed equity securities	**40,638**	–

18 Trade receivables, prepayments, deposits and other receivables

Group

	As at 31st December 2003			As at 30th September 2002
	Sales of technology solution systems and related services	**Investment banking and financial services**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Trade receivables				
Within 30 days	**2,935**	**229,104**	**232,039**	1,074
31-90 days	**1,010**	**1,369**	**2,379**	380
Over 90 days	**798**	**5,449**	**6,247**	517
	4,743	**235,922**	**240,665**	1,971
Due from customers on contracts	**1,702**	**–**	**1,702**	–
Retention money receivables	**125**	**–**	**125**	–
Prepayments, deposits and other receivables	**2,780**	**1,897**	**4,677**	12,909
	9,350	**237,819**	**247,169**	14,880
Less: Provision for doubtful receivables	**–**	**(6,333)**	**(6,333)**	(40)
	9,350	**231,486**	**240,836**	14,840

Company

	As at 31st December 2003	As at 30th September 2002
	HK$'000	*HK$'000*
Trade receivables – within 30 days	**2,912**	10
Prepayments, deposits and other receivables	**555**	11,540
	3,467	11,550

18 Trade receivables, prepayments, deposits and other receivables (continued)

The settlement terms of trade receivables arising from the ordinary course of business of broking in securities and equity options transactions (included in investment banking and financial services) are two days after the trade date of those transactions, and trade receivables arising from the ordinary course of business of dealing in futures and options (included in investment banking and financial services) are one day after the trade date.

Loans to margin clients (included in investment banking and financial services) are secured by client's pledged securities, repayable on demand and bear interest at commercial rates.

Other trade receivables are due immediately from date of billing but the Group and the Company will generally grant a normal credit period of 30 days on average to its customers.

Included in trade receivables, prepayments, deposits and other receivables are amounts due from customers on contracts as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits	**5,683**	–
Less: Progress billings to date	**(3,981)**	–
	1,702	–

19 Trade payables, accruals and other payables

	Group			
	As at 31st December 2003			As at 30th September 2002
	Sales of technology solution systems and related services	Investment banking and financial services	Total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
Within 30 days	**4,431**	**98,096**	**102,527**	698
31-90 days	**3,414**	**–**	**3,414**	–
Over 90 days	**391**	**–**	**391**	–
	8,236	**98,096**	**106,332**	698
Accruals and other payables			**29,971**	3,296
			136,303	3,994

20 Share capital

	No. of shares	HK$'000
Authorised:		
At 31st December 2003 and 30th September 2002, ordinary shares of HK$0.1 each	10,000,000,000	1,000,000
Issued and fully paid:		
At 1st October 2001, ordinary shares of HK$0.1 each	450,000,000	45,000
Issue of shares	230,442,858	23,044
At 30th September 2002 and 1st October 2002, ordinary shares of HK$0.1 each	680,442,858	68,044
Issue of rights shares *(note a)*	1,020,664,287	102,067
Issue of bonus shares *(note a)*	680,442,854	68,044
Reduction of share capital and consolidation of shares *(note b)*	(2,143,395,000)	(214,340)
At 31st December 2003, ordinary shares of HK$0.1 each	238,154,999	23,815

Notes:

(a) On 5th February 2003, the Company issued 1,020,664,287 new ordinary shares of HK$0.10 each at par on the basis of three rights shares for every two existing shares held payable in full on acceptance with bonus shares to be issued in the proportion of two bonus shares for every three rights shares subscribed.

(b) Under the Company's capital reorganisation effective on 28th May 2003, the then share premium of approximately HK$45,878,000 was eliminated against the accumulated losses. The paid up and the nominal value of each of the then 2,381,549,999 issued ordinary shares of the Company was also reduced by HK$0.09 from HK$0.10 to HK$0.01 and the reduced amount was eliminated against the accumulated losses. The surplus credit arising from the elimination of share premium and reduction of share capital against the accumulated losses was credited to a special capital reserve of the Company. Further, every 10 adjusted shares of HK$0.01 each was consolidated into one reorganised share of HK$0.10 each.

21 Reserves

	Group				
	Share premium	**Capital reserve**	**Accumulated losses**	**Exchange reserves**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2001	48,489	–	(38,942)	–	9,547
Premium on issue of shares	74,546	–	–	–	74,546
Expenses incurred in connection with issue of shares	(4,673)	–	–	–	(4,673)
Loss attributable to shareholders for the year	–	–	(91,161)	–	(91,161)
Exchange differences arising on translation of accounts of an overseas subsidiary	–	–	–	844	844
At 30th September 2002 and 1st October 2002	118,362	–	(130,103)	844	(10,897)
Issue of bonus shares *(note 20(a))*	(68,044)	–	–	–	(68,044)
Expenses incurred in connection with issue of rights shares	(4,440)	–	–	–	(4,440)
Capital reorganisation *(note 20(b))*	(45,878)	123,758	136,460	–	214,340
Loss attributable to shareholders for the period from 1st October 2002 to 31st December 2003	–	–	(31,936)	–	(31,936)
Exchange differences arising on translation of accounts of an overseas subsidiary	–	–	–	650	650
At 31st December 2003	–	123,758	(25,579)	1,494	99,673

21 Reserves (continued)

	Company			
	Share premium	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2001	48,489	–	(33,924)	14,565
Premium on issue of shares	74,546	–	–	74,546
Expenses incurred in connection with issue of shares	(4,673)	–	–	(4,673)
Loss for the year	–	–	(66,547)	(66,547)
At 30th September 2002 and 1st October 2002	118,362	–	(100,471)	17,891
Issue of bonus shares *(note 20 (a))*	(68,044)	–	–	(68,044)
Expenses incurred in connection with issue of rights shares	(4,440)	–	–	(4,440)
Capital reorganisation *(note 20(b))*	(45,878)	123,758	136,460	214,340
Loss for the period from 1st October 2002 to 31st December 2003	–	–	(44,715)	(44,715)
At 31st December 2003	–	123,758	(8,726)	115,032

The capital reserve of the Company was created after the Company's capital reorganisation as detailed in note 20(b) and is only distributable after the conditions in the Court Order dated 27th May 2003 in relation to the Company's reduction of share capital and cancellation of share premium account are fulfilled.

22 Share options

(i) Pre-IPO share option plan

As at 31st December 2003, options comprising an aggregate of 9,740,208 underlying shares granted on 6th April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO share option plan adopted by the Company on 14th March 2001 ("Pre-IPO Share Option Plan") at an exercise price of HK$3.6 per share, after adjustment arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively, were outstanding, which represents 4.1% (2002: 4.3%) of the shares of the Company in issue as at 31st December 2003. The exercise price represents a discount of 30% of the adjusted IPO offer price. The Pre-IPO Share Options have duration of approximately 4.5 years from the date of grant, i.e. between 6th April 2001 to 8th October 2005. According to the Pre-IPO Share Option Plan, any Pre-IPO Share Option granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Group. The following are details of the outstanding Pre-IPO Share Options at 31st December 2003 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

	As at 31st December 2003		As at 30th September 2002	
Categories of grantees	**Total no. of grantees**	**No. of underlying Shares comprised in the Pre-IPO Share Options**	Total no. of grantees	No. of underlying Shares comprised in the Pre-IPO Share Options
Directors of the Company	**5**	**8,478,020**	6	9,466,041
Employees	**3**	**1,262,188**	3	791,146
Total	**8**	**9,740,208**	9	10,257,187

22 Share options (continued)

(i) Pre-IPO share option plan (continued)

For the period from 1st October 2002 to 31st December 2003, certain Pre-IPO Share Options comprising a total of 516,979 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively) 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 31st December 2003 and 30th September 2002, none of the Pre-IPO Share Options were exercised. Movements in the number of Pre-IPO Share Options outstanding during the period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

	Number of Pre-IPO Share Options	
	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
At beginning of the period/year	**10,257,187**	15,475,833
Lapsed during the period/year	**(516,979)**	(5,218,646)
At end of the period/year	**9,740,208**	10,257,187

22 Share options (continued)

(ii) New share option scheme

The new share option scheme ("New Share Option Scheme") was adopted by the Company on 29th November 2001 (which supersedes the previous share option scheme of the Company adopted on 14th March 2001).

As at 31st December 2003, options comprising an aggregate of 4,228,002 underlying Shares granted on 9th July 2002 ("New Share Options") pursuant to the New Share Option Scheme at an exercise price of HK$1.0 per share, after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20 (a) and (b) respectively, were outstanding, which represents 1.8% (2002: 7.2%) of the shares of the Company in issue as at 31st December 2003. The adjusted closing price of the Company's shares immediately before 9th July 2002 was HK$0.65. The New Share Options have duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012. Accordingly to the New Share Option Scheme, any New Share Option's granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Group. The following are details of the outstanding New Share Options as at 31st December 2003 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

	As at 31st December 2003		As at 30th September 2002	
Categories of grantees	**Total no. of grantees**	**No. of underlying Shares comprised in the New Share Options**	Total no. of grantees	No. of underlying Shares comprised in the New Share Options
Directors of the Company	**3**	**1,473,171**	4	1,718,700
Employees	**26**	**1,821,823**	35	2,258,863
Other eligible persons	**5**	**933,008**	5	933,008
Total	**34**	**4,228,002**	44	4,910,571

22 Share options (continued)

(ii) New share option scheme (continued)

During the period from 1st October 2002 to 31st December 2003, certain Share Options to subscribe for a total of 682,569 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively) granted to ten 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 New Share Options up to 31st December 2003 and 30th September 2002, none of the New Share Options were exercised. Movements in the number of New Share Options outstanding during the period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

	Number of New Share Options	
	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
At beginning of the period/year	**4,910,571**	4,910,571
Lapsed during the period/year	**(682,569)**	–
At end of the period/year	**4,228,002**	4,910,571

23 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) The amount due from an investee company and the amounts due to ultimate holding company and a fellow subsidiary are unsecured, interest free and have no fixed terms of repayment.

(b) The trade receivables, prepayments, deposits and other receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$3,510,000 (2002: nil).

(c) The trade payables, accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$10,180,000 (2002: nil).

23 Related party transactions (continued)

(d) Loan from ultimate holding company is unsecured, interest-bearing at prime rate minus two per cent per annum and repayable upon written notice of the ultimate holding company.

(e) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note	**Period from 1st October 2002 to 31st December 2003** **HK$'000**	Year ended 30th September 2002 *HK$'000*
Transfer of fixed assets from a related company	(i)	**291**	–
Rental charge paid to related companies	(ii)	**297**	127
Technical, network and other service fees charged to related companies	(iii)	**210**	142
Sales of computer hardware and software to related companies	(iii)	**15,917**	56
Brokerage commission income earned from certain directors of the Group or their relatives	(iv)	**116**	–
Interest expense charged on loan from ultimate holding company and a fellow subsidiary	(v)	**1,772**	–
Management fee charged by ultimate holding company	(vi)	**3,000**	–

Notes:

(i) Fixed assets were transferred from a related company based on their carrying value stated in the books of the related company.

(ii) The Group leased certain office space from a related company. The lease rental was charged according to actual floor space utilised at normal commercial terms.

(iii) Service fees charged and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

(iv) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.

(v) Interest expense on loan from ultimate holding company and a fellow subsidiary was charged at prime rate minus two per cent. per annum.

(vi) The amount of management fee charged by ultimate holding company is determined based on mutual agreement between the Company and the ultimate holding company.

24 Notes to the consolidated cash flow statement

(a) Reconciliation of the loss before taxation for the period/year to net cash outflow from operating activities

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
	HK$'000	*HK$'000*
		(Note 1)
Loss before taxation	**(32,006)**	(91,316)
Share of losses of associated companies	**–**	568
Impairment of intangible assets	**–**	46,396
Impairment of fixed assets	**3,080**	11,534
Impairment of investment securities – unlisted equity securities	**1,200**	–
Amortisation of intangible assets	**2,808**	2,227
Depreciation of fixed assets	**13,870**	10,125
Loss on disposal of fixed assets	**555**	434
Interest income from authorised financial institutions	**(421)**	(789)
Interest expense	**3,773**	–
Provision for doubtful receivables	**2,056**	40
Exchange loss	**513**	–
Realised gain on trading of other investments	**(9,228)**	–
Unrealised gain on holding of other investments	**(958)**	–
Increase in inventories	**(901)**	(663)
(Increase)/Decrease in trade receivables, prepayments, deposits and other receivables	**(159,708)**	258
Increase in amount due from an investee company	**–**	(4)
Increase/(Decrease) in trade payables, accruals and other payables	**112,008**	(1,189)
Increase in amount due to ultimate holding company	**4,777**	–
Increase in amount due to a fellow subsidiary	**67**	–
Net cash outflow from operating activities	**(58,515)**	(22,379)

24 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the period/year

	Share capital including premium		Minority interests		Loan from ultimate holding company	
	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002	**Period from 1st October 2002 to 31st December 2003**	Year ended 30th September 2002	**Period from 1st October 2002 to 31st December 2003**	Year ended 30th September 2002
	HK$'000	*HK$'000* *(Note 1)*	***HK$'000***	*HK$'000* *(Note 1)*	***HK$'000***	*HK$'000* *(Note 1)*
At the beginning of the period/year	**186,406**	93,489	**70**	–	**-**	–
Cash inflows from financing	**97,627**	10,412	**-**	225	**160,000**	–
Minority interests in share of loss	**-**	–	**(70)**	(155)	**-**	–
Issue of shares for acquisition of subsidiaries, net of expenses	**-**	77,504	**-**	–	**-**	–
Issue of shares for settlement to a supplier, net of expenses	**-**	5,001	**-**	–	**-**	–
Capital reorganisation *(note 20(b))*	**(260,218)**	–	**-**	–	**-**	–
At the end of the period/year	**23,815**	186,406	**-**	70	**160,000**	–

24 Notes to the consolidated cash flow statement (continued)

(c) Acquisition of subsidiaries

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
	HK$'000	*HK$'000*
Net assets acquired		
Intangible assets	**3,819**	6,730
Fixed assets	**6,550**	12,714
Other non-current assets	**3,835**	–
Trade receivables, prepayments, deposits and other receivables	**79,750**	1,539
Other investments	**21,000**	–
Bank balances and cash	**46,364**	19,965
Trade payables, accruals and other payables	**(9,757)**	(1,557)
Acquisition deposits received from the Company	**(10,779)**	–
Bank loans and overdrafts	**(38,400)**	–
	102,382	39,391
Goodwill	**21,987**	32,344
Carrying value of interest in associated companies *(note a)*	**–**	10,117
Effect of change in foreign currency translation	**–**	103
	124,369	81,955
Satisfied by:		
Issuance of shares of the Company	**–**	81,955
Cash	**113,590**	–
Acquisition deposits paid by the Company in previous year	**10,779**	–
Total cost of acquisition (including direct expenses in relation to the acquisition)	**124,369**	81,955

24 Notes to the consolidated cash flow statement (continued)

Analysis of the net cash (outflow)/inflow in respect of the acquisition of subsidiaries:

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002
	HK$'000	*HK$'000*
Cash paid	**(113,590)**	–
Bank balances and cash acquired	**46,364**	19,965
Bank loans and overdrafts	**(38,400)**	–
Net cash (outflow)/inflow in respect of the acquisition of subsidiaries	**(105,626)**	19,965

Note:

(a) The Group acquired 35% and 35.25% effective equity interest in two associated companies respectively on 9th November 2001 and further acquired the remaining 65% and 64.75% effective equity interest in these associated companies on 5th December 2001, which have become wholly-owned subsidiaries of the Group since then. The carrying value of interest in associated companies on 5th December 2001 included the unamortised balance of goodwill amounted to approximately HK$9,549,000 arising from the acquisition of these associated companies.

25 Commitments

(i) Operating lease commitments

At 31st December 2003, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	As at 31st December 2003 HK$'000	As at 30th September 2002 *HK$'000*	**As at 31st December 2003 HK$'000**	As at 30th September 2002 *HK$'000*
Within one year	**4,222**	2,418	**–**	607
In the second to fifth year inclusive	**4,354**	2,252	**–**	–
After the fifth year	**–**	–	**–**	–
	8,576	4,670	**–**	607

(ii) Financial commitments

Pursuant to the pre-incorporation agreement entered into between the Company and Computershare Systems Phils., Inc. on 27th September 2000, the Group and the Company had financial commitment in respect of capital contribution into a jointly controlled entity to be incorporated in the Republic of the Philippines of PHP12.5 million (approximately HK$1,859,000).

As at the date of this report, the Company had only injected an aggregate of amount of HK$430,000 into the proposed joint venture. Due to the adverse market environment in Asia countries, the parties have entered into a termination agreement on 1st February 2003 terminating the pre-incorporation agreement and thereby releasing both parties' obligations with respect to any further commitments to the joint venture. Therefore, as at 31st December 2003, the Company has no financial commitment in respect of the proposed joint venture.

26 Comparative figures

Cost of sales of computer hardware and software and commission expense are separately shown on the profit and loss account for the period from 1st October 2002 to 31st December 2003. Accordingly, the 2002 comparative figures have been reclassified to conform to the current period's presentation.

27 Approval of accounts

The accounts were approved by the board of directors on 18th March 2004.

Four Periods'/Years' Financial Summary

A summary of the results and of the assets and liabilities of the Group of the past four financial periods/years is set out below:

	Period from 1st October 2002 to 31st December 2003	Year ended 30th September 2002	Year ended 30th September 2001	Period from 24th September 1999 (date of incorporation) to 30th September 2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Turnover	**126,159**	10,313	3,634	4,146
Loss attributable to shareholders	**(31,936)**	(91,161)	(28,380)	(10,562)
Assets and liabilities				
Total assets	**424,531**	61,211	60,737	29,930
Total liabilities	**(301,043)**	(3,994)	(6,190)	(6,092)
Minority interests	**–**	(70)	–	–
Shareholders' funds	**123,488**	57,147	54,547	23,838

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Value Convergence Holdings Limited ("Value Convergence") will be held at the 38/F., The Centrium, 60 Wyndham Street, Central, Hong Kong on Monday, 19th April, 2004 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated accounts of Value Convergence and its subsidiaries and the reports of the directors and of the auditors for the 15-month period ended 31st December 2003.

2. To re-elect directors and to authorize the board of directors or any of its authorized committees to fix the remuneration of the directors.

3. To re-appoint auditors and to authorise the board of directors or any of its authorized committees to fix their remuneration.

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

4. "**THAT**:

(a) subject to paragraph (c) below, the directors of Value Convergence ("Directors") be and are hereby granted an unconditional general mandate to allot, issue and deal with additional shares in the capital of Value Convergence ("Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power;

(b) the approval in paragraph (a) above shall be in addition to any other authorisations given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) the exercise of rights of subscription or conversion under the terms of any warrants or any securities which may be issued by Value Convergence from time to time and which are convertible into Shares;

(iii) the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of Value Convergence and/or any of its subsidiaries or such other persons eligible to participate in any such scheme(s) or arrangement(s) of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of Value Convergence or a specific authority granted by the shareholders of Value Convergence in general meeting,

shall not exceed 20% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution;

(d) subject to the passing of each of the paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in paragraphs (a), (b) and (c) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and

(e) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of Value Convergence;

(ii) the expiration of the period within which the next annual general meeting of Value Convergence is required by any applicable law or the articles of association of Value Convergence to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of Value Convergence in general meeting; and

"Rights Issue" means an offer of shares in Value Convergence, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in Value Convergence on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to Value Convergence, or any recognized regulatory body or any stock exchange applicable to Value Convergence)."

5. "**THAT**:

(a) subject to paragraph (b) below, the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), or any other stock exchange on which the securities of Value Convergence may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, securities in Value Convergence and that the exercise by the Directors of all powers of Value Convergence to repurchase such securities, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or rules of any other stock exchange as may be amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of Value Convergence ("Shares") or securities of Value Convergence which may be repurchased by Value Convergence pursuant to the approval in paragraph (a) above during the Relevant Period (as hereinafter defined) shall not exceed 10% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution;

(c) subject to the passing of each of the paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in paragraphs (a) and (b) of this Resolution which had been granted to the Directors and which are still in effect be and hereby revoked; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of Value Convergence; and

(ii) the expiration of the period within which the next annual general meeting of Value Convergence is required by any applicable law or the articles of association of Value Convergence to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of Value Convergence in general meeting."

6. "**THAT** conditional upon the passing of Resolutions numbered 4 and 5 set out in the notice convening this meeting, the aggregate nominal amount of share capital of Value Convergence that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 4 set out in the notice convening this meeting be and is hereby extended by the addition thereto of the aggregate nominal amount of the shares in the capital of Value Convergence which may be repurchased by Value Convergence pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 5 set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution."

7. "**THAT** the Continuing Connected Transactions (as defined and more particularly described in the circular to the shareholders of the Company dated 31st October, 2003 ("Circular")) under or pursuant to the Service Arrangement (as defined in the Circular) between the Company's subsidiary, Elixir Group Limited ("Elixir") and Sociedade de Jogos de Macau, S.A. ("SJM") and the relevant Annual Cap (as defined in the Circular) of US$4,000,000 (equivalent to about HK$31,120,000) for the year ended 31st December, 2004 for Services (as defined in the Circular) provided or to be provided by Elixir to SJM in connection with the Continuing Connected Transactions during such year be and are hereby re-approved, ratified and confirmed."

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

Hong Kong, 26th March 2004

Register office, head office and principal place of business:
28/F., The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. A member of Value Convergence entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and vote in stead of such member. A proxy need not be a member of Value Convergence.

2. A form of proxy in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

3. In order to be valid, the form of proxy together with a power of attorney or other authority, (if any) under which it is signed, or a notarially certified copy of such power at authority must be deposited with the registered office of Value Convergence at 28/F., The Centrium, 60 Wyndham Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Where there are joint holders of a share of Value Convergence, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of Value Convergence in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.