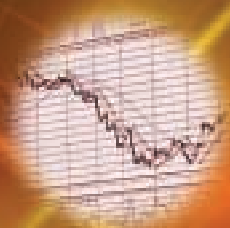
VALUE CONVERGENCE HOLDINGS LIMITED
滙盈控股有限公司



VALUE CONVERGENCE

Annual Report
2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

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.

Contents

Executive Directors

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

Independent Non-executive Directors

Attorney PATAJO-KAPUNAN, Lorna
Dr. TYEN Kanhee, Anthony
Mr. SHAM Sui Leung, Daniel

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. HO, Lawrence Yau Lung

Audit Committee

Dr. TYEN Kanhee, Anthony *(Chairperson)*
Attorney PATAJO-KAPUNAN, Lorna
Mr. SHAM Sui Leung, Daniel

Authorised Representatives

Dr. LEE Jun Sing
Mr. TSANG Yuen Wai, Samuel

Auditors

PricewaterhouseCoopers

Principal Bankers

Standard Chartered Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

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 Group achieved a remarkable turnaround in its financial results in the year 2004. For the year ended 31st December 2004, the Group made a net profit of HK$34.3 million, compared with a net loss of HK$31.9 million for the fifteen months ended 31st December 2003. This pleasing growth was the result of the completion of the group reorganization exercise, the costs rationalization programme, the enhancement of quality sales force and introduction of innovative products and services packages, coupled with the sourcing of new business transactions and opportunities from the Company's offices in Shenzhen and other PRC cities.

In the second quarter of 2004, the three investment banking and financial services companies acquired by the Company in 2002 had re-affirmed their reputation in the financial market. The names of these companies have been changed from VC CEF Brokerage Limited, VC CEF Futures Limited and VC CEF Capital Limited to VC Brokerage Limited, VC Futures Limited and VC Capital Limited respectively to highlight their unique and distinct corporate relationship with the Company. Further, in line with the Group's strategy, the Group had disposed of its information technology business to its ultimate holding company, Melco International Development Limited ("Melco"), in May 2004 and focused its business on the investment banking and financial services. As a result of such group reorganization, the investment banking and financial services became the core business of the Group.

During the year, the investment banking and financial services business continued to achieve a very encouraging operating result in the context of a recovering economy and a strengthening Hong Kong market and had recorded a growth of about 62% in turnover to HK$128.7 million and its market share has increased continuously. In addition to the establishment of the Shenzhen and Macau offices in January 2004 and August 2003 respectively, new offices have also been set up in Beijing and Shanghai in June 2004 to ensure our strategic presence in the PRC. In January 2004, VC Brokerage Limited had organized its first seminar in Shenzhen. VC Capital Limited, on the other hand, participated in the 9th Macao International Trade & Investment Fair and organized the seminar presenting the topic of "Key issues relating to listing in Hong Kong – Finance, Accounting and Laws" in October 2004. All these efforts had helped to enhance the brand recognition for the Group and to explore new business opportunities in the PRC. Besides, with a view to further diversifying and expanding our products and services range, a subsidiary specializing in asset management, namely VC Asset Management Limited, has commenced business in early 2005.

In view of the resurgence of the Hong Kong economy with the recovery in its domestic consumption, growth in exports, a recuperating property market, a strengthening Hong Kong market and improved local and worldwide market sentiment, increasing business opportunities through the mainland's continued strong economic growth, and those supportive measures benefiting the overall economy of Hong Kong initiated by the PRC government such as the introduction of the Individual Visit Scheme and the Closer Economic Partnership Arrangement, the economic outlook for 2005 appears even stronger than in 2004. Leveraging the competitive edges of the Group established over the years, the Group will continue to be in a strong position to meet new business and market challenges and will maintain the momentum of expanding the market share in the Greater China financial market in the coming year.

On behalf of the board of Directors, I would like to express my thanks and appreciation to our shareholders for their support, my fellow directors and our management and employees for their contributions and dedications in the past year. In the years to come, we will continue to commit ourselves to providing quality financial services to our valued customers and maximizing returns for our shareholders.

Ho, Lawrence Yau Lung
President and Vice Chairman

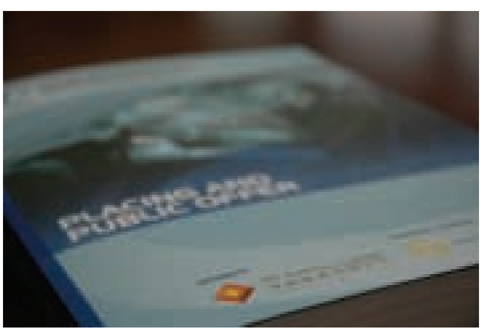
Hong Kong, 8th March 2005

Business Review

Investment banking and financial services business

The Group's investment banking and financial services business primarily comprises brokerage (securities, futures and options broking and dealing) and investment banking (corporate finance advisory, initial public offerings, mergers and acquisition advisory services), which offer a comprehensive range of premier financial services and products to fulfill our clients' investment and wealth management needs.

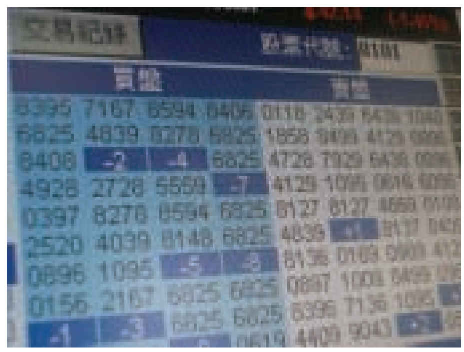
The economy regained its momentum and rebounded commencing from the second half of 2003 with the Severe Acute Respiratory System epidemic having been contained, the introduction of the Individual Visit Scheme for the Mainland tourists as well as the establishment of the new economic ties with the PRC under the first phase of the Closer Economic Partnership Arrangement. The highs and lows of Hong Kong economy were mirrored in its securities and derivatives markets. The market sentiment improved steadily and investors' sentiment was bullish during the first quarter of 2004. The Hang Seng Index had risen rapidly from 12575 at the beginning of 2004 to close at 13928 on 18th February 2004. However, the local stock market remained highly volatile since then. The local stock market experienced a significant correction with the Hang Seng Index plunged to its lowest of 10967 on 17th May 2004. It then picked up again from the third quarter, with the Hang Seng Index hitting its hike of 14266 on 29th December 2004 and closed at 14230 on 31st December 2004, a rise of 13% over the end of last year. The average daily market turnover and the total market capitalization of the Hong Kong stock market including GEM for the year ended 31st December 2004 was HK$16.0 billion and HK$6,695.9 billion respectively (year ended 31st December 2003: HK$10.4 billion and HK$5,547.8 billion respectively), representing an increase of 53.2% and 20.7% respectively over the previous year. There was also an upsurge of new listings on the Main Board and GEM in 2004 and new capital of approximately HK$97.2 billion had been raised, representing an increase of 64.3% over the preceding year.



The performance of the brokerage business depends very much on the market trading activity. Taking advantage of the active market activities, the financial performance of the Group's brokerage division had improved substantially during the year. Further, the implementation of the strategic and operational initiatives to the Group's operations, including cost rationalization over the past years and the continuous strengthening of the management team in the investment banking and financial services business has positioned the Group in a favorable position to weather market volatility and capture market opportunities. The Group's research team has also established a solid reputation in providing quality and independent company analyses and research reports. In addition, the Group has set up new offices in Shenzhen, Beijing and Shanghai during the first half of 2004 to establish a strategic presence in the PRC. A subsidiary has also been established in Macau to provide advisory services to selective clients. All these helped to open up new opportunities for the Group and also built up our brand recognition in the investment banking and financial services business outside Hong Kong. These continued investments in various business-driven capabilities have enabled the Group's brokerage business to take full benefit of the return of a bullish market. The brokerage division had managed to increase its market share in the local stock market while the investment banking division had completed several placements and IPO transactions during the year.

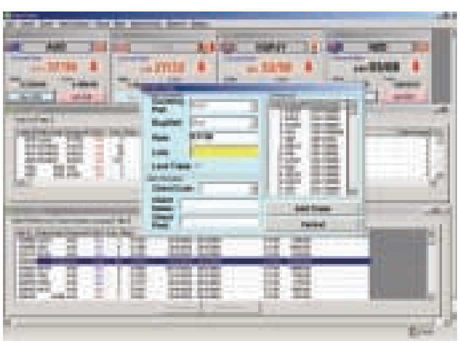
The investment banking and financial services business had faced a full spectrum of risk management issues, from regulatory compliance, credit and liquidity risk to operational risk management during the year. The Group, in response to these issues, had adopted appropriate measures to effectively minimize all these risks and such measures include the strengthening of the compliance resources, adjusting credit control procedures and upgrading of the information management systems, etc. All measures in place are for the purpose of safeguarding the assets of the clients and the Group as well as improving the return for our shareholders.

During the year, the Group has gradually built up its asset management capability. A team of professionals has been hired to pursue opportunities in the asset management business. This is in line with our business strategy to establish ourselves as a premier financial services house and to diversify the sources of revenue for the Group. In January 2005, the Group successfully obtained the licence in performing the regulated activities in asset management from the Hong Kong Securities and Futures Commission.



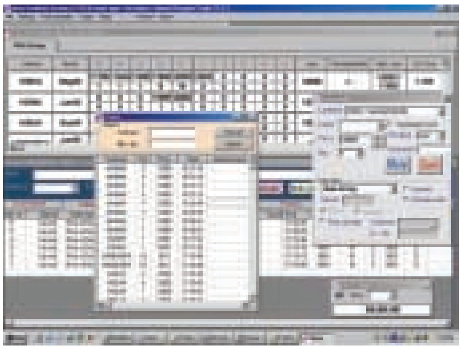
Technology business

In line with the Group's strategy in focusing its business on the investment banking and financial services, the Group had disposed of its technology business during the first half of 2004. On 19th March 2004, the Company entered into a sale and purchase agreement with Melco whereby the Company had agreed to sell and Melco had agreed to purchase the entire issued share capital of the iAsia Group, including iAsia group of companies and Elixir group of companies, for a consideration of HK$27.9 million. The consideration was settled by way of offsetting against a shareholder's loan owed by one of the Company's subsidiaries to the Melco Group. As part of the disposal, the Company gave a guarantee to Melco warranting the net profit (after tax and minority interest) of the iAsia Group would not be less than HK$4 million for the year ended 31st December 2004 (the "Guarantee"), failing which the Company would compensate the shortfall (up to a maximum of HK$4 million) on a dollar for dollar basis. The whole transaction constituted a disclosable and connected transaction of the Company under the GEM Listing Rules and a circular incorporating the necessary details of the same was dispatched to the Company's shareholders on 23rd April 2004. Independent



shareholders' approval in relation to the transactions had been obtained and the disposal was completed on 31st May 2004. A gain of approximately HK$26.4 million was recognized by the Group upon the completion of the disposal during the year. Since the iAsia Group had achieved a net profit of more than HK$4 million for the year ended 31st December 2004, no compensation was required to be paid by the Company to Melco under the Guarantee.

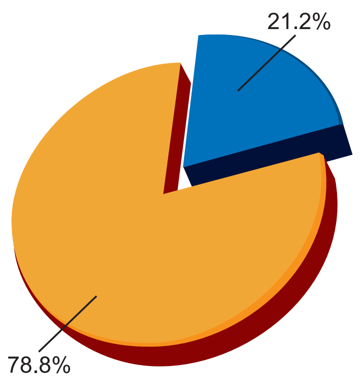
Prior to the disposal, the Group's technology business, through iAsia Online Systems Limited and other iAsia group of companies ("iAsia"), provided comprehensive online trading and related systems and services to financial institutions and intermediates and had continued to improve and integrate the existing modules of online trading and related systems to better suit the customers' needs. Through Elixir Group Limited ("Elixir") and its Macau subsidiary, Elixir offered clients in Hong Kong, Macau and the PRC full range of hardware systems, system integration services and system network services that complement iAsia's software products.



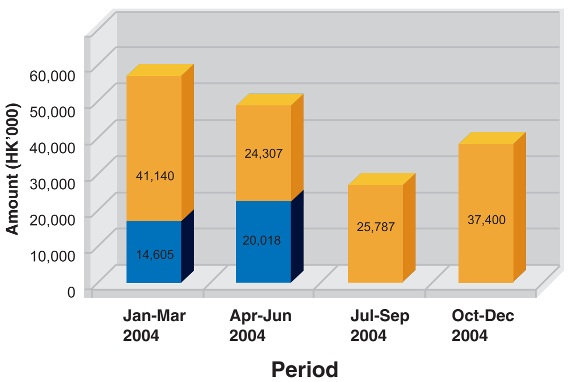
Financial and Segmental Performance

The Group's consolidated turnover amounted to approximately HK$163.3 million for the year ended 31st December 2004 (fifteen months ended 31st December 2003: approximately HK$126.2 million), an increase of approximately 29.4% over the corresponding preceding period. As discussed in the "Business Review" Section, the Group completed the disposal of its technology business on 31st May 2004 and since then, focused its development on the investment banking and financial services business. Hence, the results of operations for the seven months ended 31st December 2004 included only the results of the investment banking and financial services business while the five months ended 31st May 2004 included the results of both the investment banking and financial services business and the technology business. The composition and the trend of the Group's turnover during the year are given as follows:

Turnover Composition in %



Turnover Composition & Trend in Amount

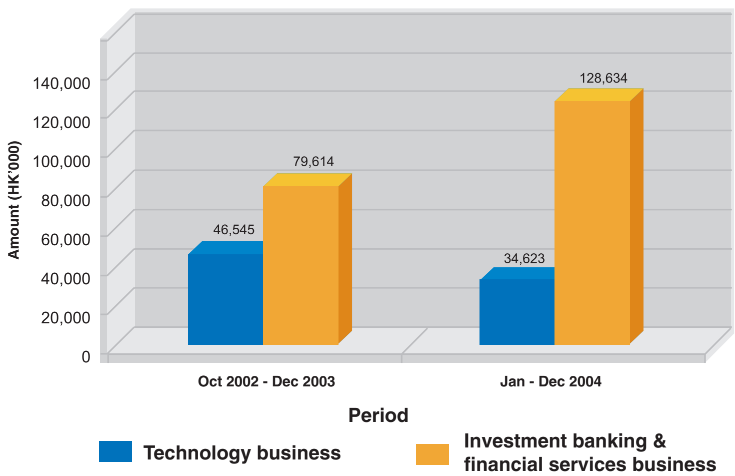


Technology business

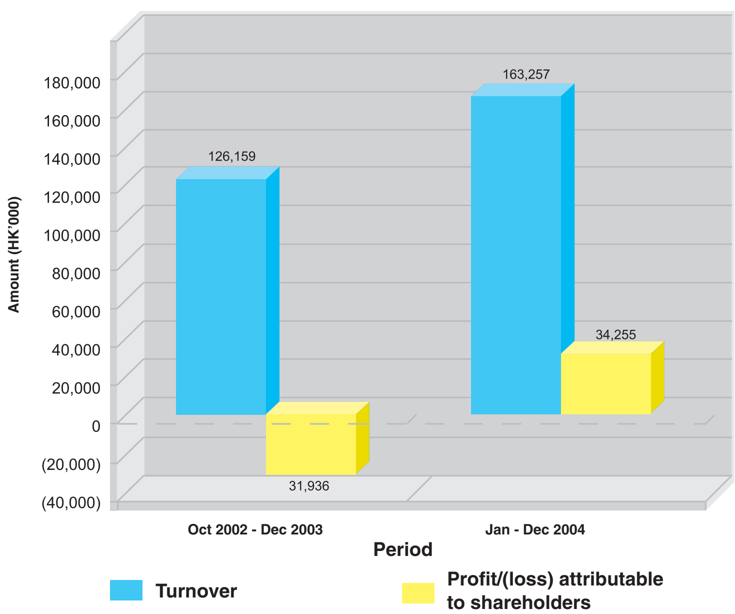
Investment banking & financial services business

Overall, the Group had made significant achievements in its financial performance during the year. Other than the increase in turnover by approximately 29.4% from 2003, the operating results had also been greatly improved. The profit attributable to shareholders for the year ended 31st December 2004 was approximately HK$34.3 million (fifteen months ended 31st December 2003: loss of approximately HK$31.9 million). The Group's encouraging financial performance was the result of the growth of market activities and the improved competitiveness of the Group through increased market share as well as the continuing focus on margin improvement and cost rationalisation during the year. Details of the financial performance of the Group are illustrated below:

Turnover Growth in Amount

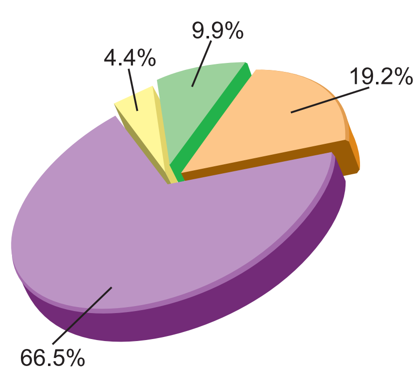


Turnover and Profit/(Loss) Attributable to Shareholders

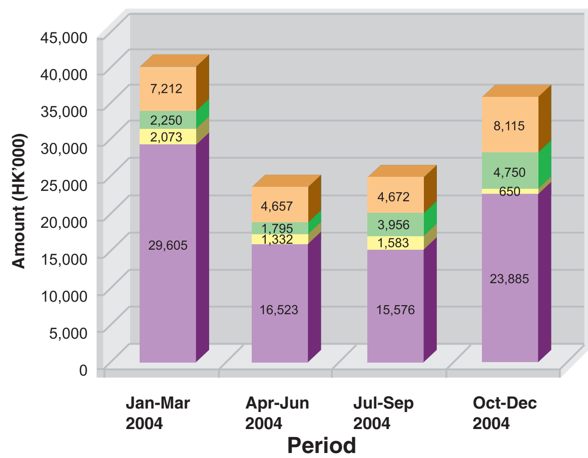


For segmental financial performance, during the year ended 31st December 2004, turnover attributed to the investment banking and financial services business was approximately HK$128.7 million (78.8% of the total turnover) as compared to approximately HK$79.6 million (63.1% of the total turnover) for the fifteen months ended 31st December 2003, representing an increase of approximately 61.6%. Such business generated four main streams of revenues including brokerage commission, underwriting and placing commission, corporate advisory fee and interest income. The composition and trend of the turnover during the year are illustrated below:

Investment Banking & Financial Services Turnover Composition in %



Investment Banking & Financial Services Turnover Composition & Trend in Amount



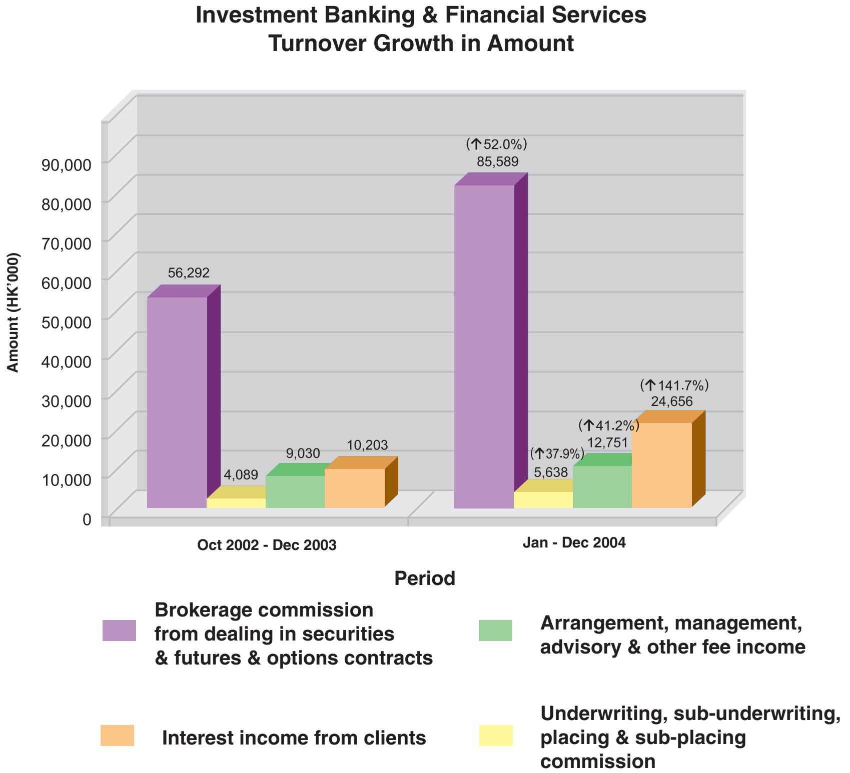
Brokerage commission from dealing in securities & futures & options contracts

Interest income from clients

Arrangement, management, advisory & other fee income

Underwriting, sub-underwriting, placing & sub-placing commission

These four main streams of revenues had increased significantly during the year as compared with the previous corresponding period. The attribution of these four main streams of revenues to the turnover of the investment banking and financial services business and their growth are shown as follows:



This segment recorded a total operating profit of approximately HK$4.8 million for the year ended 31st December 2004 as compared to an operating loss of approximately HK$6.3 million for the fifteen months ended 31st December 2003, representing a significant turnaround of approximately HK$11.1 million. As discussed in the "Business Review" section, the improvement in the financial performance of the Group was primarily owing to the increase in market activities and the successful implementation of strategic and operational initiatives to this business segment.

The technology business contributed approximately 21.2% of the Group's turnover for the year ended 31st December 2004 amounting to approximately HK$34.6 million as compared to approximately HK$46.5 million for the fifteen months ended 31st December 2003. This segment recorded an operating profit (before gain on disposal of subsidiaries) of approximately HK$2.2 million for the year ended 31st December 2004 as compared to an operating loss of approximately HK$11.2 million for the fifteen months ended 31st December 2003. As mentioned in the "Business Review" section, the Group disposed of its technology business on 31st May 2004 and focused its business on investment banking and financial services.

During the year, Hong Kong and Macau were the major markets of the Group's business. The turnover of the Group from the Hong Kong and Macau markets amounted to approximately HK$133.2 million and HK$29.8 million respectively for the year ended 31st December 2004. The operating profit (before gain on disposal of subsidiaries) for the Hong Kong and Macau markets amounted to approximately HK$7.9 million and HK$1.6 million respectively. The operating profit for the Macau market was principally the contribution made by the technology business during the year.

Liquidity and financial resources

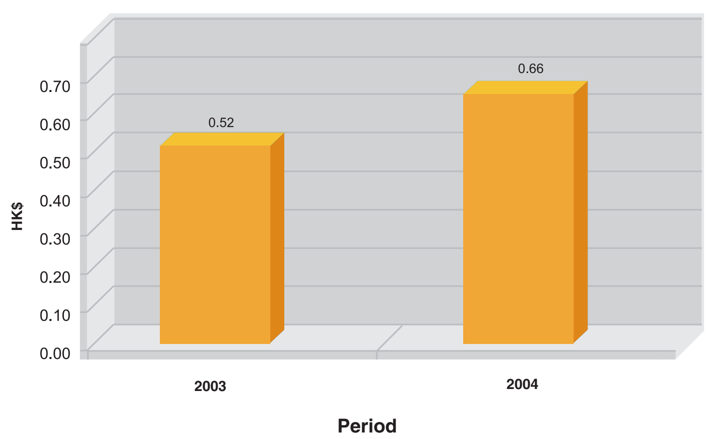
The Group financed its business operations from the cash revenues derived from operating activities, suppliers' credit, short term bank loans, bank overdrafts and shareholders' loans.

The Group had obtained banking facilities of HK$175 million from various banks as at 31st December 2004 and HK$70 million of these banking facilities was secured by margin clients' listed securities. As at 31st December 2004, the Group utilized HK$15 million of the unsecured banking facilities and the amount had been matured and repaid on 5th January 2005.

As at 31st December 2004, the Group had borrowed HK$211.9 million (31st December 2003: HK$160.0 million) loans from its ultimate holding company which were interest bearing at prime rate minus 2 per cent. per annum or HIBOR plus 1.25 – 2 per cent. per annum and repayable upon written notice from the ultimate holding company. The loans are primarily used to finance the expansion of the Group's investment banking and financial services business so as to meet the regulatory requirements and the need for a higher capital base to strengthen our business capability.

As at 31st December 2004, net current assets, cash available to the Group and shareholders' funds (other than the trust accounts) amounted to approximately HK$120.4 million (31st December 2003: HK$84.6 million), HK$50.9 million (31st December 2003: HK$102.2 million) and HK$156.2 million (31st December 2003: HK$123.5 million) respectively. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 1.43 (31st December 2003: 1.28). The net asset value per share was boosted up steadily in 2004 as follows:

Net Asset Value Per Share



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

As at 31st December 2004, the total number of issued ordinary shares of the Company was 238,154,999 shares of HK$0.10 each (31st December 2003: 238,154,999 shares of HK$0.10 each). During the year ended 31st December 2004, there was no change in the Group's capital structure.

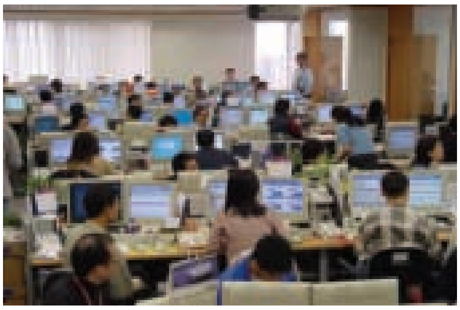
Material acquisitions and disposal of subsidiaries, significant investments and their performance

During the year ended 31st December 2004, the Group had completed the disposal of its technology business. Details of the disposal are given in the "Business Review" section. The Group did not make any significant investments and capital commitments during the year.

Headcount/Employees' information

As at 31st December 2004, the Group employed a total of 129 employees, of which 123 were stationed in Hong Kong and 6 were stationed in the PRC respectively. As at 31st December 2003, the Group employed a total of 184 employees, of which 169 were stationed in Hong Kong while the remaining employees were stationed in Macau and the PRC.

Staff costs (including directors' emoluments) and staff sales commission amounted to approximately HK$41.0 million and HK$44.5 million for the year ended 31st December 2004 respectively (fifteen months ended 31st December 2003: approximately HK$48.8 million and HK$27.5 million respectively). The Group's employees are selected and promoted based on suitability for the position offered. In addition to basic salaries and Mandatory Provident Fund Scheme, related benefits including medical coverage, sales commission, performance bonus and discretionary share options, are determined on a performance related basis within the Group's remuneration structure and is subject to annual review by our management. Training and development programmes are also provided to the Group's employees on an ongoing basis. Details of the share options granted to the employees as at 31st December 2004 are stated in the section headed "Details of outstanding options granted" in the Directors' Report.



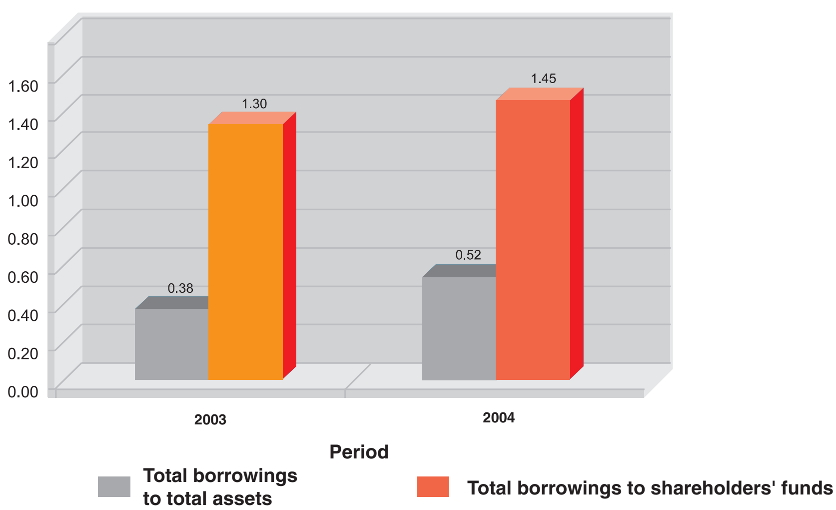
Charges on group assets

As at 31st December 2004, the Group did not charge or pledge any of its assets (31st December 2003: HK$184,000).

Gearing ratio

As at 31st December 2004, the Group's gearing ratio, expressed as a percentage of total borrowings (including bank loans and overdrafts and the loans from ultimate holding company) over shareholders' funds, was approximately 1.45 times (31st December 2003: 1.30 times), which was maintained at a satisfactory level.

Gearing Ratio



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 2004, the Group had no known plans for material investments or capital assets.

Contingent liabilities

As at 31st December 2004, the Company had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK$70 million to a bank in respect of banking facilities granted to the subsidiary (31st December 2003: HK$50 million).

Prospect

Healthy growth in the local economy is expected in 2005, bolstered by the recovery in domestic consumption from positive wealth effect after a resilient equity and property market, and export boosted by a benign macro economic environment. A continuing low Hong Kong dollar interest rate will benefit the local property market, whereas good corporate earnings, weak U.S. dollar and the currency peg all support the bullish view on the equity market.

The second phase of the Closer Economic Partnership Arrangement, effective 1st January 2005, allows intermediary agencies that are registered with the Securities and Futures Commission of Hong Kong and satisfying the requirements of the China Securities Regulatory Commission, to set up joint venture brokerage/futures companies in the Mainland. This new development is crucial for the building up of a stronger relationship between the investment banking and financial services industry practitioners in Hong Kong and the PRC. The setting up of new offices in Shenzhen, Beijing and Shanghai by the Group in 2004 is a major milestone in the development of the Group's business in the PRC. We will continue to closely monitor the development of these new measures and shall seize every opportunities to expand our deal-sourcing capability through these new measures and our PRC offices whenever possible.

Amid possible short term market volatility, our management remains optimistic in the longer-term prospect of the investment banking and financial services business. The Group will continue to strive to achieve better financial results and returns for the shareholders.

The board (the "Board") of Directors (the "Directors") of Value Convergence Holdings Limited (the "Company") is pleased to present their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2004, together with the audited comparative figures for the fifteen months period ended 31st December 2003 (The Company has changed its financial year end date from 30th September to 31st December with effect from 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. The Group had disposed of its technology business during the year under review.

An analysis of the Group's performance for the year ended 31st December 2004 by business and geographical segments is set out in note 2 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 35.

The Directors do not recommend the payment of a dividend.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

Reserves

Movements in reserves of the Group and the Company during the year ended 31st December 2004 are set out in note 24 to the accounts.

Distributable reserves

As at 31st December 2004, the Company's reserves available for distribution to shareholders, calculated under section 79B of the Companies Ordinance, amounted to HK$10,864,000 (2003: Nil).

Retirement benefits scheme

Details of the Group's retirement benefits scheme are set out in notes 1(r) and 10 to the accounts.

Five years'/periods' financial summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years/periods is set out on page 85.

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

The Company has not redeemed any of its shares during the year ended 31st December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December 2004.

Directors

The Directors during the year ended 31st December 2004 and up to the date of this report are:

Executive Directors

Dr. HO Hung Sun, Stanley *(Chairman)*
Mr. HO, Lawrence Yau Lung *(President and Vice Chairman)*
Dr. LEE Jun Sing
Mr. KO Chun Fung, Henry (resigned on 1st July 2004)

Non-executive Directors

Mr. CHENG Kar Shing, Peter (retired on 19th April 2004)
Mr. FUNG Hoo Wing, Thomas (retired on 19th April 2004)
Ms. LEONG On Kei, Angela (resigned on 13th July 2004)

Independent Non-executive Directors

Attorney PATAJO-KAPUNAN, Lorna
Dr. TYEN Kanhee, Anthony (appointed on 21st September 2004)
Mr. SHAM Sui Leung, Daniel (appointed on 10th August 2004)
Mr. TSUI Yiu Wa, Alec (resigned on 15th July 2004)

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 of the Company.

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

Directors' service contracts

As at 31st December 2004, none of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with any member of the Group which is not 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 28 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 Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2004 or at any time during such year.

Directors' and Chief Executive's interests in the Company and its associated corporations

As at 31st December 2004, the relevant interests or short positions of the Directors and the Chief Executive 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 Stock Exchange 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Directors	Nature of interests	*Notes*	Number of Shares interested	Approximate percentage of Shares interested
Dr. Ho Hung Sun, Stanley	Corporate	(1)	7,384,651	3.10%
	Personal	(4)	735,000	0.31%
Mr. Ho, Lawrence Yau Lung	Corporate	(2)	4,232,627	1.78%
	Personal	(4)	1,226,057	0.51%
Dr. Lee Jun Sing	Corporate	(3)	6,299,702	2.65%
	Personal	(4)	3,627,567	1.52%

Notes:

1. Dr. Ho Hung Sun, Stanley is taken to be interested in 7,384,651 Shares 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, Lawrence Yau Lung is taken to be interested in 4,232,627 Shares 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 is taken to be interested in 6,299,702 Shares as a result of him being beneficially interested in the entire issued share capital of Best Summit International Limited which in turn holds approximately 2.65% of the issued share capital of the Company.

4. The personal interests of the relevant Directors represent their respective derivative interests in the Company comprising the physically settled options as more particularly mentioned in sub-section headed "Derivative interests in the Company" below.

(ii) Derivative interests in the Company

Pursuant to the pre-IPO share option plan adopted by the Company on 14th March 2001 ("Pre-IPO Share Option Plan") and the share option scheme adopted by the Company on 29th November 2001 ("Share Option Scheme") as respectively described in the section headed "Details of outstanding options granted" below, as at 31st December 2004, the Directors of the Company have options granted by the Company to subscribe Shares in the Company as follows:

Name of Director	Date of grant	Exercise price per Share *HK$*	Number of underlying Shares comprised in the options outstanding as at 31st December 2004	Expiry date
Dr. Ho Hung Sun, Stanley	6th April 2001	3.6	735,000	8th October 2005
Mr. Ho, Lawrence Yau Lung	6th April 2001	3.6	735,000	8th October 2005
	9th July 2002 *(Note)*	1.0	491,057	8th July 2012
Dr. Lee Jun Sing	6th April 2001	3.6	3,136,510	8th October 2005
	9th July 2002 *(Note)*	1.0	491,057	8th July 2012

Note:

The grant of options on 9th July 2002 pursuant to the Share Option Scheme had been reviewed and approved by the then Independent Non-executive Directors of the Company.

As at 31st December 2004, none of the Directors had exercised their options.

(iii) Interests in shares and equity derivatives of Melco

Name of Directors	Nature of interests	*Notes*	Number of shares of Melco interested	Number of underlying shares of Melco interested	Approximate percentage of shares of Melco interested
Dr. Ho Hung Sun,	Corporate	(1)	2,377,500	–	0.51%
Stanley	Personal	(1)	12,646,367	–	2.73%
Mr. Ho, Lawrence	Corporate	(2)	182,455,599	–	39.39%
Yau Lung	Corporate	(3)	–	19,565,216	4.22%
	Personal	(4)	1,816,306	–	0.39%
	Personal	(4)	–	1,800,000	0.39%

Notes:

1. Dr. Ho Hung Sun, Stanley is 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 0.51% of the issued share capital of Melco. Apart from that, Dr. Ho Hung Sun, Stanley personally holds 12,646,367 shares of Melco.

2. Mr. Ho, Lawrence Yau Lung is 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 12.47% of the issued share capital of Melco. He is also taken to be interested in 124,701,087 shares of Melco as a result of him being interested in 77% of issued share capital of Better Joy Overseas Ltd. ("Better Joy") which in turn holds approximately 26.92% of the issued share capital of Melco.

   Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in Melco's shares through Better Joy are taken into account, Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung are effectively interested in 9.43% and 33.59% of Melco's shares.

3. Two convertible notes respectively due 2005 and 2006 were issued by Melco to Better Joy on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of Melco respectively dated 19th March 2004 and 23rd April 2004. As at 31st December, 2004, the total outstanding principal amount of the said convertible notes is HK$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK$2.30 per share, a total of 19,565,216 shares will be issued to Better Joy. As Mr. Ho, Lawrence Yau Lung is beneficially interested in 77% of issued share capital of Better Joy, he is deemed to be interested in these 19,565,216 underlying shares.

As mentioned above, Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If this is taken into account, Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung are effectively interested in 4,500,000 underlying shares and 15,065,216 underlying shares of Melco.

4. The personal interests of Mr. Ho, Lawrence Yau Lung consist of (a) his personal holding of 1,816,306 shares in Melco and (b) derivative interests in Melco in the form of physically settled options granted on 19th February 2004, which may be executed, as to 900,000 options, during the period from 19th February 2005 to 7th March 2012 and as to the other 900,000 options, during the period from 19th February 2006 to 7th March 2012, at an exercise price of HK$2.405 per Melco's share.

Save as disclosed above, as at 31st December 2004, none of the Directors or Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and 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 Stock Exchange 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

Substantial shareholders

As at 31st December 2004, 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 an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	**Number of Shares held**	**Approximate shareholding percentage**
Melco Financial Group Limited *(Note)*	160,930,381	67.57%

Note:

The said 160,930,381 Shares were held by Melco Financial Group Limited (formerly "Melco Finance and Technology Limited"), which is a wholly-owned subsidiary of Melco.

Save as disclosed above, as at 31st December 2004, so far as is known to the Directors, there is no other person who had an interest or a short position in the shares and underlying shares (including interests in 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.

Details of outstanding options granted

(i) Pre-IPO Share Option Plan

The Pre-IPO Share Option Plan was adopted by the Company on 14th March 2001 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 2004, options to subscribe for an aggregate of 5,868,698 underlying Shares granted on 6th April 2001 ("Pre-IPO Share Options") at an exercise price of HK$3.6 per Share (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) were outstanding, which represents approximately 2.5% (2003: 4.1%) of the shares of the Company in issue as at 31st December 2004. 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 Options 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 as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

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	3	4,606,510	3.6	6th April 2001 to 8th October 2005
Employees	3	1,262,188	3.6	6th April 2001 to 8th October 2005
Total	6	5,868,698		

The options are exercisable in accordance with the terms of the Pre-IPO Share Option Plan 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
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

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

During the year ended 31st December 2004, certain Pre-IPO Share Options to subscribe for a total of 3,871,510 underlying Shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to two Directors lapsed as the relevant Directors failed to exercise the same within 3 months after the relevant Directors ceased to be the Directors of the Company. Since the date of the grant of the Pre-IPO Share Options up to 31st December 2004, 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) Share Option Scheme

The Share Option Scheme ("Share Option Scheme") was adopted by the Company on 29th November 2001 (which superseded the previous share option scheme of the Company adopted on 14th March 2001). The purpose of the Share Option Scheme is 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 motivating 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 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 Share Option Scheme and any other schemes including the Pre-IPO Share Option 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 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 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 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 2004, options to subscribe for an aggregate of 4,188,718 and 23,160,565 underlying Shares granted on 9th July 2002 and 25th March 2004 ("Share Options") pursuant to the 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 on 5th February 2003 and 28th May 2003 respectively) and HK$0.64 per share respectively were outstanding, which in total represents approximately 11.5% (2003: 1.8%) of the shares of the Company in issue as at 31st December 2004. The adjusted closing price of the Company's shares immediately before 9th July 2002 and the closing price of the Company's shares immediately before 25th March 2004 were HK$0.65 and HK$0.64 per share respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012 and between 25th March 2004 to 24th March 2014 respectively. Accordingly to the Share Option Scheme, any Share Options 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 Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

Categories of grantees	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Share Options	Exercise price per Share *HK$*	Date of grant	Share Options duration
Directors of the Company	2	982,114	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	22	1,782,539	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	58	23,160,565	0.64	25th March 2004	25th March 2004 to 24th March 2014
Other eligible persons	6	1,424,065	1.0	9th July 2002	9th July 2002 to 8th July 2012
Total	88	27,349,283			

The options are exercisable in accordance with the terms of the 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**
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

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

During the year ended 31st December 2004, certain Share Options to subscribe for a total of 39,284 underlying Shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to four employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of the Group. Since the date of the grant of the Share Options up to 31st December 2004, none of the Share Options was exercised or cancelled.

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

The exercise price for Share Options 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 Share Options, 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 Share Options; and (iii) the nominal value of a Share.

The Directors consider that it is not appropriate to state the value of all the Share Options that were granted during the year ended 31st December 2004 under the Share Option Scheme given that the variables which are critical for the calculation of the value of such Share Options cannot be determined. The variables which are critical for the determination of the value of such Share Options include, the subscription price for the Shares upon the exercise of the subscription rights attaching to the Share Options which may be adjusted under certain circumstances and whether or not such Share Options will be exercised by the grantees. In view of the length of the option period and the possibility that the subscription price and the number of shares that may be subscribed thereunder may be adjusted prior to the exercise of the subscription rights attaching to such Share Options, the Directors are of the view that the value of the Share Options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the Share Options will not be meaningful and may be misleading to shareholders in the circumstances.

Management contracts

There exists a services agreement under which Melco Services Limited, a fellow subsidiary of the Company, provides 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 year ended 31st December 2004, the Group sold less than 30% of its goods and services to its 5 largest customers.

The percentages of purchases for the five months ended 31st May 2004 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	– 82%
– five largest suppliers combined	– 96%

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.

In respect of the investment banking and financial services of the Group, in the opinion of the Directors, it is of no value to disclose details of the Group's suppliers.

Connected transactions

Significant related party transactions entered into by the Group or previously entered into by the Group and subsisted during the year ended 31st December 2004 are disclosed in note 28 to the accounts. Those constituted 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 6th October 2003, Elixir (previously a 77.5% owned subsidiary of the Company and after the completion of the iAsia Group Disposal Agreement as disclosed in the Company's circular dated 23rd April 2004 ("iAsia Group Disposal Agreement"), became a 77.5% indirectly owned subsidiary of Melco and with effect from 16th December 2004 a wholly-owned subsidiary of Melco) had conditionally entered into a service arrangement with Sociedade de Jogos de Macau, S.A. ("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 (the "Service Arrangement"). As it was expected that the transactions contemplated under the Service Arrangement would extend over a period of time and would take place on an ongoing basis, the Service Arrangement constituted continuing connected transactions for the Company under the GEM Listing Rules and the independent shareholders' approval in respect of which had been obtained by the Company at an extraordinary general meeting held on 19th November 2003. It was one of the conditions of the approval of the independent shareholders of the Company that the annual total amount payable by SJM to Elixir under the Service Arrangement would 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 Cap"). 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. The Annual Cap of US$4 million set for 2004 was approved by the independent shareholders of the Company at its annual general meeting held on 19th April 2004.

Aa a result of the completion of the iAsia Group Disposal Agreement, Elixir ceased to be a subsidiary of the Company and accordingly, the Service Arrangement ceased to be continuing connected transactions of the Company. Prior to the completion of the iAsia Group Disposal Agreement, the sales recognized by Elixir for the period from 1st January 2004 to 31st May 2004 under the Service Arrangement amounted to approximately US$2.6 million (HK$20.3 million), which was within the Annual Cap of US$4 million for the year ended 31st December 2004.

The said continuing connected transactions (which subsisted up to the completion of the iAsia Group Disposal Agreement) have been reviewed by the independent Non-executive Directors of the Company, who confirmed the same have 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 of the Company as a whole; and (d) had not exceeded the relevant Annual Cap.

The auditors of the Company have also confirmed that the continuing connected transactions (a) had received the approval from the Company's board of directors; (b) were 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 relevant Annual Cap.

2. On 19th March 2004, Melco and the Company had entered into the iAsia Group Disposal Agreement, pursuant to which the Company had agreed to sell and Melco had agreed to purchase the entire issued share capital of iAsia Technology Limited, a company wholly-owned by the Company, for a consideration of HK$27.9 million. Since the Company is a non-wholly owned subsidiary of Melco, the iAsia Group Disposal Agreement constituted a discloseable and connected transaction of the Company under the GEM Listing Rules. Details of this connected transaction had been disclosed in the announcement and the circular of the Company respectively dated 23rd March 2004 and 23rd April 2004.

Advances to an entity

During the year ended 31st December 2004, one of the Company's subsidiaries had made an advance to an entity in respect of which certain percentage ratios as specified in Chapter 14 of the GEM Listing Rules exceeded 8%. As such advance continued to exist as at the year end date, details of such advance are required to be disclosed in accordance with Chapter 17 of the GEM Listing Rules and are as follows:

On 31st August 2004, VC Brokerage Limited (a wholly-owned subsidiary of the Company), as lender, had entered into a loan agreement ("Loan Agreement") with CV Capital partners Limited ("Borrower") pursuant to which VC Brokerage Limited had agreed to make available to the Borrower a term loan facility in the maximum principal amount of up to HK$70 million for the purpose of facilitating the Borrower together with a number of other persons, all are independent third parties and not connected with the Directors, Chief Executive or substantial shareholders of the Group, in the acquisition of a majority stake in a company listed on the main board of the Stock Exchange ("Target Company"), as well as the fulfilment of the obligations relating to the mandatory cash offers for all the then issued shares of the Target Company in accordance with the Hong Kong Code on Takeovers and Mergers. Pursuant to the Loan Agreement, the securities of the loan facility provided by the Borrower included a personal guarantee from an independent third party, share mortgages over certain shares of the Target Company and certain shares of another company listed on the Singapore Stock Exchange and a charge over accounts. Notwithstanding the maximum loan facility amount was HK$70 million, the Borrower had only drawn down HK$38 million in mid-September 2004 with the outstanding credit limit being cancelled subsequently pursuant to the terms of the Loan Agreement. The said loan was provided out from the internal resources of VC Brokerage Limited and bore interest at the rate of three per cent. per annum over the prime rate. Subject to the terms of the Loan Agreement, the said loan of HK$38 million and interest thereon shall be fully repaid by the Borrower in mid-September 2005. The Directors are of the view that such loan facility provided by VC Brokerage Limited fall within the normal scope of financial services business of VC Brokerage Limited. Further details of the said loan facility had been disclosed in the announcement and the circular of the Company dated 3rd September 2004 and 18th October 2004 respectively.

Board practices and procedures

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31st December 2005.

Independent non-executive directors

Confirmation of independence has been received from each of the Independent Non-executive Directors of the Company and the Company considers all existing Independent Non-executive Directors to be independent.

Audit committee

The Company's audit committee was formed on 14th March 2001 and is currently comprised of the Independent Non-executive Directors of the Company. As at 31st December 2004, the Independent Non-executive Directors of the Company were Attorney Lorna Patajo-Kapunan, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kanhee, Anthony. The terms of reference of the audit committee have been established with regard to Rule 5.29 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 year ended 31st December 2004, two audit committee meetings were to be held to review the Company's reports and accounts. The meeting to review the annual financial statements of the Company for the fifteen-month period ended 31st December 2003 was held on 17th March 2004 and the said annual financial statements were reviewed and approved by the audit committee members for submission to the Board for approval. The audit committee meeting to review the Company's 2004 interim financial statements was dispensed with by the committee members. Written approval was received from the audit committee members and the 2004 interim results were submitted to the Board for approval.

Competing interests

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

Save as disclosed above, as at 31st December 2004, none of the Directors, 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.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and will not offer themselves for re-appointment as auditors in the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting to appoint Deloitte Touche Tohmatsu as the Company's auditors at remuneration to be fixed by the Board of Directors.

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

8th March 2005

Executive Directors

Dr. HO Hung Sun, Stanley, G.B.S., aged 83, 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 is Group Executive Chairman of Shun Tak Holdings Limited, 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.

Dr. Ho is Standing Committee member of the 10th National Committee of the Chinese People's Political Consultative Conference; Honorary Lifetime Chairman of The University of Hong Kong Foundation for Educational Development and Research; Founding Member of Court of The Hong Kong Polytechnic University; Trustee of Macau Foundation; Member of the Economic Council of Macau Special Administrative Region; as well as Council Member of 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.

Dr. Ho is the holder of honorary doctorates of social sciences of The University of Hong Kong, The Hong Kong Polytechnic University and University of Macau in 2004. He was awarded the Honorary Degree of Doctor of Business Administration by The Open University of Hong Kong.

Mr. HO, Lawrence Yau Lung, aged 28, joined the Group in October 2000. Mr. Ho is the son of Dr. Ho Hung Sun, Stanley, the founder of the Shun Tak Group and Sociedade de Turismo e Diversoes 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 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 and overseeing the overall strategic development, management and operations of the Group and Melco. Before heading the Group and Melco, Mr. Ho worked at Jardine Fleming and Citibank N.A. Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce.

Mr. Ho is a Member of The Chinese People's Political Consultative Conference, Shanghai Committee, Vice-Chairman of The Chamber of Hong Kong Listed Companies Limited, Member of All China Youth Federation, Member of Science and Technology Council of Macau Special Administrative Region, Member of Macau Basic Law, Honorary Chairman of Association of Property Agents and Real Estate Developers of Macau, Chairman of Macau International Volunteers Association, Lifetime Member of Macao Chinese General Chamber of Commerce, Board of Governor of The Canadian Chamber of Commerce in Hong Kong, Chairman of The Centre for International Child Health (China Campaign), Director of Aids Concern and Honorary Lifetime Director of the Chinese General Chamber of Commerce.

Dr. LEE Jun Sing, aged 58, joined the Group in January 2000 and is one of the founders of the Company. 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.

Independent Non-Executive Directors

Attorney PATAJO-KAPUNAN, Lorna, aged 52, 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.

Dr. Tyen Kanhee, Anthony, aged 49, joined the Group in September 2004. He holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators, and a member of the Chinese Institute of Certified Public Accountants. He is currently a practising certified public accountant in Hong Kong and has over 27 years' experience in auditing, accounting, management and company secretarial practice. Dr. Tyen is also a director of Recruit Holdings Limited, the securities of which are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited.

Mr. Sham Sui Leung, Daniel, aged 49, joined the Group in August 2004. Mr. Sham graduated with a Bachelor of Arts in Economics at University of Leeds. He qualified as a chartered accountant in England and Wales, and worked as a certified public accountant in Hong Kong for over 20 years. He was a partner of Moores Rowland Mazars for 14 years until he retired on 31st December 2003. Mr. Sham has all-round experience in accounting, auditing and other related works, especially in the fields of corporate finance and securities regulations. He is currently an independent non-executive director of AEON Stores (Hong Kong) Co. Ltd, a company listed on the Stock Exchange of Hong Kong Limited.

Senior Management

Mr. NG Man Hoi, Paul (Chief Operating Officer of Value Convergence Holdings Limited), aged 47, possesses over 19 years of experience in the finance and banking industry. He joined the CEF Group in 1992 and was transferred to the present VC 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.

Mr. LAM Cho Ying, Terence Joe (Managing Director of VC Brokerage Limited), aged 43, joined the Group in April 2004. Mr. Lam has been in the financial industries for more than 19 years. He started out his career at JP Morgan Chase subsequently with Tai Fook Securities, Crosby Securities, Yuanta Securities and his last appointment was with Kim Eng Securities. Mr. Lam holds a bachelor degree from University of Houston, majoring in finance and marketing.

Mr. CHAU King Fai, Philip (Managing Director of VC Capital Limited), aged 43, joined the Group in May 2004. Mr. Chau has over 19 years of experience in banking and corporate finance. He has served as corporate finance directors in REXCAPITAL (Hong Kong) Limited, SocGen-Crosby Securities (HK) Limited (now SG Securities (HK) Ltd.) and SBC Warburg Dillon Read (now UBS Investment Bank). Before joining the corporate finance field, Mr. Chau had worked with several major international banks. Mr. Chau has been involved in numerous corporate finance transactions including floatation of various companies on stock exchanges in Hong Kong and the PRC, fund raising exercises of listed companies in the secondary market and financial advisory work of various nature for public and private companies in the Greater China region. Mr. Chau holds a bachelor degree in Business Administration majored in Finance.

Mr. CHOW Wing Kit, Dennis (Managing Director of VC Asset Management Limited), aged 46, joined the Group in May 2004. Mr. Chow has been working in asset management, securities and investment banking industry for almost 20 years. Before joining VC Asset Management Limited, he was the Investment Head for several well-known international organizations. Mr. Chow holds a master degree in Business Administration. He is Certified Risk Planner of The Institute of Crisis and Risk Management, Registered Financial Planner of Hong Kong Institute of Registered Financial Planners and Member of Hong Kong Securities Institute. Mr. Chow directs VC Asset Management Limited in asset allocation, strategy and final investment decision-making and day-to-day operations.

Mr. CHING Ho Ming, Martin (Head of Research of VC Brokerage Limited), aged 42, joined the Group in April 2003. Mr. Ching is an extensively experienced professional and research analyst. He has over 15 years of experience in the investment banking and equities research business in Hong Kong and London. Mr. Ching was head of Hong Kong and China research in Cazenove Asia, GK Goh Securities and Prudential-Bache Securities. He was a rated China analyst in red chips sector (rated by Asia Money) in 2000, 2001 and 2004. Mr. Ching is a qualified chartered accountant, and was an audit manager at KPMG prior to working in equity research field. He graduated from Loughborough University of Technology and was awarded a BSc First Class Honour in Civil Engineering.

Mr. TSANG Yuen Wai, Samuel (Company Secretary of Value Convergence Holdings Limited), aged 50, 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, 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 of Value Convergence Holdings Limited), aged 33, joined the Group in January 2000. Ms. Fung is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Before 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 has 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. She holds a Honours Degree in Accountancy from Hong Kong Polytechnic University.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF
VALUE CONVERGENCE HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the accounts of Value Convergence Holdings Limited (the "Company") and its subsidiaries (together as the "Group") on pages 35 to 84 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 issued by the Hong Kong Institute of Certified Public 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 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8th March 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Note(s)	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000
Turnover	2, 28(d)	**163,257**	126,159
Cost of sales of computer hardware and software		**(23,810)**	(27,942)
Other revenues	2	**3,207**	696
Realised (loss)/gain on trading of other investments		**(3,425)**	9,228
Unrealised gain on holding of other investments		**1,312**	958
Staff costs	10	**(41,027)**	(48,849)
Depreciation of fixed assets		**(4,390)**	(13,870)
Amortisation of trading rights		**(507)**	(526)
Amortisation of goodwill		**–**	(2,282)
Impairment of fixed assets		**–**	(3,080)
Impairment of investment securities – unlisted equity securities		**–**	(1,200)
Commission expenses		**(50,440)**	(31,119)
Finance costs	5, 28(d)	**(8,108)**	(3,773)
Other operating expenses	28(d)	**(27,981)**	(36,406)
Gain on disposal of subsidiaries	4, 25(c)	**26,384**	–
Operating profit/(loss)	3	**34,472**	(32,006)
Taxation	6	**–**	–
Profit/(loss) after taxation		**34,472**	(32,006)
Minority interests		**(217)**	70
Profit/(loss) attributable to shareholders	7	**34,255**	(31,936)
Basic earnings/(loss) per share (HK cents)	9	**14.4**	(16.2)
Diluted earnings/(loss) per share (HK cents)	9	**N/A**	N/A

Consolidated Balance Sheet

As at 31st December 2004

	Note(s)	2004 HK$'000	2003 HK$'000
Non-current assets			
Goodwill	12	**19,705**	19,705
Trading rights	13	**2,786**	3,293
Fixed assets	14	**4,641**	9,773
Investment securities	16	**4,800**	800
Statutory deposits for investment banking and financial services business		**3,359**	4,219
Other non-current assets		**547**	1,072
		35,838	38,862
Current assets			
Inventories	17	**–**	1,817
Accounts receivable	18, 28(b)	**306,189**	234,332
Prepayments, deposits and other receivables	19, 28(b)	**3,782**	6,504
Other investments	20	**40,641**	40,638
Amount due from an investee company	28(a)	**6**	4
Amounts due from fellow subsidiaries	28(a)	**1,857**	–
Pledged bank deposits		**–**	184
Bank balances and cash		**50,916**	102,190
		403,391	385,669
Current liabilities			
Accounts payable	21, 28(c)	**36,466**	108,400
Accrued liabilities and other payables	28(c)	**11,209**	27,903
Short term bank borrowings, unsecured		**15,000**	–
Amount due to ultimate holding company	28(a)	**4,858**	4,673
Amount due to a fellow subsidiary	28(a)	**3,547**	67
Loans from ultimate holding company	28(d)	**211,900**	160,000
		282,980	301,043
Net current assets		**120,411**	84,626
Total assets less current liabilities		**156,249**	123,488
Financed by:			
Share capital	22	**23,815**	23,815
Reserves	24	**132,434**	99,673
Shareholders' funds		**156,249**	123,488

Ho Hung Sun, Stanley	**Ho, Lawrence Yau Lung**
Director	*Director*

Balance Sheet

As at 31st December 2004

	Note(s)	2004 HK$'000	2003 HK$'000
Non-current assets			
Investments in subsidiaries	15	**345,007**	253,367
Current assets			
Accounts receivable	18, 28(b)	**1,385**	2,912
Prepayments, deposits and other receivables	28(b)	**555**	555
Other investments	20	**5,918**	40,638
Amounts due from subsidiaries	15	**97,519**	–
Amounts due from fellow subsidiaries	28(a)	**1,791**	–
Bank balances and cash		**7,525**	5,790
		114,693	49,895
Current liabilities			
Accrued liabilities and other payables	28(c)	**351**	901
Amount due to ultimate holding company	28(a)	**6,948**	3,447
Amounts due to subsidiaries	15	**78,964**	–
Amount due to a fellow subsidiary	28(a)	**3,100**	67
Loans from ultimate holding company	28(d)	**211,900**	160,000
		301,263	164,415
Net current liabilities		**(186,570)**	(114,520)
Total assets less current liabilities		**158,437**	138,847
Financed by:			
Share capital	22	**23,815**	23,815
Reserves	24	**134,622**	115,032
Shareholders' funds		**158,437**	138,847

Ho Hung Sun, Stanley
Director

Ho, Lawrence Yau Lung
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note(s)	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000
Net cash used in operation	25(a)	**(129,860)**	(58,515)
Hong Kong profits tax paid		**–**	–
Interest paid		**(8,108)**	(3,773)
Interest received from authorised financial institutions		**99**	421
Net cash outflow from operating activities		**(137,869)**	(61,867)
Investing activities			
Disposal of subsidiaries net of cash and cash equivalents	25(c)	**(2,489)**	–
Purchase of subsidiaries net of cash and cash equivalents acquired	25(d)	**–**	(105,626)
Proceeds from disposal of other investments included in the net assets of subsidiaries acquired		**–**	21,000
Purchase of other investments less proceeds from subsequent disposals		**(2,112)**	(30,452)
Purchase of fixed assets		**(669)**	(7,723)
Proceeds from disposal of fixed assets		**21**	11
Purchase of investment securities		**(4,000)**	–
Decrease/(increase) in pledged bank deposits		**184**	(184)
Decrease/(increase) in statutory deposits for investment banking and financial services business		**860**	(931)
Net cash outflow from investing activities		**(8,205)**	(123,905)
Financing activities			
Loans from ultimate holding company	25(b)	**79,800**	160,000
Short term bank borrowings, net	25(b)	**15,000**	–
Proceeds from issue of shares	25(b)	**–**	102,067
Share issue expenses	25(b)	**–**	(4,440)
Net cash inflow from financing		**94,800**	257,627
(Decrease)/Increase in cash and cash equivalents		**(51,274)**	71,855
Cash and cash equivalents at the beginning of year/period		**102,190**	30,219
Effect of change in foreign currency translation		**–**	116
Cash and cash equivalents at the end of year/period		**50,916**	102,190
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**50,916**	102,190

Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

	Note(s)	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000
Total equity as at the beginning of the year/period		**123,488**	57,147
Profit/(loss) attributable to shareholders	24	**34,255**	(31,936)
Issue of rights shares	22	**–**	102,067
Share issue expenses	24	**–**	(4,440)
Exchange difference transferred to profit and loss account arising on translation of accounts of an overseas subsidiary	24	**–**	650
Exchange difference transferred to profit and loss account upon the winding up of an overseas subsidiary		**(1,494)**	–
Total equity as at the end of the year/period		**156,249**	123,488

1 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except the other investments which are carried at fair value as described below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these New HKFRSs in the accounts for the year ended 31st December 2004 except for Hong Kong Financial Reporting Standard No. 3 "Business Combination" ("HKFRS 3"), Hong Kong Accounting Standard No. 36 "Impairment of Assets" ("HKAS 36") and Hong Kong Accounting Standard No. 38 "Intangible Assets" ("HKAS 38"). The Group has already commenced an assessment of the impact of the remaining New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

The early adoption of HKFRS 3 has resulted in a prospective change in the accounting policy for goodwill. Up to 31st December 2003, goodwill was amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount. With the adoption of HKFRS 3, the Group has ceased to amortise goodwill from 1st January 2004 and accumulated amortisation as at 31st December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From 1st January 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The effect of adopting this new policy is set out in Note 1(e) below. The Group has reassessed the useful lives of its other intangible assets and no adjustment has resulted from this reassessment.

The early adoption of HKAS 36 and HKAS 38 have no material impact to the accounts of the Group.

The financial year end date of the Company was changed from 30th September to 31st December with effect from 2003. As a result, the comparative figures 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.

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

1 Principal accounting policies (continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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, investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Revenue recognition

Revenue 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 year/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 the relevant services are rendered.

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

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

1 Principal accounting policies (continued)

(d) Revenue recognition (continued)

Revenue 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 and 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 over the period of the respective agreements.

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

Interest income from authorised financial institutions are 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.

Service fees are recognised when the relevant services are rendered.

(e) 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 subsidiaries at the date of acquisition.

Prior to 1st January 2004, goodwill on acquisition is amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

1 Principal accounting policies (continued)

(e) Goodwill (continued)

On 1st January 2004, the Group has early adopted HKFRS 3 issued by HKICPA. All changes in the accounting policies have been made prospectively. There was no impact on opening accumulated losses at 1st January 2004 from the adoption of HKFRS 3. Goodwill amortisation of approximately HK$2,199,000 was not charged for the year ended 31st December 2004 upon the adoption of HKFRS 3. Instead, goodwill will be tested at least annually for impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's primary reporting segment. An impairment loss is recognised for the amount by which the goodwill's carrying amount exceeds its recoverable amount.

(f) Trading rights

Trading rights, representing rights to trade on The Stock Exchange of Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6 March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, trading rights are grouped at the lowest levels for which these are separately identifiable cashflows (cash-generating units).

1 Principal accounting policies (continued)

(g) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation

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 costs less accumulated impairment losses on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Furniture, fixtures and equipment	20-25%
Computer equipment and software	25-33$^1/_3$%

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

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed 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.

(h) Investments in securities

(i) Investment securities

Investment securities are stated at cost less 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 the 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.

1 Principal accounting policies (continued)

(h) Investments 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.

(i) Accounts receivable

Impairment losses is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such impairment losses.

(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.

(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.

(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.

1 Principal accounting policies (continued)

(m) Contingent liabilities and contingent assets

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, it will then be recognised as a provision.

A contingent asset is a possible asset 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.

A contingent asset is not recognised but is disclosed in the notes to the accounts, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(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.

(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 received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

1 Principal accounting policies (continued)

(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 into Hong Kong dollars at exchange rates ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences in this case are dealt with as a movement in reserves.

(q) Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off balance sheet items. As at 31st December 2004, the Group maintained segregated accounts with HKFE Clearing Corporation Limited ("HKCC") and the authorised financial institutions in conjunction with its futures and brokerage businesses as a result of its normal financial services business transactions with amounts of HK$1,390,000 (2003: HK$6,118,000) and HK$232,532,000 (2003: HK$249,349,000), respectively, which are not otherwise dealt with in the accounts.

(r) Employee benefits

(i) Pension obligations

The Group operates a mandatory provident fund and a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The mandatory provident fund is funded by the Group and the employee. The defined contribution scheme is funded by the Group.

The Group's contributions to both retirement benefits schemes are expensed as incurred. The Group's mandatory contributions to the mandatory provident fund are vested immediately. The Group's contributions to the defined contribution scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(ii) Employee leave and long service payment entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. An accrual 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 such leave is taken.

1 Principal accounting policies (continued)

(r) Employee benefits (continued)

(iii) Profit sharing and bonus plans

The expected costs of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(s) 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 year in which they are incurred.

(t) 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 revenues/costs represent corporate revenues/expenses. Segment assets comprise all current and non-current assets. Segment liabilities comprise all operating liabilities but exclude items such as taxation. 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 and total assets and capital expenditure are where the assets are located.

2 Turnover and segment information

Turnover principally arises from the (i) investment banking and financial services business (comprising, among others, provision of initial public offerings, mergers, acquisitions, and other corporate finance related advisory services; and securities, futures and options broking and dealing); and (ii) technology business (comprising sales of technology solution systems and provision of related services to customers in Asia). The technology business has been disposed of on 31st May 2004 to its ultimate holding company and therefore the technology business's turnover reflects turnover for the five months period ended 31st May 2004.

	Year ended 31st December 2004 *HK$'000*	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Turnover		
(i) Investment banking and financial services:		
– Brokerage commission from dealing in securities on SEHK and overseas exchanges; and futures and options contracts on HKFE	**85,589**	56,292
– Underwriting, sub-underwriting, placing and sub-placing commission	**5,638**	4,089
– Arrangement, management, advisory and other fee income	**12,751**	9,030
– Interest income from clients	**24,656**	10,203
	128,634	79,614
(ii) Sales of technology solution systems and related services	**34,623**	46,545
	163,257	126,159
Other revenues		
Interest income from authorised financial institutions	**99**	421
Dividend income	**938**	176
Service fees from fellow subsidiaries *(Note 28(d)(iv))*	**1,860**	–
Sundry income	**310**	99
	3,207	696
Total revenues	**166,464**	126,855

2 Turnover and segment information (continued)

Primary reporting formal – business segments

For the year ended 31st December 2004, the Group's business can be segregated into the following two main business segments:

(i) Investment banking and financial services (continuing operation)

(ii) Sales of technology solution systems and related services (discontinuing operation) *(Note)*

Note: The Company disposed of its technology business to its ultimate holding company on 31st May 2004. With effect from 1st June 2004, the Group has been engaged in investment banking and financial services business only.

	Year ended/As at 31st December 2004			
	Continuing operation Investment banking and financial services HK$'000	Discontinuing operation Sales of technology solution systems and related services HK$'000	Corporate HK$'000	Total HK$'000
Segment turnover	128,915	35,504		164,419
Intersegment sales	(281)	(881)		(1,162)
	128,634	34,623		163,257
Segment results	4,793	2,191		6,984
Gain on disposal of subsidiaries	–	26,384		26,384
Unallocated revenues				1,104
Operating profit				34,472
Taxation				–
Profit after taxation				34,472
Minority interests				(217)
Profit attributable to shareholders				34,255
Segment assets	429,311	–	9,918	439,229
Segment liabilities	278,012	–	4,968	282,980
Other segment information:				
Depreciation of fixed assets	3,632	367	391	4,390
Amortisation of trading rights	507	–	–	507
Capital expenditures	480	177	12	669
Impairment of doubtful receivables	1,587	–	–	1,587

2 Turnover and segment information (continued)

	Period from 1st October 2002 to 31st December 2003/ As at 31st December 2003			
	Continuing operation	Discontinuing operation		
	Investment banking and financial services	Sales of technology solution systems and related services	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment turnover	80,049	49,315		129,364
Intersegment sales	(435)	(2,770)		(3,205)
	79,614	46,545		126,159
Segment results	(6,286)	(11,220)		(17,506)
Unallocated costs				(14,500)
Operating loss				(32,006)
Taxation				–
Loss after taxation				(32,006)
Minority interest				70
Loss attributable to shareholders				(31,936)
Segment assets	389,105	25,662	9,764	424,531
Segment liabilities	113,443	23,323	164,277	301,043
Other segment information:				
Depreciation of fixed assets	3,974	8,749	1,147	13,870
Amortisation of trading rights	526	–	–	526
Amortisation of goodwill	2,282	–	–	2,282
Capital expenditures	19,792	2,113	–	21,905
Impairment of fixed assets	–	3,080	–	3,080
Impairment of investment securities	–	–	1,200	1,200
Impairment of doubtful receivables	1,934	122	–	2,056

2 Turnover and segment information (continued)

Secondary reporting format – geographical segments

	Year ended/As at 31st December 2004			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**133,159**	**7,936**	**433,696**	**470**
The People's Republic of China excluding Hong Kong and Macau (the "PRC")	**263**	**(2,502)**	**733**	**95**
Macau	**29,835**	**1,550**	**–**	**104**
	163,257	**6,984**	**434,429**	**669**
Gain on disposal of subsidiaries		**26,384**		
Unallocated revenues		**1,104**		
Operating profit		**34,472**		
Investment securities			**4,800**	
Total assets			**439,229**	

	Period from 1st October 2002 to 31st December 2003/ As at 31st December 2003			
	Turnover	Segment results	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	101,757	(16,327)	401,398	19,566
The PRC	–	(501)	614	564
United Kingdom	–	–	992	–
Macau	24,402	(678)	20,727	1,775
	126,159	(17,506)	423,731	21,905
Unallocated costs		(14,500)		
Operating loss		(32,006)		
Investment securities			800	
Total assets			424,531	

3 Operating profit/(loss)

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

	Year ended 31st December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000
Auditors' remuneration	**968**	452
(Gain)/loss on disposal of fixed assets	**(21)**	555
Operating leases in respect of land and buildings	**3,521**	7,100
Net exchange gain	**(171)**	(48)
Impairment of doubtful receivables	**1,587**	2,056

4 Discontinuing operation

On 31st May 2004, the Group completed the disposal of the whole technology business to its ultimate holding company. Such transaction is reported in the accounts as discontinuing operation. The turnover, results and net assets involved in the disposal are as follows:

	Period from 1st January 2004 to 31st May 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000
Turnover	**34,623**	46,545
Operating costs	**(32,432)**	(57,765)
Operating profit/(loss)	**2,191**	(11,220)
Finance costs	**–**	–
Profit/(loss) before taxation	**2,191**	(11,220)
Taxation	**–**	–
Profit/(loss) after taxation	**2,191**	(11,220)
Minority interests	**(217)**	70
Profit/(loss) attributable to shareholders	**1,974**	(11,150)
Net cash (outflow)/inflow from operating activities	**(11,313)**	15,240
Net cash outflow from investing activities	**(169)**	(2,110)
Total net cash (outflow)/inflow	**(11,482)**	13,130

4 Discontinuing operation (continued)

	As at 31st May 2004 HK$'000	As at 31st December 2003 HK$'000
Non-current assets	**1,411**	1,602
Current assets	**53,091**	24,060
Total assets	**54,502**	25,662
Current liabilities	**(52,769)**	(23,323)
Minority interests	**(217)**	–
Net assets	**1,516**	2,339
Consideration *(Note)*	**27,900**	
Net assets sold	**(1,516)**	
Gain on disposal of discontinuing operation	**26,384**	
The net cash outflow on disposal is determined as follows:		
Cash and cash equivalents in the business sold	**(2,489)**	
Net cash outflow from disposal of discontinuing operation	**(2,489)**	

Note: The consideration was satisfied by way of offsetting against the loans from ultimate holding company.

5 Finance costs

	Year ended 31st December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000
Interests on bank loans and overdrafts wholly repayable within five years	**2,686**	2,320
Interests on loans from ultimate holding company and a fellow subsidiary	**5,422**	1,772
Others	**–**	40
Total borrowing costs incurred	**8,108**	4,132
Less: interests on bank loans and overdrafts capitalised	**–**	(359)
	8,108	3,773

Finance costs were presented after operating profit/(loss) in the consolidated profit and loss account for the period from 1st October 2002 to 31st December 2003. The Directors consider that finance costs were incurred in relation to the operation of the Group and the change for the year ended 31st December 2004 provides better presentation of the results of the Group.

6 Taxation

No provision for Hong Kong or overseas profits tax has been made in the accounts as the assessable profits of individual company within the Group for the year ended 31st December 2004 were offset by the previously unrecognised tax losses (2003: Nil).

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

	Year ended 31st December 2004 *HK$'000*	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Profit/(loss) before taxation	**34,472**	(32,006)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**6,033**	(5,601)
Effect of different taxation rates in Macau	**(40)**	5
Income not subject to taxation	**(4,617)**	–
Expenses not deductible for taxation purposes	**–**	399
Utilisation of previously unrecognised tax losses	**(5,324)**	(71)
Unrecognised deferred tax assets arising from estimated tax losses	**3,948**	5,268
Taxation charges	**–**	–

Deferred income tax assets are recognised for tax losses 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$169,910,000 and HK$47,698,000 (2003: HK$285,603,000 and HK$68,447,000) respectively to carry forward against future taxable income. As at 31st December 2004, the above tax losses of the Group and the Company were available for carry forward but subject to the approval of the Hong Kong Inland Revenue Department. These tax losses have no expiry date.

7 Profit/(loss) attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$19,590,000 (Period from 1st October 2002 to 31st December 2003: loss of HK$44,715,000).

8 Dividends

No dividends have been paid or declared by the Company during the year ended 31st December 2004 (Period from 1st October 2002 to 31st December 2003: Nil).

9 Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK$34,255,000 for the year ended 31st December 2004 (Period from 1st October 2002 to 31st December 2003: loss of approximately HK$31,936,000) and 238,154,999 ordinary shares (Period from 1st October 2002 to 31st December 2003: weighted average number of 197,634,724 ordinary shares) in issue during the respective periods.

Diluted earnings/(loss) per share has not been presented for the year ended 31st December 2004 and for the period from 1st October 2002 to 31st December 2003 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings/(loss) per share.

10 Staff costs (including Directors' emoluments)

	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003
	HK$'000	*HK$'000*
Wages and salaries	**38,423**	45,797
Staff welfare	**730**	876
Recruitment costs	**201**	–
Unutilised annual leave	**(89)**	788
Termination benefits	**810**	2,270
Pension costs – contributions to defined contribution plans	**1,307**	1,845
Forfeiture of pension contributions	**(209)**	(2,700)
Reversal of provision for long services payment	**(146)**	(27)
	41,027	48,849

11 Directors' and five highest paid individuals' emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to the Directors of the Company are as follows:

	Year ended 31st December 2004 *HK$'000*	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Fees:		
Executive Directors	**–**	–
Non-executive Directors	**–**	–
Independent Non-executive Directors	**265**	300
	265	300
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind		
Executive Directors	**1,149**	2,100
Non-executive Directors	**–**	–
Independent Non-executive Directors	**–**	–
Retirement benefits scheme contributions		
Executive Directors	**18**	30
Non-executive Directors	**–**	–
Independent Non-executive Directors	**–**	–
	1,167	2,130
	1,432	2,430

During the year, no (Period from 1st October 2002 to 31st December 2003: Nil) share options of the Company were granted to the Directors of the Company in respect of their services provided to the Group, further details of which are set out in note 23 to the accounts. No value in respect of the share options granted during the year has been charged to the profit and loss account (Period from 1st October 2002 to 31st December 2003: Nil).

11 Directors' and five highest paid individuals' emoluments (continued)

(a) Directors' emoluments (continued)

During the year, two new Independent Non-executive Directors have been appointed and one Independent Non-executive Director had resigned. None of the three existing Independent Non-executive Directors received any emoluments except for director fees of approximately HK$120,000 (Period from 1st October 2002 to 31st December 2003: HK$150,000), HK$47,000 (Period from 1st October 2002 to 31st December 2003: Nil) and HK$33,000 (Period from 1st October 2002 to 31st December 2003: Nil), which were paid to each of the three Independent Non-executive Directors respectively during the year ended 31st December 2004. The director fee paid to the Independent Non-executive Director resigned was approximately HK$65,000 (Period from 1st October 2002 to 31st December 2003: HK$150,000).

During the year, one Executive Director had resigned, who received emoluments of approximately HK$555,000 (Period from 1st October 2002 to 31st December 2003: HK$1,365,000). Another Executive Director received emoluments of approximately HK$612,000 (Period from 1st October 2002 to 31st December 2003: HK$765,000) during the year ended 31st December 2004.

All these emoluments were included in the Directors' emoluments as disclosed above.

During the year, no (Period from 1st October 2002 to 31st December 2003: Nil) Directors waived or agreed to waive any emoluments. No (Period from 1st October 2002 to 31st December 2003: Nil) emoluments have been paid to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

11 Directors' and five highest paid individuals' emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2004 include five employees (Period from 1st October 2002 to 31st December 2003: one Director and four employees). The Directors' emoluments are reflected in the analysis presented above. The emoluments payable to the five individuals (Period from 1st October 2002 to 31st December 2003: four) during the year/ period are as follows:

	Year ended 31st December 2004 *HK$'000*	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**6,733**	10,922
Retirement benefits scheme contributions	**54**	56
Performance related incentive payments	**3,136**	–
	9,923	10,978

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

	Number of individuals	
	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003
Emolument bands		
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**3**	2
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**1**	–
More than HK$3,000,000	**1**	1

12 Goodwill

	HK$'000
At 31st December 2004	
Cost *(Note)*	19,705
Accumulated impairment	–
Net book amount	19,705
At 31st December 2003	
Cost	21,987
Accumulated amortisation	(2,282)
Net book amount	19,705

Note:

Upon adoption of HKFRS 3, cost and accumulated amortisation of goodwill are offset by the same amount of approximately HK$2,282,000 and the net amount of approximately HK$19,705,000 was stated as the cost of goodwill as at 1st January 2004.

13 Trading rights

	HK$'000
Year ended 31st December 2004	
Opening net book amount	3,293
Amortisation charge	(507)
Closing net book amount	2,786
At 31st December 2004	
Cost	5,066
Accumulated amortisation	(2,280)
Net book amount	2,786
At 31st December 2003	
Cost	5,066
Accumulated amortisation	(1,773)
Net book amount	3,293

14 Fixed assets

	Group			
	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment and software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st January 2004	5,648	8,305	30,766	44,719
Additions	124	114	431	669
Reclassification	134	(134)	–	–
Write-off	–	(82)	(17,681)	(17,763)
Disposals of subsidiaries	(1,266)	(309)	(4,134)	(5,709)
At 31st December 2004	4,640	7,894	9,382	21,916
Accumulated depreciation				
At 1st January 2004	1,473	5,142	28,331	34,946
Charge for the year	1,553	1,245	1,592	4,390
Write-off	–	(82)	(17,681)	(17,763)
Disposals of subsidiaries	(549)	(51)	(3,698)	(4,298)
At 31st December 2004	2,477	6,254	8,544	17,275
Net book value				
At 31st December 2004	2,163	1,640	838	4,641
At 31st December 2003	4,175	3,163	2,435	9,773

15 Investments in subsidiaries

	Company	
	2004	2003
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**10**	4,785
Impairment losses	**–**	(4,087)
	10	698
Amounts due from subsidiaries *(note a)*	**451,122**	355,570
Impairment of amounts due from subsidiaries	**(8,606)**	(44,117)
Amounts due to subsidiaries	**(78,964)**	(58,784)
	363,562	253,367
Less: current portion of amounts due from subsidiaries *(note b)*	**(97,519)**	–
current portion of amounts due to subsidiaries *(note c)*	**78,964**	–
	345,007	253,367

Notes:

(a) Included in amounts due from subsidiaries are loans to subsidiaries of HK$216.8 million which are unsecured and interest-bearing at prime rate minus 2 per cent. per annum or HIBOR plus 1.25 – 2 per cent. per annum.

(b) Included loan to a subsidiary amounted to HK$50 million which is repayable by July 2005, while the remaining are repayable on demand.

(c) Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

15 Investments in subsidiaries (continued)

Notes: (continued)

(c) The following is a list of the principal subsidiaries of the Group as at 31st December 2004:

Company name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Effective interest held
VC Financial Group Limited (formerly known as VC CFN Corporation Limited)[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
VC Brokerage Limited (formerly known as VC CEF Brokerage Limited)[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	100%
VC Futures Limited (formerly known as VC CEF Futures Limited)[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	100%
VC Capital Limited (formerly known as VC CEF Capital Limited)[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	100%
VC Capital (Shenzhen) Limited (formerly known as VC CFN Capital (Shenzhen) Limited)[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
VC Securities Investments Limited (formerly known as VC CFN Investments Limited)[2]	Hong Kong	Provision of security investment service to group companies in Hong Kong	2 ordinary shares of HK$1 each	100%
VC Asset Management Limited (formerly known as VC CFN Asset Management Limited)[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	500,000 ordinary shares of HK$1 each	100%
VC Investment Management Limited (formerly known as Panorama Invest Limited)[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

15 Investments in subsidiaries (continued)

Notes: (continued)

(c) The following is a list of the principal subsidiaries of the Group as at 31st December 2004 (continued):

Company name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Effective interest held
VC Finance Limited (formerly known as VC CFN Finance Limited)[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
VC Research Limited (formerly known as VC CFN Research Limited)[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	100%
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	MOP$25,000	100%
VC Services Limited (formerly known as iAsia Services Limited)[1]	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	100%
VC Strategic Investments Limited (formerly known as iAsia Technology (Asia) Limited)[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

1 Shares held directly by the Company

2 Shares held indirectly by the Company

16 Investment securities

	Group	
	2004	2003
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**2,000**	2,000
Unlisted debt investments, at cost	**4,000**	–
	6,000	2,000
Impairment losses	**(1,200)**	(1,200)
	4,800	800

17 Inventories

	Group	
	2004	2003
	HK$'000	*HK$'000*
Merchandise	**–**	1,776
Work in progress	**–**	41
	–	1,817

At 31st December 2004, no inventories were carried at net realisable value (2003: Nil).

18 Accounts receivable

	Group	
	2004	2003
	HK$'000	*HK$'000*
Accounts receivable arising from the ordinary course of business of dealing in *(Note a)*:		
– Securities transactions		
Clearing houses and brokers	**46,940**	2,912
Cash clients *(Note c)*	**92,482**	88,211
Margin clients	**165,656**	137,246
– Futures and options contracts transactions		
Brokers	**132**	–
HKCC *(Note 1(q))*	**44**	44
Accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services *(Note b)*	**935**	1,176
Accounts receivable arising from the ordinary course of technology business *(Note b)*	**–**	4,743
	306,189	234,332

	Company	
	2004	2003
	HK$'000	*HK$'000*
Accounts receivable arising from the ordinary course of business of dealing in securities transactions		
Brokers *(Note a)*	**1,385**	2,912
	1,385	2,912

18 Accounts receivable (continued)

Notes:

(a) Credit limit is approved for each client by designated approvers according to the clients' credit worthiness. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand. Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 31st December 2004, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK$543,717,000 (2003: HK$402,921,000). No aging analysis on margin clients' receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing. Except for the loans to margin clients, all accounts receivable arising from the business of dealing in securities transactions are aged as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**133,507**	90,330
31 – 90 days	**4,520**	515
Over 90 days	**1,395**	278
	139,422	91,123

	Company	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**1,385**	2,912

18 Accounts receivable (continued)

Notes: (continued)

(b) The accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services, and the former technology business are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days on average to its customers. The aging analysis of these receivables is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**228**	3,042
31-90 days	**552**	1,928
Over 90 days	**155**	949
	935	5,919

(c) Included in accounts receivable from cash clients was HK$12,000 as at 31st December 2004 (2003: Nil) due from related parties in respect of transactions in securities undertaken for their accounts. There were no other accounts receivable in respect of transactions in securities undertaken for the accounts of the Directors or related parties as at 31st December 2004 (2003: Nil).

19 Prepayments, deposits and other receivables

	Group	
	2004	2003
	HK$'000	*HK$'000*
Due from customers on contracts *(note)*	**–**	1,702
Retention money receivables	**–**	125
Prepayments, deposits and other receivables	**3,782**	4,677
	3,782	6,504

Note:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Due from customers on contracts:		
Contract costs incurred plus attributable profits	**–**	5,683
Less: Progress billings to date	**–**	(3,981)
	–	1,702

20 Other investments

	Group	
	2004	2003
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at market value	**40,641**	40,638

	Company	
	2004	2003
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at market value	**5,918**	40,638

21 Accounts payable

	Group	
	2004	2003
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of dealing in:		
– Securities transactions *(Note a)*		
Clearing houses and brokers	**–**	1,382
Cash clients *(Note b)*	**32,494**	91,783
Margin clients	**3,972**	6,999
Accounts payable arising from the ordinary course of technology business *(Note c)*	**–**	8,236
	36,466	108,400

Notes:

(a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after trade date. These accounts payable are repayable on demand. Therefore, no aging analysis is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after trade date.

(b) Included in accounts payable to cash clients was HK$111,000 as at 31st December 2004 (2003: HK$34,000) due to related parties in respect of transactions in securities undertaken for their accounts. There were no other accounts payable in respect of transactions in securities undertaken for the accounts of the Directors or related parties as at 31st December 2004 (2003: Nil).

(c) The accounts payable arising from the ordinary course of technology business are aged as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**–**	4,431
31-90 days	**–**	3,414
Over 90 days	**–**	391
	–	8,236

22 Share capital

	Authorised Ordinary shares of HK$0.1 each	
	No. of shares	Amount
		HK$'000
At 31st December 2003 and 31st December 2004	10,000,000,000	1,000,000

	Issued and fully paid Ordinary shares of HK$0.1 each	
	No. of shares	Amount
		HK$'000
At 1st October 2002	680,442,858	68,044
Issue of rights shares	1,020,664,287	102,067
Issue of bonus shares	680,442,854	68,044
Reduction of share capital and consolidation of shares	(2,143,395,000)	(214,340)
At 31st December 2003	238,154,999	23,815
At 31st December 2004	238,154,999	23,815

23 Share options

The Company 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.

(i) Pre-IPO share option plan

As at 31st December 2004, options to subscribe for an aggregate of 5,868,698 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 adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) were outstanding, which represents approximately 2.5% (2003: 4.1%) of the shares of the Company in issue as at 31st December 2004. 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 Options 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 as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	As at 31st December 2004		As at 31st December 2003	
Categories of grantees	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options**	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options
Directors of the Company	**3**	**4,606,510**	5	8,478,020
Employees	**3**	**1,262,188**	3	1,262,188
Total	**6**	**5,868,698**	8	9,740,208

23 Share options (continued)

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

During the year ended 31st December 2004, certain Pre-IPO Share Options to subscribe for a total of 3,871,510 underlying Shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to two Directors lapsed as the relevant Directors failed to exercise the same within 3 months after the relevant Directors ceased to be the Directors of the Company. Since the date of the grant of the Pre-IPO Share Options up to 31st December 2004 and 31st December 2003, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year/period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	Number of Pre-IPO Share Options	
	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003
At beginning of the year/period	**9,740,208**	10,257,187
Lapsed during the year/period	**(3,871,510)**	(516,979)
At end of the year/period	**5,868,698**	9,740,208

23 Share options (continued)

(ii) Share option scheme

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

As at 31st December 2004, options to subscribe for an aggregate of 4,188,718 and 23,160,565 underlying Shares granted on 9th July 2002 and 25th March 2004 ("Share Options") pursuant to the 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 on 5th February 2003 and 28th May 2003 respectively) and HK$0.64 per share respectively were outstanding, which in total represents approximately 11.5% (2003: 1.8%) of the shares of the Company in issue as at 31st December 2004. The adjusted closing price of the Company's shares immediately before 9th July 2002 and the closing price of the Company's share immediately before 25th March 2004 were HK$0.65 and HK$0.64 per share respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012 and between 25th March 2004 to 24th March 2014 respectively. Accordingly to the Share Option Scheme, any Share Options 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 Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

		As at 31st December 2004		As at 31st December 2003	
Categories of grantees	**Exercise price per Share** *HK$*	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the Share Options**	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Share Options
Directors of the Company	1.0	**2**	**982,114**	3	1,473,171
Employees	1.0	**22**	**1,782,539**	26	1,821,823
Employees	0.64	**58**	**23,160,565**	–	–
Other eligible persons	1.0	**6**	**1,424,065**	5	933,008
Total		**88**	**27,349,283**	34	4,228,002

23 Share options (continued)

(ii) Share option scheme (continued)

During the year ended 31st December 2004, certain Share Options to subscribe for a total of 39,284 underlying Shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to four employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of the Group. Since the date of the grant of the Share Options up to 31st December 2004 and 31st December 2003, none of the Share Options were exercised or cancelled. Movements in the number of Share Options outstanding during the year/period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	Number of Share Options	
	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003
At beginning of the year/period	**4,228,002**	4,910,571
Share Options granted during the year/period	**23,160,565**	–
Lapsed during the year/period	**(39,284)**	(682,569)
At end of the year/period	**27,349,283**	4,228,002

24 Reserves

Group

	Share premium HK$'000	Capital reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1st October 2002	118,362	–	(130,103)	844	(10,897)
Issue of bonus shares	(68,044)	–	–	–	(68,044)
Share issue expenses	(4,440)	–	–	–	(4,440)
Capital reorganisation	(45,878)	123,758	136,460	–	214,340
Exchange difference arising on translation of accounts of an overseas subsidiary	–	–	–	650	650
Loss attributable to shareholders	–	–	(31,936)	–	(31,936)
At 31st December 2003 and 1st January 2004	–	123,758	(25,579)	1,494	99,673
Profit attributable to shareholders	–	–	34,255	–	34,255
Reserve transferred to profit and loss account upon the winding up of an overseas subsidiary	–	–	–	(1,494)	(1,494)
At 31st December 2004	–	123,758	8,676	–	132,434

Company

	Share premium HK$'000	Capital reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1st October 2002	118,362	–	(100,471)	17,891
Issue of bonus shares	(68,044)	–	–	(68,044)
Share issue expenses	(4,440)	–	–	(4,440)
Capital reorganisation	(45,878)	123,758	136,460	214,340
Loss attributable to shareholders	–	–	(44,715)	(44,715)
At 31st December 2003 and 1st January 2004	–	123,758	(8,726)	115,032
Profit attributable to shareholders	–	–	19,590	19,590
At 31st December 2004	–	123,758	10,864	134,622

The capital reserve of the Company was created after the Company's capital reorganisation in relation to the Company's reduction of share capital and cancellation of share premium account completed on 28th May 2003.

25 Notes to the consolidated cash flow statement

(a) Reconciliation of profit/(loss) before taxation to net cash used in operations for the year/period

	Year ended 31st December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000
Profit/(loss) before taxation	**34,472**	(32,006)
Realised loss/(gain) on trading of other investments	**3,425**	(9,228)
Unrealised gain on holding of other investments	**(1,312)**	(958)
Depreciation of fixed assets	**4,390**	13,870
Amortisation of trading rights	**507**	526
Amortisation of goodwill	**–**	2,282
Gain on disposal of subsidiaries	**(26,384)**	–
(Gain)/loss on disposal of fixed assets	**(21)**	555
Exchange (gain)/loss	**(1,494)**	513
Impairment of fixed assets	**–**	3,080
Impairment of investment securities-unlisted equity securities	**–**	1,200
Impairment of doubtful receivables	**1,587**	2,056
Interest income from authorised financial institutions	**(99)**	(421)
Interest expenses	**8,108**	3,773
Operating profit/(loss) before working capital changes	**23,179**	(14,758)
Increase in inventories	**(17,432)**	(901)
Increase in accounts receivable	**(80,077)**	(158,571)
Increase in prepayments, deposits and other receivables	**(18,719)**	(1,137)
Increase in amount due from an investee company	**(2)**	–
(Decrease)/increase in accounts payable	**(25,282)**	87,166
(Decrease)/increase in accrued liabilities and other payables	**(14,942)**	24,842
Increase in amount due to ultimate holding company	**702**	4,777
Increase in amounts due to fellow subsidiaries	**2,713**	67
Net cash used in operations	**(129,860)**	(58,515)

25 Notes to the consolidated cash flow statement (continued)

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

	Share capital including premium		Minority interests		Loans from ultimate holding company		Short term bank borrowings	
	Year ended 31st December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000	**Year ended 31st December 2004 HK$'000**	Period from 1st October 2002 to 31st December 2003 HK$'000
At the beginning of the year/period	**23,815**	186,406	**-**	70	**160,000**	-	**-**	-
Minority interests' share of profit/(loss)	**-**	-	**217**	(70)	**-**	-	**-**	-
Net cash inflow from financing/short term bank borrowings	**-**	97,627	**-**	-	**79,800**	160,000	**15,000**	-
Decrease in loan resulting from disposal of subsidiaries	**-**	-	**-**	-	**(27,900)**	-	**-**	-
Decrease in minority interests resulting from disposal of subsidiaries	**-**	-	**(217)**	-	**-**	-	**-**	-
Capital reorganisation	**-**	(260,218)	**-**	-	**-**	-	**-**	-
At the end of the year/period	**23,815**	23,815	**-**	-	**211,900**	160,000	**15,000**	-

25 Notes to the consolidated cash flow statement (continued)

(c) Disposal of subsidiaries and significant non-cash transaction

	As at 31st May 2004 HK$'000
Net assets disposed	
Fixed assets	1,411
Inventories	19,249
Accounts receivable, prepayments, deposits and other receivables	28,595
Amounts due from group companies	2,758
Bank balances and cash	2,489
Accounts payable, accrued liabilities and other payables	(48,404)
Amounts due to group companies	(4,365)
Minority interests	(217)
	1,516
Gain on disposal of subsidiaries	26,384
Consideration	27,900
Satisfied by way of offsetting against loans from ultimate holding company	27,900

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	As at 31st May 2004 HK$'000
Bank balances and cash disposed	(2,489)
Net outflow of cash and cash equivalents from the disposal	(2,489)

25 Notes to the consolidated cash flow statement (continued)

(d) Purchase of subsidiaries

	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Net assets acquired	
Intangible assets	3,819
Fixed assets	6,550
Other non-current assets	3,835
Accounts receivable, prepayments, deposits and other receivables	79,750
Other investments	21,000
Bank balances and cash	46,364
Accounts payables, accrued liabilities and other payables	(9,757)
Acquisition deposits received from the Company	(10,779)
Bank loans and overdrafts	(38,400)
	102,382
Goodwill	21,987
Consideration	124,369
Satisfied by:	
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

Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries is as follows:

	Period from 1st October 2002 to 31st December 2003 *HK$'000*
Cash consideration	(113,590)
Bank balances and cash acquired	46,364
Bank loans and overdrafts acquired	(38,400)
Net outflow of cash and cash equivalent from the purchase	(105,626)

26 Contingent liabilities

As at 31st December 2004, the Company had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK$70 million (2003: HK$50 million) to a bank in respect of banking facilities granted to the subsidiary.

27 Commitments

(a) Capital commitments

At 31st December 2004, the Group did not have any material commitments contracted but not provided for in respect of purchase of fixed assets (2003: Nil).

(b) Commitments under operating leases

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Not later than one year	**3,218**	4,222
Later than one year and not later than five years	**615**	4,354
	3,833	8,576

28 Related party transactions

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the other party in making financial and operating decisions or vice versa. The Company and the party 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, the amount due to ultimate holding company and the amounts due from/(to) fellow subsidiaries are unsecured, interest free and repayable on demand.

(b) No accounts receivable, prepayments, deposits and other receivables include amounts due from related companies in relation to sales of computer hardware and software as at 31st December 2004 (2003: HK$3,510,000).

(c) No accounts payable, accrued liabilities and other payables include deposits received from related companies in relation to sales of computer hardware and software as at 31st December 2004 (2003: HK$10,180,000).

28 Related party transactions (continued)

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

	Note(s)	Year ended 31 December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000
Transfer of fixed assets from a related company	(i)	–	291
Rental paid to fellow subsidiaries	(ii)	303	297
Rental charged to a fellow subsidiary	(iii)	165	–
Technical, network and other service fees charged to fellow subsidiaries and ultimate holding company	(iv)	1,918	210
Technical, network and other service fees charged from fellow subsidiaries	(iv)	1,112	–
Sales of computer hardware and software to related companies	(iv)	23,616	15,917
Purchases of computer hardware and software from a fellow subsidiary	(iv)	93	–
Brokerage commission income and interest income earned from certain directors of the Group or their relatives	(v)	243	116
Interest expenses charged on loans from ultimate holding company and a fellow subsidiary	(vi)	5,422	1,772
Management fee paid to ultimate holding company	(vii)	3,000	3,000
Financial advisory and arrangement fees charged to ultimate holding company	(viii)	2,500	–
Disposal of subsidiaries to ultimate holding company	(ix)	27,900	–

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 fellow subsidiaries. The lease rentals were charged by the fellow subsidiaries according to actual floor space utilised at normal commercial terms.

(iii) The Group leased certain office space to a fellow subsidiary. The lease rental was charged to the fellow subsidiary according to actual floor space utilised at normal commercial terms.

28 Related party transactions (continued)

(iv) Service fees charged from/to and computer hardware and software sold from/to ultimate holding company, related companies and fellow subsidiaries were conducted at normal commercial terms.

(v) Brokerage commission income and interest income earned from transactions with related parties was conducted at normal commercial terms.

(vi) Interest expenses were charged on loans from ultimate holding company at prime rate minus 2 per cent. per annum or HIBOR plus 1.25 – 2 per cent. per annum and loan from a fellow subsidiary at HIBOR plus 1.25 per cent. per annum. The loans from the ultimate holding company were repayable upon written notice given from the ultimate holding company and the ultimate holding company has agreed not to demand repayment until as and when the Company has the financial ability to repay.

(vii) The management fee paid to ultimate holding company was determined based on mutual agreement between the Company and the ultimate holding company.

(viii) The financial advisory and arrangement fees charged to ultimate holding company were determined at normal commercial terms.

(ix) The Group disposed of its technology business at a consideration of HK$27.9 million to ultimate holding company, which was determined at arm's length and approved by the independent shareholders on 20th May 2004.

29 Ultimate holding company

The Directors regard Melco International Development Limited, a company incorporated in Hong Kong, as being the ultimate holding company.

30 Approval of accounts

The accounts were approved by the board of Directors on 8th March 2005.

Five Years'/Periods' Financial Summary

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

	Year ended 31st December 2004 HK$'000	Period from 1st October 2002 to 31st December 2003 HK$'000	Year ended 30th September 2002 HK$'000	Year ended 30th September 2001 HK$'000	Period from 24th September 1999 (date of incorporation) to 30th September 2000 HK$'000
Results					
Turnover	**163,257**	126,159	10,313	3,634	4,146
Profit/(loss) attributable to shareholders	**34,255**	(31,936)	(91,161)	(28,380)	(10,562)
Assets and liabilities					
Total assets	**439,229**	424,531	61,211	60,737	29,930
Total liabilities	**(282,980)**	(301,043)	(3,994)	(6,190)	(6,092)
Minority interests	**–**	–	(70)	–	–
Shareholders' funds	**156,249**	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 38/F., The Centrium, 60 Wyndham Street, Central, Hong Kong on Wednesday, 13th April 2005 at 3:00 p.m. for the following purposes:

1. To consider and receive the audited consolidated accounts of Value Convergence and its subsidiaries and the reports of the directors and of the auditors for the year ended 31st December 2004.

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 appoint auditors and to fix their remuneration, a Special Notice having been given pursuant to Sections 116C and 132(1) of the Companies Ordinance of the intention to propose the following resolution as an Ordinary Resolution:

   ORDINARY RESOLUTION

   "THAT Messrs Deloitte Touche Tohmatsu be and are hereby appointed auditors of the Company in place of the retiring auditors, Messrs PricewaterhouseCoopers, to hold office until conclusion of the next Annual General Meeting at remuneration to be fixed by the board of directors."

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   ORDINARY RESOLUTION

   "**THAT**:

   (a) subject to paragraph (c) of this Resolution, 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) of this Resolution 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) of this Resolution, 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. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (b) of this Resolution, 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) of this Resolution 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. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"**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. As special business, to consider and, if though fit, pass with or without amendments, the following resolution as a Special Resolution:

SPECIAL RESOLUTION

"THAT the new articles of association of the Company be amended by deleting the existing Article 101 and substitute therefor the following new Article 101:

"At each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire (unless they otherwise agree between themselves) shall be determined by lot. The retiring Directors shall be eligible for re-election.""

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

Hong Kong, 16th March 2005

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 or 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.