



VALUE CONVERGENCE HOLDINGS LIMITED
滙盈控股有限公司



Interim **Report**
2005

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.

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

The board (the “Board”) of directors (the “Directors”) of Value Convergence Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three and six month periods ended 30th June 2005, together with comparative figures of the corresponding periods in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business & Financial Review

The Group’s unaudited consolidated turnover amounted to approximately HK\$26.3 million and HK\$52.5 million for the three and six month periods ended 30th June 2005 respectively, a decrease of approximately 41% and 48% when compared with the respective periods in 2004 (three and six month periods ended 30th June 2004: HK\$44.3 million and HK\$100.1 million respectively). The Group’s unaudited consolidated profit attributable to shareholders amounted to approximately HK\$1.0 million and HK\$2.4 million respectively for the three and six month periods ended 30th June 2005, a decrease of approximately HK\$23.5 million and HK\$31.1 million from the respective periods in 2004 (three and six month periods ended 30th June 2004: HK\$24.5 million and HK\$33.5 million respectively). The lowered profitability was mainly the result of the disposal of the Group’s technology business last year. If the extraordinary gain from the disposal amounting to HK\$26.4 million was excluded, the Group’s unaudited consolidated profit attributable to shareholders for the three month period ended 30th June 2005 would be approximately HK\$2.9 million higher than that of the corresponding period in 2004 and for the six month period ended 30th June 2005 would be lower by approximately HK\$4.7 million than that of the corresponding period in 2004.

After disposing of its technology business, the Group turned to concentrate on its investment banking and financial services business. The results of operations for the six month period ended 30th June 2005 thus comprised only the results of the Group’s investment banking and financial services business, whereas the operation results for the six month period ended 30th June 2004 consisted of results of both the investment banking and financial services business and technology business.

The Group’s investment banking and financial services business comprises a comprehensive range of premier financial services and products to fulfill the different investment and wealth management needs of clients. It handles securities, futures and options broking and dealing and renders corporate finance advisory service, initial public offerings, mergers and acquisition advisory services. To realize its goal of becoming a full-fledged investment banking house, the Group has added asset management business to its portfolio. The new business stream is expected to provide a stable source of income to the Group in future.

During the three and six month periods ended 30th June 2005, turnover attributed to the investment banking and financial services business was approximately HK\$26.3 million and HK\$52.5 million respectively, an increase of approximately 8% and a decrease of approximately 20% when compared with the respective periods in 2004 (HK\$24.3 million and HK\$65.4 million for the three and six month periods ended 30th June 2004). For the three and six month periods ended 30th June 2005, this business segment recorded a profit before taxation of approximately HK\$1.3 million and HK\$2.9 million respectively (three and six month periods ended 30th June 2004: a loss of approximately HK\$3.9 million and a profit of approximately HK\$5.1 million respectively).

At the beginning of this year, supported by the reviving property market and strong tourist and consumer spending driven by China further relaxed its Individual Travellers Scheme, the financial services industry looked promising. However, during the period under review, facing pressures from interest rate hikes both in the US and Hong Kong, the economic austerity measures enforced by the Mainland government and fluctuating global oil prices, the local capital market was highly volatile. The Hang Seng Index started from 14230 at the beginning of 2005 and dropped to 13516 on 31st March 2005 and then climbed back to close at 14201 on 30th June 2005. The average daily market turnover of the Hong Kong stock market in the first quarter of 2005 was approximately HK\$18.4 billion; and it dropped 16% to approximately HK\$15.4 billion in the second quarter of 2005. The average daily market turnover of the Hong Kong stock market for the six month period ended 30th June 2005 was approximately the same as that of the equivalent period in 2004.

During the six month period ended 30th June 2005, besides subjected to the same factors affecting the local capital market, the operating performance of the Group's brokerage business was hampered by a number of other factors as well. Gross brokerage commission income fell approximately HK\$16.6 million during the six month period ended 30th June 2005, approximately 36% lower than the first half of 2004. Net brokerage commission income fell by approximately 42% when compared with the same period last year. The drops were largely due to the lower market turnover of China-related stocks, in which many clients of the Group's brokerage business invest. Furthermore, to cope with the increased market volatility and poor market sentiments, the Group tightened its credit control and money lending policies, which also partially explained the drop of income from brokerage commission. Overall, the brokerage division recorded an operating loss of approximately HK\$4.4 million during the six month period ended 30th June 2005 (six month period ended 30th June 2004: an operating profit of approximately HK\$2.6 million).

In the first half of 2005, the Group lessened its involvement in underwriting and placing activities. The turnover attributable to such activities for the period was approximately HK\$0.3 million (six month period ended 30th June 2004: approximately HK\$3.4 million).

Owing to higher funding cost, net interest margin fell during the first half of 2005. Net interest income received fell by approximately 13% when compared with the same period last year. The Group's margin and other financing business achieved an operating profit of approximately HK\$6.4 million during the six month period ended 30th June 2005 (six month period ended 30th June 2004: approximately HK\$7.4 million).

In the first half of 2005, the corporate finance division executed a number of transactions, including acting as the sole sponsor and lead manager of a number of listing applications on the Main Board of Hong Kong Stock Exchange for mainly Mainland Chinese enterprises. The successful location of these new clients was the result of the Group's effective strategic expansion plan – setting up of new offices in Shenzhen, Beijing and Shanghai – in China in the previous year. These transactions are expected to be completed in the second half of 2005 and will generate significant returns for the Group.

In January 2005, the Group obtained a licence to operate asset management business from the Hong Kong Securities and Futures Commission, and a professional asset management service team has been formed. We are currently studying the possibility of establishing investment funds to provide our clients with investment alternatives including investment opportunities in Macau and the Pearl River Delta. Besides giving clients more choices, an expanded product portfolio will also help to boost the Group's revenues in the long run.

During the six month period ended 30th June 2005, Hong Kong was the major market of the Group. The turnover and contribution to operating profit from Macau during the six month period ended 30th June 2004 were attributable to the Group's former technology business.

Liquidity and financial resources/capital structure

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

The Group held banking facilities of HK\$180 million from various banks as at 30th June 2005 (31st December 2004: HK\$175 million) and HK\$80 million of these banking facilities was secured by margin clients' listed securities (31st December 2004: HK\$70 million). As at 30th June 2005, the Group had used HK\$22 million and HK\$28 million of the unsecured and secured banking facilities respectively (31st December 2004: unsecured HK\$15 million) and these amounts were repaid on 6th July 2005.

As at 30th June 2005, the Group borrowed HK\$211.9 million (31st December 2004: HK\$211.9 million) from its ultimate holding company. The loans bear interest at prime rate minus 2 per cent. per annum or HIBOR plus 1.25-2 per cent. per annum and are repayable upon written notice from the ultimate holding company. They have been used to finance the expansion of the Group's investment banking and financial services business, to meet related regulatory capital requirements and strengthen related business capability.

As at 30th June 2005, the Group's net current assets, cash available and shareholders' funds (other than the trust accounts) amounted to approximately HK\$131.9 million (31st December 2004: HK\$120.4 million), HK\$59.2 million (31st December 2004: HK\$50.9 million) and HK\$166.1 million (31st December 2004: HK\$156.2 million) respectively. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 1.36 (31st December 2004: 1.43).

The Group adopts a prudent treasury policy. All borrowings and the majority of bank balances and cash are denominated in Hong Kong dollars and put in short term fixed deposits. The Group intends to maintain minimum exposure to foreign exchange risks.

As at 30th June 2005, the total number of issued ordinary shares of the Company was 249,341,226 of HK\$0.10 each (31st December 2004: 238,154,999 shares of HK\$0.10 each). The increase in issued shares was the result of exercise of share options of the Company during the first half of 2005.

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

During the six month period ended 30th June 2005, the Group did not make any acquisitions, disposal, significant investments and capital commitments.

Headcount/Employees' information

As at 30th June 2005, the Group employed a total of 125 employees, of which 120 were stationed in Hong Kong and 5 in the PRC. As at 30th June 2004, the Group employed a total of 142 employees, of which 134 were stationed in Hong Kong and 8 in the PRC.

Staff costs (including directors' emoluments) and staff sales commission amounted to approximately HK\$14.4 million and HK\$14.0 million for the six month period ended 30th June 2005 (six month period ended 30th June 2004: approximately HK\$24.4 million and HK\$23.7 million). The Group's employees are selected and promoted based on their qualification for the positions offered. In addition to basic salaries and Mandatory Provident Fund Scheme, other benefits include medical coverage, sales commission, performance bonus and discretionary share options. The latter two are performance based and the Group's remuneration structure is subject to annual review by the management. Training and development programmes are also provided to the Group's employees on an ongoing basis. Details of share options granted to the Group's employees as at 30th June 2005 are stated in the section headed "Details of outstanding options granted" below.

Charges on group assets

As at 30th June 2005, the Group had not charged or pledged any of its assets (31st December 2004: nil).

Gearing ratio

As at 30th June 2005, 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 at a satisfactory level of 1.58 times (31st December 2004: 1.45 times).

Foreign exchange exposure

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

Future plans for material investments or capital assets

As at 30th June 2005, the Group had no known plans for material investments or capital assets.

Contingent liabilities

As at 30th June 2005, the Company provided guarantees of HK\$120 million to banks in respect of banking facilities granted to a subsidiary, VC Brokerage Limited (31st December 2004: HK\$70 million).

OUTLOOK

We anticipate a robust local stock market for the rest of 2005 given the continuous revival of the property market and strong tourist and consumer spending and the recent Renminbi appreciation. We will implement different initiatives to boost the Group's ability to capture market opportunities and thrive in the still volatile market. Other than expanding our asset management business, we will capitalize on new business opportunities to expand our business platform and strengthen our market position.

Though the management anticipates possible short-term market volatility and hurdles on the road of expansion, it remains optimistic in the longer-term prospects of the Group's investment banking and financial services business. The Group will strive to achieve better financial results and returns for shareholders.

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

Hong Kong, 12th August 2005

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30th June 2005

	Note(s)	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		As restated		As restated	
Turnover	(2)	26,295	44,325	52,534	100,070
Cost of sales of computer hardware and software		–	(14,656)	–	(23,810)
Other revenues		1,172	1,593	1,663	2,604
Net realised/unrealised losses on financial assets at fair value through profit or loss		(126)	–	(732)	–
Net realised/unrealised gains on trading/holding of other investments		–	419	–	325
Staff costs and related expenses		(7,601)	(13,272)	(14,358)	(24,419)
Depreciation of fixed assets	(9)	(703)	(1,200)	(1,391)	(2,519)
Amortisation of trading rights		(126)	(126)	(253)	(253)
Commission expenses		(8,942)	(9,690)	(18,245)	(26,901)
Finance costs	(6)	(3,362)	(1,550)	(5,388)	(3,674)
Other operating expenses		(5,596)	(7,481)	(11,441)	(14,041)
Gain on disposal of subsidiaries (discontinuing operation)	(5)	–	26,384	–	26,384
Operating profit	(4)	1,011	24,746	2,389	33,766
Taxation	(7)	–	–	–	–
Profit after taxation		1,011	24,746	2,389	33,766
Minority interests		–	(217)	–	(217)
Profit attributable to shareholders		1,011	24,529	2,389	33,549
Basic earnings per share (HK cents)	(8)	0.41	10.30	0.99	14.09
Diluted earnings per share (HK cents)	(8)	0.40	N/A	0.97	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005

		Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Non-current assets			
Goodwill		19,705	19,705
Trading rights		2,533	2,786
Fixed assets	(9)	3,309	4,641
Available-for-sale financial assets		800	–
Held-to-maturity financial assets		4,000	–
Investment securities		–	4,800
Statutory deposits for investment banking and financial services business		3,243	3,359
Other non-current assets		547	547
		34,137	35,838
Current assets			
Accounts receivable	(10)	395,895	306,189
Prepayments, deposits and other receivables		3,123	3,782
Financial assets at fair value through profit or loss		36,713	–
Other investments		–	40,641
Amount due from an investee company	15(a)	6	6
Amounts due from fellow subsidiaries	15(a)	481	1,857
Cash and cash equivalents		59,203	50,916
		495,421	403,391

		Unaudited	Audited
		30th June	31st December
		2005	2004
	<i>Note(s)</i>	HK\$'000	<i>HK\$'000</i>
Current liabilities			
Accounts payable	(11)	78,983	36,466
Accrued liabilities and other payables		12,102	11,209
Short term bank borrowings		50,058	15,000
Amount due to ultimate holding company	15(a)	4,140	4,858
Amounts due to fellow subsidiaries	15(a)	6,312	3,547
Loans from ultimate holding company	15(b)(v)	211,900	211,900
		363,495	282,980
Net current assets		131,926	120,411
Total assets less current liabilities		166,063	156,249
Financed by:			
Share capital	(12)	24,934	23,815
Reserves		141,129	132,434
Shareholders' funds		166,063	156,249

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Unaudited	
	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Net cash used in operating activities	(37,451)	(104,762)
Net cash from/(used in) investing activities	3,254	(5,914)
Net cash from financing	42,484	58,158
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	8,287	(52,518)
Cash and cash equivalents at beginning of period	50,916	102,190
	<hr/>	<hr/>
Cash and cash equivalents at end of period	59,203	49,672
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	59,203	49,672
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

	Unaudited					
	Share capital	Share premium	Capital reserve	(Accumulated losses)/ Retained profits	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2004	23,815	-	123,758	(25,579)	1,494	123,488
Profit attributable to shareholders	-	-	-	32,450	-	32,450
Exchange difference transferred to profit and loss account upon the winding up of an overseas subsidiary	-	-	-	-	(1,494)	(1,494)
Balance at 30th June 2004, as previously reported	23,815	-	123,758	6,871	-	154,444
Effect of early adoption of HKFRS 3, HKAS 36 and HKAS 38 (Note)	-	-	-	1,099	-	1,099
Balance at 30th June 2004, as restated	<u>23,815</u>	<u>-</u>	<u>123,758</u>	<u>7,970</u>	<u>-</u>	<u>155,543</u>

Note: The early adoption of HKFRS 3 determined in the third quarter of 2004 has resulted in a prospective change in the accounting policy for goodwill from 1st January 2004. Certain figures previously reported in the interim report of 2004 have been restated to conform to the change. The early adoption of HKAS 36 and HKAS 38 have no material impact to the accounts of the Group.

	Unaudited					
	Share capital	Share premium	Capital reserve	Retained profits	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2005	23,815	-	123,758	8,676	-	156,249
Exercise of share options	1,119	6,313	-	-	-	7,432
Share issue expenses	-	(7)	-	-	-	(7)
Profit attributable to shareholders	-	-	-	2,389	-	2,389
Balance at 30th June 2005	<u>24,934</u>	<u>6,306</u>	<u>123,758</u>	<u>11,065</u>	<u>-</u>	<u>166,063</u>

NOTES TO THE ACCOUNTS

1. Basis of preparation of the accounts

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting, and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim accounts are consistent with those used in the annual report of the Company for the year ended 31st December 2004 issued on 8th March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January 2005 as set out below. The Group has early adopted the HKFRS 3 “Business Combination”, HKAS 36 “Impairment of Assets” and HKAS 38 “Intangible Assets” in the accounts for the year ended 31st December 2004.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipments
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The adoption of the following new HKFRSs has resulted in changes to the Group’s accounting policies that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the relevant vesting periods to the profit and loss account. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. In relation to share options granted before 1st January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005. As the share options granted on 6th April 2001 under the pre-IPO share option plan adopted by the Company on 14th March 2001 and the share options granted on 9th July 2002 and 25th March 2004 under the share option scheme adopted by the Company on 29th November 2001 are all vested as at 1st January 2005, these share options are not subject to the requirements of HKFRS 2.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. Prior to 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" and "other investments" as appropriate. Investment securities are carried at cost less impairment losses (if any) while other investments are measured at fair value, with realised/unrealised gains or losses included in the profit and loss account. From 1st January 2005 onwards, the Group classifies and measures its debts and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity financial assets" or "loans and receivables". The classification depends on the purpose for which the assets are acquired. Financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. Loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method.

The adoption of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

2. Turnover

Turnover principally arises from the 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). The technology business has been disposed of on 31st May 2004 to its ultimate holding company and therefore the turnover for the three months and six months ended 30th June 2005 reflects turnover for the investment banking and financial services business only.

	Three months ended 30th June		Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
(i) Investment banking and financial services				
Brokerage commission from dealing in securities, futures and options contracts	12,690	16,542	29,512	46,148
Underwriting, sub-underwriting, placing and sub-placing commission	136	1,332	287	3,405
Arrangement, management, advisory and other fee income	6,534	1,775	9,914	4,025
Interest income from clients	6,935	4,658	12,821	11,869
	26,295	24,307	52,534	65,447
(ii) Sales of technology solution systems and related services				
	–	20,018	–	34,623
	26,295	44,325	52,534	100,070

3. Segmental information

Primary reporting format-business segments

In previous period, the Group segregated its business into two main operating divisions, namely, "investment banking and financial services" and "sales of technology solution systems and related services". Since the Company completed the disposal of its technology business to its ultimate holding company on 31st May 2004, the Group has been engaged in investment banking and financial services business only. The Directors consider that it is the common practice of the industry to segregate the investment banking and financial services segment further into "broking", "margin and other financing" and "corporate advisory and others" in order to be more informative to the readers. Accordingly, the comparative figures of the segment on investment banking and financial services was further classified into broking, margin and other financing, and corporate advisory and others to conform with the current period's presentation. The details of these three business segments are summarised as follows:

- (i) the broking segment engages in securities, futures and options broking and dealing;
- (ii) the margin and other financing segment engages in the provision of margin financing, commercial loans to corporate customers and money lending services; and
- (iii) the corporate advisory and others segment engages in the provision of corporate advisory, placing and underwriting services, proprietary trading and asset management services.

	Six months ended 30th June 2005				Total HK\$'000
	Broking HK\$'000	Margin and other financing HK\$'000	Corporate advisory and others HK\$'000	Corporate HK\$'000	
Segment turnover	29,512	12,781	10,201		52,494
Intersegment sales	-	40	-		40
	<u>29,512</u>	<u>12,821</u>	<u>10,201</u>		<u>52,534</u>
Segment results	<u>(4,369)</u>	<u>6,406</u>	<u>823</u>		2,860
Unallocated costs					<u>(471)</u>
Operating profit					2,389
Taxation					-
Profit after taxation					2,389
Minority interests					-
Profit attributable to shareholders					<u>2,389</u>
Other segment information:					
Depreciation of fixed assets	937	-	304	150	1,391
Amortisation of trading rights	253	-	-	-	253
Impairment of doubtful receivables	-	445	-	-	445
	<u>-</u>	<u>445</u>	<u>-</u>	<u>-</u>	<u>445</u>

Six months ended 30th June 2004

	Continuing operation			Discontinuing operation			Total
	Investment banking and financial services		Corporate advisory and others	Sales of technology solution systems and related services		Corporate	
	Margin and other	financing	others	Total	services	Corporate	Total
	Broking	financing	others	Total	services	Corporate	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	46,156	11,869	7,430	65,455	35,504		100,959
Intersegment sales	(8)	-	-	(8)	(881)		(889)
	<u>46,148</u>	<u>11,869</u>	<u>7,430</u>	<u>65,447</u>	<u>34,623</u>		<u>100,070</u>
Segment results	<u>2,584</u>	<u>7,372</u>	<u>(4,859)</u>	<u>5,097</u>	<u>2,191</u>		<u>7,288</u>
Gain on disposal of subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,384</u>		<u>26,384</u>
Unallocated revenues							<u>94</u>
Operating profit							<u>33,766</u>
Taxation							<u>-</u>
Profit after taxation							<u>33,766</u>
Minority interests							<u>(217)</u>
Profit attributable to shareholders							<u><u>33,549</u></u>
Other segment information:							
Depreciation of fixed assets	1,718	-	216	1,934	368	217	2,519
Amortisation of trading rights	253	-	-	253	-	-	253
Impairment of doubtful receivables	<u>-</u>	<u>500</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>500</u>

Secondary reporting format – geographical segments

No geographical segment analysis is presented for the six months ended 30th June 2005 as over 90% of the Group's turnover and contribution to the operating profit during the six months ended 30th June 2005 are derived from Hong Kong.

	Six months ended 30th June 2004	
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>
Hong Kong	70,235	7,306
The People's Republic of China excluding Hong Kong and Macau	–	(1,568)
Macau	29,835	1,550
	<u>100,070</u>	<u>7,288</u>
Gain on disposal of subsidiaries		26,384
Unallocated revenues		94
Operating profit		<u>33,766</u>

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Three months ended 30th June		Six months ended 30th June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Auditors' remuneration	226	119	457	250
Gain on disposal of fixed assets	–	–	–	(21)
Operating leases in respect of land and buildings	551	905	1,201	1,841
Net exchange loss/(gain)	26	66	3	(58)
Impairment of doubtful receivables	445	–	445	500
	<u>445</u>	<u>–</u>	<u>445</u>	<u>500</u>

5. Discontinuing operation

The turnover, results and net assets involved in the disposal of the technology business as disclosed in the note (2) above are as follows:

	Period from 1st January 2004 to 31st May 2004 HK\$'000
Turnover	34,623
Operating expenses	<u>(32,432)</u>
Operating profit	2,191
Taxation	<u>—</u>
Profit after taxation	2,191
Minority interests	<u>(217)</u>
Profit attributable to shareholders	<u><u>1,974</u></u>
Net cash outflow from operating activities	(11,313)
Net cash outflow from investing activities	<u>(169)</u>
Total net cash outflow	<u><u>(11,482)</u></u>
	As at 31st May 2004 HK\$'000
Non-current assets	1,411
Current assets	<u>53,091</u>
Total assets	54,502
Current liabilities	(52,769)
Minority interests	<u>(217)</u>
Net assets	<u><u>1,516</u></u>
Consideration (Note)	27,900
Net assets sold	<u>(1,516)</u>
Gain on disposal of discontinuing operation	<u><u>26,384</u></u>
The net cash outflow on disposal is determined as follows:	
Cash and cash equivalents in the business sold	<u>(2,489)</u>
Net cash outflow from disposal of discontinuing operation	<u><u>(2,489)</u></u>

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

6. Finance costs

	Three months ended		Six months ended	
	30th June		30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interests on bank loans and overdrafts wholly repayable within five years	1,380	269	1,877	980
Interests on loans from ultimate holding company and a fellow subsidiary	1,982	1,281	3,511	2,694
	3,362	1,550	5,388	3,674

For the three months and six months ended 30th June 2004, finance costs were presented after operating profit in the unaudited condensed consolidated profit and loss account. The Directors consider that the finance costs are incurred in relation to the operations of the Group, therefore, the finance costs are now presented before the operating profit in the unaudited condensed consolidated profit and loss account so as to provide a better presentation of the results of the Group. Accordingly, the comparative figures have been reclassified to conform to the current period's presentation.

7. 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 three months and six months ended 30th June 2005 were offset by the previously unrecognised tax losses (three months and six months ended 30th June 2004: nil).

Deferred income tax assets are recognised for tax losses carried forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has estimated unrecognised tax losses of approximately HK\$167,273,000 as at 30th June 2005 (30th June 2004: HK\$173,143,000) to carry forward against future taxation income. These estimated tax losses have no expiry date but subject to the approval of the Hong Kong Inland Revenue Department.

8. Earnings per share

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to shareholders of approximately HK\$1,011,000 and HK\$2,389,000 for the three months and six months ended 30th June 2005 respectively (three months and six months ended 30th June 2004: profit of approximately HK\$24,529,000 and HK\$33,549,000 respectively, restated) and the weighted average number of 246,007,781 and 242,103,083 ordinary shares (three months and six months ended 30th June 2004: 238,154,999 and 238,154,999 ordinary shares) in issue during the respective periods.

The calculation of the diluted earnings per share for the three months and six months ended 30th June 2005 is based on the Group's unaudited profit attributable to shareholders of approximately HK\$1,011,000 and HK\$2,389,000 respectively and the weighted average number of 253,144,741 and 246,672,818 ordinary shares in issue during the respective periods.

Diluted earnings per share has not been presented for the three months and six months ended 30th June 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings per share.

9. Fixed assets

	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Net book value, beginning of period/year	4,641	9,773
Additions	59	669
Disposals of subsidiaries	–	(1,411)
Depreciation	<u>(1,391)</u>	<u>(4,390)</u>
Net book value, end of period/year	<u>3,309</u>	<u>4,641</u>

10. Accounts receivable

	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in (Note a):		
– Securities transactions		
Clearing houses and brokers	96,043	46,940
Cash clients	98,755	92,482
Margin clients	199,925	165,656
– Futures and options contracts transactions		
Brokers	132	132
HKFE Clearing Corporation Limited	41	44
Accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services (Note b)	<u>999</u>	<u>935</u>
	<u>395,895</u>	<u>306,189</u>

Notes:

- (a) 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 and repayable on demand. 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:

	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Within 30 days	174,365	133,507
31-90 days	12,247	4,520
Over 90 days	8,186	1,395
	<u>194,798</u>	<u>139,422</u>

- (b) The accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services 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:

	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Within 30 days	527	228
31-90 days	364	552
Over 90 days	108	155
	<u>999</u>	<u>935</u>

11. Accounts payable

	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities transactions (<i>Note</i>):		
Brokers	112	–
Cash clients	74,930	32,494
Margin clients	3,941	3,972
	<u>78,983</u>	<u>36,466</u>

Note: 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.

12. Share capital

	Authorised	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Amount HK\$'000
At 1st January 2004, 31st December 2004 and 30th June 2005	<u>10,000,000,000</u>	<u>1,000,000</u>
	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Amount HK\$'000
At 1st January 2004 and 2005	238,154,999	23,815
Exercise of share options	<u>11,186,227</u>	<u>1,119</u>
At 30th June 2005	<u>249,341,226</u>	<u>24,934</u>

13. Contingent liabilities

As at 30th June 2005, the Company provided corporate guarantees of HK\$120 million to banks in respect of banking facilities granted to a subsidiary, VC Brokerage Limited (31st December 2004: HK\$70 million).

14. Capital commitments

As at 30th June 2005, the Group did not have any material commitments contracted but not provided for in respect of purchase of fixed assets (31st December 2004: nil).

15. Related parties 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) the fellow subsidiaries are unsecured, interest free and repayable on demand.
- (b) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note(s)	Three months ended		Six months ended	
		30th June		30th June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental paid to fellow subsidiaries	(i)	45	59	131	72
Rental charged to a fellow subsidiary	(ii)	-	66	-	165
Technical, network and other service fees charged to fellow subsidiaries and ultimate holding company	(iii)	-	292	-	335
Technical, network and other service fees charged from fellow subsidiaries	(iii)	682	159	1,364	159
Sales of computer hardware and software to related companies	(iii)	-	16,887	-	23,616
Purchases of computer hardware and software from a fellow subsidiary	(iii)	7	28	8	28
Brokerage commission income and interest income earned from certain directors of the Group or their relatives	(iv)	42	84	76	160
Interest expenses charged on loans from ultimate holding company and a fellow subsidiary	(v)	1,982	1,281	3,511	2,694
Management fee paid to ultimate holding company and a fellow subsidiary	(vi)	900	750	1,800	1,500
Financial advisory and arrangement fees charged to ultimate holding company	(vii)	350	150	600	150
Disposal of subsidiaries to ultimate holding company	(viii)	-	27,900	-	27,900
		<u>-</u>	<u>27,900</u>	<u>-</u>	<u>27,900</u>

Notes:

- (i) 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.
- (ii) The Group leased certain office space to a fellow subsidiary. The lease rental was charged to the fellow subsidiary accordingly to actual floor space utilised at normal commercial terms.
- (iii) 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.
- (iv) Brokerage commission income and interest income earned from transactions with related parties was conducted at normal commercial terms.
- (v) 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.
- (vi) The management fee paid to ultimate holding company and a fellow subsidiary was determined based on mutual agreement between the Company, the ultimate holding company and the fellow subsidiary.
- (vii) The financial advisory and arrangement fees charged to ultimate holding company were determined at normal commercial terms.
- (viii) 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.

INTERIM DIVIDEND

No dividends have been paid or declared by the Company during the six months ended 30th June 2005 (six months ended 30th June 2004: nil).

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 15 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 six months ended 30th June 2005 or at any time during such period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2005, 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	2.96%
	Personal	(4)	735,000	0.29%
Mr. Ho, Lawrence Yau Lung	Corporate	(2)	4,232,627	1.70%
	Personal	(4)	1,226,057	0.49%
Dr. Lee Jun Sing	Corporate	(3)	6,299,702	2.53%
	Personal	(4)	3,627,567	1.45%

Notes:

- 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 2.96% 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 1.70% 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 2.53% 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 30th June 2005, 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 30th June 2005	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 9th July 2002 (Note)	3.6 1.0	735,000 491,057	8th October 2005 8th July 2012
Dr. Lee Jun Sing	6th April 2001 9th July 2002 (Note)	3.6 1.0	3,136,510 491,057	8th October 2005 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 30th June 2005, none of the Directors had exercised their options.

(iii) Interests in shares and equity derivatives of Melco International Development Limited (“Melco”), the Company’s ultimate holding company

Name of Directors	Nature of interests	Number of shares of Melco interested	Number of underlying shares of Melco interested	Approximate percentage of shares of Melco interested (Note 1)
Dr. Ho Hung Sun, Stanley	Corporate	7,298,456 (Note 2)	117,912,694 (Note 5)	11.16%
	Personal	22,749,278 (Note 2)	–	2.03%
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 (Note 3)	117,912,694 (Note 5)	46.50%
	Personal	5,432,612 (Note 4)	1,800,000 (Note 4)	0.64%

Notes:

- As at 30th June 2005, the total number of issued shares of Melco is 1,122,438,540.
- Dr. Ho Hung Sun, Stanley is taken to be interested in 7,298,456 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.65% of the issued share capital of Melco. Apart from that, Dr. Ho Hung Sun, Stanley personally holds 22,749,278 shares of Melco.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 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 10.29% of the issued share capital of Melco. He is also taken to be interested in 288,532,606 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 25.71% 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 8.59% and 30.57% of Melco’s shares.

- As at 30th June 2005, the personal interests of Mr. Ho, Lawrence Yau Lung consist of (a) his personal holding of 5,432,612 shares in Melco and (b) derivative interests in Melco in the form of 1,800,000 physically settled options granted on 19th February 2004, which may be executed at an exercise price of HK\$1.2025 per Melco’s share during the period from 19th February 2006 to 7th March 2012.

5. Pursuant to an agreement dated 11th May 2005 entered into between Great Respect Limited, Melco Entertainment Limited and Melco, Great Respect Limited has agreed to subscribe for convertible loan notes of Melco in the total principal amount of HK\$1,175,000,000 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares will be issued by Melco. Great Respect Limited is a company controlled by a discretionary family trust of Dr. Stanley Ho, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd is the trustee of the aforesaid discretionary family trust.

Save as disclosed above, as at 30th June 2005, 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 30th June 2005, 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 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 (<i>Note</i>)	160,930,381	64.54%

Note:

The said 160,930,381 Shares were held by Melco Financial Group Limited, which is a wholly-owned subsidiary of Melco.

Save as disclosed above, as at 30th June 2005, 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

As at 30th June 2005, options to subscribe for an aggregate of 4,880,678 underlying Shares granted on 6th April 2001 (“Pre-IPO Share Options”) pursuant to the Pre-IPO Share Option Plan were outstanding. The following are details of the outstanding Pre-IPO Share Options as at 30th June 2005:

Categories of grantees	No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options	Exercise price per Share HK\$	Pre-IPO Share Options duration
Directors of the Company	4,606,510	3.6	6th April 2001 to 8th October 2005
Employees	274,168	3.6	6th April 2001 to 8th October 2005
Total	<u>4,880,678</u>		

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 six months ended 30th June 2005, a Pre-IPO Share Option to subscribe for a total of 988,020 underlying Shares granted to 1 employee lapsed as the relevant employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of the Group. Since the date of the grant of the Pre-IPO Share Options up to 30th June 2005, 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

As at 30th June 2005, options to subscribe for an aggregate of 3,267,989 and 12,450,565 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 and HK\$0.64 per Share respectively were outstanding. The following are details of the outstanding Share Options as at 30th June 2005:

Categories 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	982,114	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	694,842	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	10,400,565	0.64	25th March 2004	25th March 2004 to 24th March 2014
Other eligible persons	1,591,033	1.0	9th July 2002	9th July 2002 to 8th July 2012
Other eligible persons	2,050,000	0.64	25th March 2004	25th March 2004 to 24th March 2014
Total	<u>15,718,554</u>			

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 six months ended 30th June 2005, certain Share Options to subscribe for a total of 444,502 underlying Shares granted to 6 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. During the six months ended 30th June 2005, certain Share Options to subscribe for a total of 756,227 and 10,430,000 underlying Shares at an exercise price of HK\$1.0 and HK\$0.64 per share respectively granted to a total of 40 employees were exercised. Since the date of the grant of the Share Options up to 30th June 2005, none of the Share Options was 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.

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 19 of the GEM Listing Rules exceeded 8%. As such advance continued to exist as at 30th June 2005, 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, advanced a loan facility to an independent third party and not connected with the Directors, Chief Executive or substantial shareholders of the Group (the "Borrower"), in relation to an 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. The securities of the loan facility provided by the Borrower included a personal guarantee from another 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. As at 30th June 2005, the outstanding principal amount of the loan facility was HK\$38 million which bore interest at the rate of three per cent. per annum over the prime rate and shall be fully repaid by the Borrower in mid-September 2005. As at the date of this report, the outstanding principal amount of the loan facility and the interest accrued was approximately HK\$2.5 million. 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.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the directors of the Company, all directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors as set out in the Model Code for the six months period ended 30th June 2005.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to building and maintaining high standards of corporate governance. The Company applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Listing Rules"), with certain deviations mentioned below, throughout the review period.

Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

Code provision B.1.1 provides that a listed company should establish a remuneration committee for the purpose of, among others, recommending to the board on such company's policy and structure for remuneration of directors and senior management. The Company has not established a remuneration committee during the review period as the directors' and senior management's remuneration is not due for review during such period. To prepare for such review in the second half of 2005, the Company has recently established a remuneration committee in compliance with the code provision. Terms of reference of such committee have been posted on the Company's website.

Code provision D.1.2 provides that a listed company should formalise the functions reserved to the board and those delegated to management. The Company has not formalised this division of functions during the review period because hitherto the Company's board and management have been working smoothly on the basis that all execution functions are carried out by management and all strategic, policy and major decisions are made by the board. The Company has now formalised the division of functions and is now fully compliant with the code provision.

On 3rd August 2005, the Company set up the following board committees and adopted its own code on corporate governance:-

- (a) Executive Committee;
- (b) Audit Committee (terms of reference of the audit committee adopted on 24th October 2004 were superseded by the new terms of reference adopted on 3rd August 2005);
- (c) Remuneration Committee;
- (d) Nomination Committee;
- (e) Finance Committee;
- (f) Regulatory Compliance Committee.

The Company's code on corporate governance contains the code provisions in the CG Code and other provisions, and has been posted on the Company's website.

Apart from the audit committee and remuneration committee, the Company has established four additional board committees to ensure maintenance of a high corporate governance standard. Terms of reference of all board committees set up by the Company have been posted on the Company's website, as have (1) division of responsibilities between the Company's Chairman and President and Vice Chairman and (2) duties and powers delegated to the Company's President and Vice Chairman and matters reserved for decision of the board.

AUDIT COMMITTEE

The Company's audit committee was formed on 14th March 2001 and is currently composed of the Independent Non-executive Directors of the Company. As at 30th June 2005, 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 during the review period had been established with regard to Rule 5.29 of the GEM Listing Rules. New terms of reference were adopted by the Company on 3rd August 2005 in compliance with code provision C.3.3 of the CG Code.

The primary duties of the audit committee are to (i) review the Group's annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board; and (ii) review and supervise the financial reporting process and internal control procedures of the Group.

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

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

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30th June 2005.

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 30th June 2005, 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.