VALUE CONVERGENCE HOLDINGS LIMITED

滙盈控股有限公司

A Hong Kong listed company with stock code: 8101

Website: http://www.valueconvergence.com

Annual Report 2005

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

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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.

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

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

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

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

Remuneration 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

Deloitte Touche Tohmatsu

Principal Bankers

Standard Chartered Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

Share Registrar and Transfer Office

Abacus Shares Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

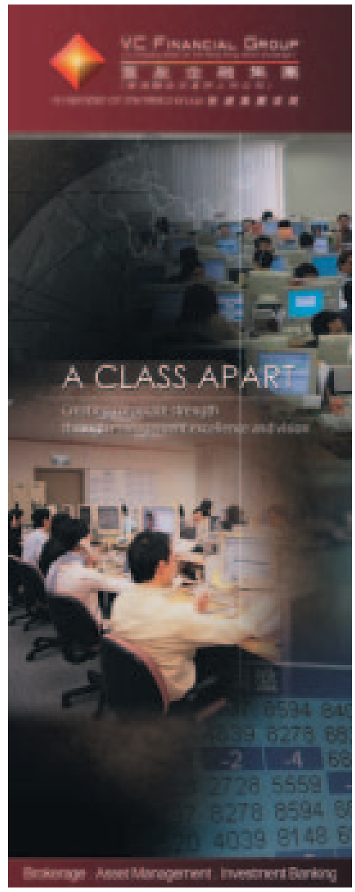
Stock Code

8101

2005 was a challenging year for the Group. The pressure of interest rate hikes, fluctuating global oil price and low market turnover of China-related stocks in the first half of 2005 constituted a difficult operating environment. Despite these challenges, the Group achieved a consolidated net profit of HK$10.2 million in the year 2005. This was HK$2.4 million in excess of the net profit in 2004, after excluding an extraordinary gain from the disposal of the Group's technology business. The improved profit in 2005 was the result of the Group's relentless efforts in fortifying its business. The Group has taken various measures to strengthen its competitiveness in the market. These proactive moves included a reorganization exercise, a cost rationalization programme, sales performance enhancement and the introduction of innovative products and services.

As a company proud of its strong entrepreneurial spirit, we are committed to constantly breaking new grounds in growing our business. The disposal of the technology business, carried out in 2004, was the first step to pave a new path for our core business. The addition of an asset management arm to our financial services in the year 2005 has taken us one step closer to realizing our goal of becoming a full-fledged investment bank. We expect the new service to become a stable source of income for the Group in the future. To leverage on the positive investment environment in Macau and in the Pearl River Delta region, our professional asset management team are currently studying the possibility of introducing investment funds to our clients. An expanded product portfolio that offers a wide array of investment options will help to boost the Group's revenue in the long run. The management is confident that the strategic moves undertaken during the year will bring fruitful results for the Group in 2006.

As the local and global economies continue to recover, growth persists in the China market. Hong Kong remains as the preferred listing location for Mainland enterprises and we expect the local stock market to thrive in 2006. Despite fluctuating oil prices and possible interest rate hikes which might pose short-term volatility in the market, the management sees promising prospects for the Group's investment banking and financial services. This segment has a solid foundation to support the Group's efforts to diversify its products and expand the geographical coverage of its services. We will continue to realize our initiatives, such as offering fund management services and other new investment products, and embark on business acquisitions conducive to the overall growth of the Group's business.



On behalf of the Board of Directors, I would like to extend my sincere gratitude to our business partners, customers and shareholders for their support throughout the year. My thanks also to our dedicated management team and committed staff for their hard work and continuous efforts over the years. Looking forward, we will continue to seize every opportunity to raise our competitiveness in the market to bring lucrative returns to our valued shareholders.

Ho, Lawrence Yau Lung
President and Vice Chairman

Hong Kong, 2nd March 2006

Business/Financial Review

Since the Group disposed of its technology business in 2004, the investment banking and financial services business became the Group's primary focus. Thus, the results of operations for the year ended 31st December 2005 comprised only the results of the Group's investment banking and financial services business.

The Group's investment banking and financial services business covers a comprehensive range of premier financial services and products that can fulfill our clients' various investment and wealth management needs. Such services include securities, futures and options brokerage, corporate finance advisory service, initial public offerings related services, and mergers and acquisitions advisory service. Determined to become a full-fledged investment bank, the Group initiated an asset management arm during the year. The new service is expected to become a stable income source of the Group in future.

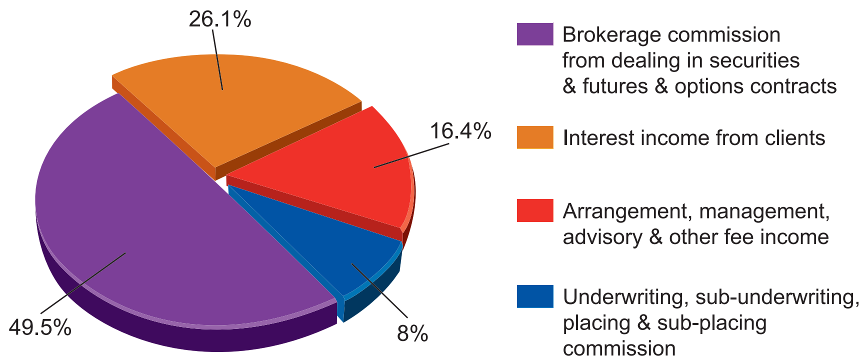
The Group

The Group's consolidated revenues amounted to approximately HK$116 million for the year ended 31st December 2005, about 29% lower than that in 2004. The drop was mainly attributable to the disposal of the Group's technology business in 2004. Consolidated net profit for the year ended 31st December 2005 was approximately HK$10.2 million, a decrease of about HK$24 million when compared with the figure in 2004. Excluding the HK$26.4 million extraordinary gain from the disposal of the Group's technology business in 2004, the Group's consolidated net profit for the year ended 31st December 2005 was approximately HK$2.4 million higher than that in 2004.

Investment banking and financial services businesses

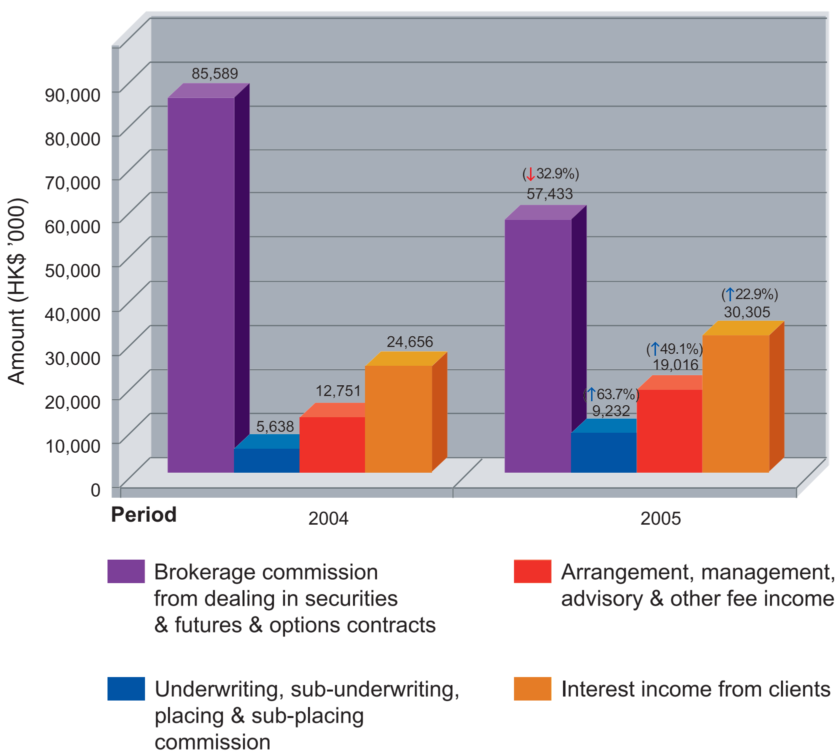
The investment banking and financial services businesses' revenue for the year ended 31st December 2005 was approximately HK$116 million, a decrease of approximately 9.8% when compared with that in 2004 (2004: approximately HK$128.6 million). This segment recorded a total operating profit of approximately HK$9.6 million for the year ended 31st December 2005 (2004: HK$4.8 million). The operating results of these businesses improved during the year ended 31st December 2005, attributed to the improved performance of the corporate finance division and the financing segment of the brokerage division during the year. However, the Group's overall performance suffered, due to marginal performance of the brokerage business. The investment banking and financial services businesses generated four main streams of revenues including brokerage commission, underwriting and placing commission, corporate advisory related fees and interest income. The composition and trend of these revenues during the year are illustrated below:

Revenues Composition in %



Certain streams of revenues had increased significantly during the year as compared with those in the previous year. The contributions of these four main streams of revenues to the revenues of these businesses and their growth are shown as follows:

Revenues Growth in Amount

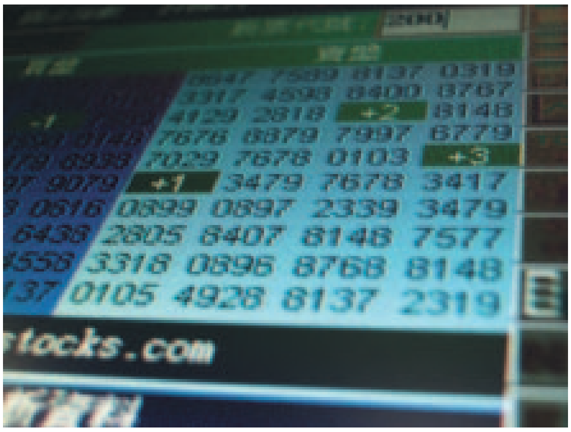


Brokerage division

At the beginning of the year, the property market started to pick up and China continued to relax its Individual Travelers Scheme, resulting in improved tourist and consumer spending and rosy prospects for the financial services industry. However, impaired by rounds of interest rate hikes both in the US and Hong Kong and fluctuating global oil price, the local capital market became highly volatile during the year. The Hang Seng Index was high at 14237 at the beginning of 2005 and dropped to 13516 on 31st March 2005, then climbed back to close at 14201 on 30th June 2005 and further up to 15428 on 30th September 2005. The Hang Seng Index finally closed at 14876 on 31st December 2005. Average daily market turnover of the Hong Kong stock market in the first quarter of 2005 was approximately HK$18.4 billion; it dropped 16% to approximately HK$15.4 billion in the second quarter, before climbing up to approximately HK$20.6 billion in the third quarter. It concluded at approximately HK$18.7 billion in the last quarter of 2005.

During the year ended 31st December 2005, performance of the Group's brokerage business dropped as a result of a decrease in income from brokerage commission. Gross commission income fell approximately by HK$28.2 million for the year, approximately 32.9% lower than that of last year and net brokerage commission income was down by approximately 44.5%. The drop was largely attributed to low market turnover of China-related stocks during the first half of 2005, which were the investment focus of many of the Group's brokerage business clients. The drop in commission income was also due to the Group's tightened control on credit and money lending policies amid increased market volatility and poor market sentiments. Overall, the broking segment recorded revenues and operating loss of approximately HK$60.3 million (2004: HK$88.3 million) and HK$9.3 million (2004: profit of HK$0.5 million) respectively during the year ended 31st December 2005.

During the first nine months of 2005, the Group has lessened its underwriting and placing activities. However, since the rebound of the local capital market by end of the third quarter, the Group has become actively participated in such activities. The total turnover attributable to such activities has increased by 63.7% to approximately HK$9.2 million for the year as compared to that of approximately HK$5.6 million for the year ended 31st December 2004.



Increased funding cost squeezed net interest margin during the year. While interest income from margin and other financing business grew from approximately HK$24.7 million in the previous year to HK$30.3 million this year (representing an increase of approximately 22.9%), net interest income fell by approximately 5.1% as the finance costs increased by approximately the same amount during the year when compared with that of last year. The Group's margin and other financing segment reported an operating profit of approximately HK$9.6 million during the year ended 31st December 2005 (2004: HK$13.9 million).

Corporate Finance division

During the year, the corporate finance division participated in a number of deals, including the listing of China Haisheng Juice Holdings Co., Limited and Wasion Meters Group Limited on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). Most of these new clients were located with the help of our new offices in China. Our strategic expansion in Shenzhen, Beijing and Shanghai in the year before has proven effective. Some of the deals were completed in the fourth quarter of 2005 and generated significant returns for the Group. Overall, the Group's corporate advisory and others segment, which includes the performance of the underwriting and placing services as discussed above and the asset management division as described below, recorded revenues and operating profit of approximately HK$25.4 million (2004: HK$15.7 million) and HK$9.2 million (2004: loss of HK$9.7 million) respectively during the year ended 31st December 2005.

Asset Management division

In January 2005, the Group was granted the license to operate asset management business by the Hong Kong Securities and Futures Commission, and a professional asset management service team was formed soon after. In hope of providing our clients with investment alternatives, the Group is studying the possibility of establishing investment funds capitalizing on investment opportunities in Macau and in the Pearl River Delta region. Apart from offering our clients more investment choices, an expanded product portfolio will also help boost the Group's revenues in the long run. The operating result of this division has been included in the corporate finance and others segment.

During the year ended 31st December 2005, Hong Kong was the major market of the Group. The revenues and contribution to operating profit from Macau during the year ended 31st December 2004 were attributable to the Group's former technology business.

Liquidity and financial resources/capital structure

The Group financed its business operations with cash revenues generated 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 31st December 2005 (2004: HK$175 million) and HK$80 million (2004: HK$70 million) of these banking facilities was secured by margin clients' listed securities. As at 31st December 2005, the Group had used HK$23 million and HK$5 million of its unsecured and secured banking facilities respectively (HK$15 million unsecured as at 31st December 2004) and these amounts were repaid by 5th January 2006.

As at 31st December 2005, the Group had borrowed HK$211.9 million (2004: HK$211.9 million) from its ultimate holding company. The loans bear interest at prime rate minus 2% per annum or HIBOR plus 1.25% – 2% per annum and are repayable upon written notice from the ultimate holding company. The fund has 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 31st December 2005, the Group's net current assets, cash available and shareholders' funds (other than the trust accounts) amounted to approximately HK$145.8 million (2004: HK$120.4 million), HK$69.3 million (2004: HK$50.9 million) and HK$174 million (2004: HK$156.2 million) respectively. The current ratio, expressed as current asset over current liabilities, was maintained at the satisfactory level of 1.49 (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 31st December 2005, the total number of issued ordinary shares of the Company was 249,641,226 at HK$0.10 each (2004: 238,154,999 shares of HK$0.10 each). The increase in issued shares was the result of exercising share options of the Company during the year.

Corporate governance

During the year, the Group introduced a Code on Corporate Governance ("Code"), which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange ("HKSE Code"), which came into effect on 1st January 2005. In addition to formalizing the Group's existing corporate governance principles and practices, the Code also serves the purpose of assimilating practices with benchmarks prescribed by the HKSE Code to ultimately ensure that the Group runs a highly transparent operation and is accountable to its shareholders.

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

During the year ended 31st December 2005, the Group did not make any acquisitions, disposal, significant investments and capital commitments.

Headcount/Employees' information

As at 31st December 2005, the Group employed a total of 127 employees, of which 123 were stationed in Hong Kong and 4 in the PRC.

Staff costs (including directors' emoluments) and staff sales commission amounted to approximately HK$27.9 million and HK$31.0 million for the year ended 31st December 2005 (2004: approximately HK$41.0 million and HK$44.5 million respectively). The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence. In addition to basic salaries and Mandatory Provident Fund Scheme, other benefits include medical coverage, sales commission, performance-based bonus and discretionary share options. Training and development programmes are also provided to the Group's employees on an ongoing basis.

Charges on group assets

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

Gearing ratio

As at 31st December 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 the satisfactory level of 1.38 times (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 from foreign exchange exposure is minimal. Hence, no hedging against foreign currency exposure is necessary.

Future plans for material investments or capital assets

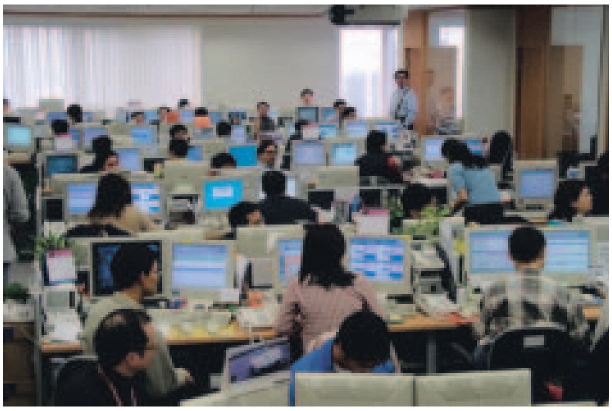
As at 31st December 2005, the Group had no known plans for material investments or capital assets.

Contingent liabilities

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

OUTLOOK

The performance of our investment banking and financial services is linked naturally to the overall market performance in Hong Kong. With the local and global economies continuing to recover, the China market growing steadily, and Hong Kong remaining as the preferred listing location for Mainland enterprises, we see robust prospects for the local stock market in 2006. Nevertheless, short-term market volatility is anticipated amidst the still fluctuating oil price and possible further interest rate hikes.



The management remains optimistic in the long-term prospects of the Group's investment banking and financial services business. On a streamlined and strengthened foundation, the Group will forge ahead with its expansion in products and geographical coverage. We will actively pursue our initiatives, such as offering fund management services and new investment products, and embark on business acquisitions beneficial to the overall growth of the Group's business.

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 2005, together with the audited comparative figures for the year ended 31st December 2004.

Principal activities

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year ended 31st December 2005 by business and geographical segments is set out in note 6 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st December 2005 are set out in the consolidated income statement on page 31.

The Directors do not recommend the payment of a dividend.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

Share capital and share options

Details of the movements in share capital and share options of the Company are set out in notes 30 and 32 to the financial statements respectively.

Distributable reserves

As at 31st December 2005, the Company's reserve available for distribution to shareholders, calculated under section 79B of the Companies Ordinance, amounted to HK$9,868,000 (2004: HK$10,864,000).

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 79.

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 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December 2005.

Directors

The Directors during the year ended 31st December 2005 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

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

In accordance with Article 101 of the Company's Articles of Association, 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 elections. In accordance with these provisions, Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

Mr. Ho, Lawrence Yau Lung has a service contract with VC Services Limited, a wholly-owned subsidiary of the Company, commencing on 1st January 2005 which may be terminated by either party by written notice of not less than three months.

Save as disclosed above, as at 31st December 2005, none of the Directors of the Group has entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Directors' interests in contracts

Other than as disclosed in note 36 to the financial statements, no contract 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 31st December 2005 or at any time during such year.

Group's emolument policy

The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are determined with regard to the performance of individuals, the Company's operating results and market standards.

The Company has adopted its share option schemes as an incentive to Directors and employees. Details of share options granted to the Directors and employees as at 31st December 2005 are set out in the sub-section headed "Derivative interests in the Company" under the section of "Directors' and Chief Executives' interests in the Company and its associated corporations" and the section headed "Details of outstanding options granted" in the Directors' Report.

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

As at 31st December 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 *(Note 1)*
Dr. Ho Hung Sun, Stanley	Corporate	2	7,384,651	2.96%
Mr. Ho, Lawrence Yau Lung	Corporate	3	4,232,627	1.70%
	Personal	5	491,057	0.20%
Dr. Lee Jun Sing	Corporate	4	6,299,702	2.52%
	Personal	5	491,057	0.20%

Notes:

1. As at 31st December 2005, the total number of issued shares of the Company is 249,641,226.

2. 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.

3. 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.

4. 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 2.52% of the issued share capital of the Company.

5. 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 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	Number of underlying Shares comprised in the options outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of underlying Shares comprised in the options outstanding 31st December 2005	Expiry date
		HK$						
Dr. Ho Hung Sun, Stanley	6th April 2001	3.6	735,000	–	–	(735,000)	–	8th October 2005
Mr. Ho, Lawrence Yau Lung	6th April 2001	3.6	735,000	–	–	(735,000)	–	8th October 2005
	9th July 2002 *(Note)*	1.0	491,057	–	–	–	491,057	8th July 2012
Dr. Lee Jun Sing	6th April 2001	3.6	3,136,510	–	–	(3,136,510)	–	8th October 2005
	9th July 2002 *(Note)*	1.0	491,057	–	–	–	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 2005, none of the Directors had exercised their options.

(iii) Interests in shares and equity derivatives of Melco International Development Limited ("Melco")

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)*	11.12%
	Personal	22,749,278 *(Note 2)*	–	2.02%
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 *(Note 3)*	117,912,694 *(Note 5)*	46.36%
	Personal	5,432,612 *(Note 4)*	1,800,000 *(Note 4)*	0.64%

Notes:

1. As at 31st December 2005, the total number of issued shares of Melco is 1,125,838,540.

2. 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.

3. 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 10.26% 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 65% of issued share capital of Better Joy Overseas Ltd. ("Better Joy") which in turn holds approximately 25.63% of the issued share capital of Melco.

   Dr. Ho Hung Sun, Stanley and Mr. Ho, Lawrence Yau Lung are beneficially interested in 23% and 65% 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 8.56% and 27.40% of Melco's shares.

4. As at 31st December 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 exercised 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 PBL Entertainment (Greater China) Limited (formerly "Melco Entertainment Limited") and Melco, convertible loan notes of Melco in the total principal amount of HK$1,175,000,000 were issued to Great Respect Limited on 5th September 2005 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. Ho Hung Sun, Stanley, the beneficiaries of which are members of Dr. Ho Hung Sun, Stanley's family including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung and Madam Lucina Laam King Ying.

Save as disclosed above, as at 31st December 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 31st December 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 or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares held	Approximate shareholding percentage
Melco Financial Group Limited *(Note)*	160,930,381	64.46%

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 31st December 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

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 expired with effect from 9th October 2005.

Share Option Scheme

The Share Option Scheme ("Share Option Scheme") was adopted by the Company on 29th November 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 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 months 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 2005, options to subscribe for an aggregate of 3,258,168 and 10,950,565 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, which in total represents approximately 5.7% (2004 : 11.5%) of the shares of the Company in issue as at 31st December 2005. 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 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	8,900,565	0.64	25th March 2004	25th March 2004 to 24th March 2014
Other eligible persons	1,581,212	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	14,208,733			

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 Executives' interests in the Company and its associated corporations" above.

During the year ended 31st December 2005, certain Share Options to subscribe for a total of 1,654,323 underlying Shares which had been granted to eight 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 2005, 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 Option will be a price determined by the Board and notified to each grantee and will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of offer of the 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 Option; and (iii) the nominal value of a Share.

Management contracts

There exists a services agreement under which Melco Services Limited, the Company's fellow subsidiary, 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 customers and suppliers

The aggregate revenues attributable to the Group's five largest customers taken together were less than 30% of the Group's total revenues for the year ended 31st December 2005.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year ended 31st December 2005.

Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December 2005 are disclosed in note 36 to the financial statements.

None of the related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 20 of the GEM Listing Rules.

Independent non-executive directors

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

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 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.

Auditors

Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company since the retirement of Messrs. PricewaterhouseCooper at the 2005 annual general meeting of the Company held on 13th April 2005. The financial statements of the Company for the year ended 31st December 2005 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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

2nd March 2006

Corporate Governance Practices

(a) Application of Corporate Governance Principles

The Group is committed to promoting good corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE 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 ("GEM Listing Rules") with these objectives in mind.

(b) Promulgation of Company's Corporate Governance Code

To this end, the Group has promulgated a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, code provisions and recommended best practices set out in the HKSE Code, which came into effect on 1st January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Group's shareholders.

(c) Compliance of Company and HKSE's Code's Provisions

The Group has complied with all provisions in the Company Code and the HKSE Code with one deviation mentioned below.

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 provisions of the HKSE Code and other provisions, and has been posted on the Company's website.

Apart from the audit committee and remuneration committee required by the HKSE Code, 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.

(d) Deviation from HKSE Code

HKSE 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.

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 code of conduct for the year 2005.

Board Composition

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the President and Vice Chairman and the management.

The Board comprises a total of six Directors, with three Executive Directors, namely, Dr. Ho Hung Sun, Stanley (Chairman), Mr. Ho, Lawrence Yau Lung (President and Vice Chairman) and Dr. Lee Jun Sing; and three Independent Non-executive Directors, namely, Attorney Lorna Patajo-Kapunan, Dr. Tyen Kanhee, Anthony and Mr. Sham Sui Leung, Daniel. More than one Independent Non-executive Directors have appropriate professional qualifications, accounting and financial management expertise.

Dr. Ho Hung Sun, Stanley, Chairman of the Board, is the father of Mr. Ho, Lawrence Yau Lung, the President and Vice Chairman of the Company.

The posts of Chairman and President and Vice Chairman are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the President and Vice Chairman's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Board Operation

The Board meets regularly over the Company's affairs and operations. In 2005, the Board held four meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Ho Hung Sun, Stanley (Chairman)	1/4
Ho, Lawrence Yau Lung (President and Vice Chairman)	3/4
Lee Jun Sing	4/4
Independent Non-executive Directors	
Lorna Patajo-Kapunan	2/4
Tyen Kanhee, Anthony	4/4
Sham Shui Leung, Daniel	4/4

Remuneration of Directors

As mentioned above, a remuneration committee was formed on 3rd August 2005 for, inter alia, the following purposes:-

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of non-executive directors.

Other details of the role and function of the remuneration committee are given at the Company's website under the section "Corporate Governance".

The Remuneration Committee is made up of all of the Company's Independent Non-executive Directors, namely, Dr. Tyen Kanhee, Anthony (Chairman), Attorney Lorna Patajo-Kapunan and Mr. Sham Sui Leung, Daniel.

No meeting has been held in 2005 to review the remuneration packages of Executive Directors, which are nominal by market standards, as the Company does not see a need to review them. The Directors' fees of the Company's Independent Non-executive Directors have been increased in August 2005 according to market levels and the additional work they are requested to take on, following the formation of the remuneration committee, the nomination committee and the regulatory compliance committee on which they sit. The Remuneration Committee held a meeting on 2nd March 2006 to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group. Dr. Tyen Kanhee, Anthony, Mr. Sham Sui Leung, Daniel and Attorney Lorna Patajo-Kapunan attended this meeting.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2006.

Nomination of Directors

As mentioned above, a Nomination Committee was formed on 3rd August 2005 for, inter alia, the following purposes:-

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Sham Sui Leung, Daniel (Chairman), Dr. Tyen Kanhee, Anthony and Attorney Lorna Patajo-Kapunan. The Nomination Committee held its first meeting on 2nd March, 2006 to review the structure, size and composition of the Company's Board of Directors. Dr. Tyen Kanhee, Anthony, Mr. Sham Sui Leung, Daniel and Attorney Lorna Patajo-Kapunan attended this meeting. The Nomination Committee was satisfied with the existing composition of the Company's Board of Directors and recommended no change in the near term.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2006.

Auditors' Remuneration

The remuneration in respect of audit and non-audit services provided by the auditors, Deloitte Touche Tomatsu, to the Company in the year 2005 amounted to HK$905,000 and HK$90,000 respectively. Non-audit services provided by Deloitte Touche Tomatsu include special review of the Group's mandatory provident fund, agreed-upon procedures in relation to agreeing the Company's final results announcement and tax services.

Audit Committee

The Company's Audit Committee was formed on 14th March, 2001 and is currently composed of all three Independent Non-executive Directors of the Company, namely, Dr. Tyen Kanhee, Anthony (Chairman), Attorney Lorna Patajo-Kapunan and Mr. Sham Sui Leung, Daniel. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the role and function of the Audit Committee are available on the Company's website under the section "Corporate Governance".

In 2005, the Audit Committee held four meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Tyen Kanhee, Anthony *(Chairman)*	4/4
Lorna Patajo-Kapunan	2/4
Sham Shui Leung, Daniel	4/4

The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in HKSE Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors several times during 2005.

A statement of director responsibilities for preparing the financial statements is set out in this Annual Report. The Auditors' Report states auditors' reporting responsibilities.

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions.

Executive Directors

Dr. HO Hung Sun, Stanley, G.B.S., aged 84, 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 the Managing Director of Sociedade de Turismo e Diversoes de Macau, S.A. 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 a 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 a holder of honorary doctorates of social sciences of The University of Hong Kong, The Hong Kong Polytechnic University and the University of Macau. He was awarded the Honorary Degree of Doctor of Business Administration by The Open University of Hong Kong.

Mr. HO, Lawrence Yau Lung, aged 29, joined the Group in October 2000 and was appointed the President and Vice Chairman of the Group with effect from August 2002. Within six months of joining the Group, Mr Ho spearheaded the public listing of the Company on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and was instrumental in its subsequent mergers and acquisitions. Mr Ho was appointed the Group Managing Director of Melco International Development Limited, a group listed on Hong Kong Stock Exchange, in November 2001 after he completed a General Offer for shares of the Company and became the majority shareholder. Melco is an actively managed conglomerate with a market capitalization of HK$14 billion and has 3 main lines of business, spearheaded by Leisure, Gaming & Entertainment in Macau & Asia via an exclusive joint venture with one of Australia's largest conglomerates and gaming groups - Publishing & Broadcasting Limited. As the Group Managing Director, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Group.

Before heading Melco and Value Convergence, 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 also the son of Dr. Ho Hung Sun Stanley, founder of the Shun Tak Group and Sociedade de Turismo e Diversoes de Macau, S.A. (Formerly "Sociedade de Turismo e Diversoes de Macau, S.A.R.L.").

Mr. Ho serves on numerous boards and committees in Hong Kong, Macau & mainland China. He is a Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of Macau Special Administrative Region; Member of All China Youth Federation, Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Chairman of The Chamber of Hong Kong Listed Companies; Member of Campaign Committee of The Community Chest; Board of Governors of The Canadian Chamber of

Commerce in Hong Kong; Honorary Lifetime Director of the Chinese General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Member of Association of Property Agents and Real Estate Developers of Macau and Lifetime Member of Macao Chinese General Chamber of Commerce.

In recognition of Mr Ho's excellent directorship and entrepreneurial spirit, Institutional Investor, a leading research and publishing organization, has honoured Mr Ho as the "BEST CEO" in the 'Conglomerates' category by the end of 2005. Mr. Ho also won the "Directors of the Year Award 2005" in November 2005. The award is presented annually by the Hong Kong Institute of Directors in recognition of excellent corporate governance practice among Hong Kong listed companies.

Dr. LEE Jun Sing, aged 59, 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 Guangzhou Luhu Golf & Country Club, iSinolaw Limited, Bio-Cancer Treatment International Limited and a Managing Director of Vast Honour Development Limited.

Independent Non-Executive Directors

Dr. Tyen Kanhee, Anthony, aged 50, 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 28 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 50, 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.

Attorney PATAJO-KAPUNAN, Lorna, aged 53, joined the Group in November 2000. Attorney 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 Kapunan has a number of professional involvements throughout her legal career. The most recent ones include Founding President, Intellectual Property Alumni Association (IPAA); Councilor, Asean Patent Attorneys Association (APAA); Chairman, Copyright Committee (APAA); Regional President, Asean Intellectual Property Association (ASEAN IP); Director, Licensing Executive Society of the Philippines (LES); Chairman, Women Business Council of the Philippines and Chairman, National Issues Committee, Management Association of the Philippines. Attorney Kapunan is Senior Partner of Roco Kapunan Migallos & Luna Law Offices and her fields of practice include Corporate, Franchising, Mergers and Acquisitions, Litigation, Intellectual Property and Family Laws.

Senior Management

Mr. NG Man Hoi, Paul (Chief Operating Officer of Value Convergence Holdings Limited), aged 48, possesses over 20 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 44, joined the Group in April 2004. Mr. Lam has been in the financial industries for more than 20 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 44, joined the Group in May 2004. Mr. Chau has over 20 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 majoring in Finance.

Mr. LAM Fung, Philip (Director of VC Asset Management Limited), aged 46, joined the Group in 2005, leading the private equity division. Mr. Lam has been in the private equity business for more than 15 years working for multinational financial institutions in Asia, such as Mizuho Corporate Bank and CLSA in Asia. Mr. Lam received his Bachelor and Master degrees in business administration in Ontario, Canada.

Mr. TSANG Yuen Wai, Samuel (Company Secretary of Value Convergence Holdings Limited), aged 51, joined the Group in January 2004. Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary of Melco International Development Limited, the Company's ultimate parent company, Mr. Tsang oversees the legal, corporate and compliance matters of the Group and Melco Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 15 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management.

Ms. FUNG Wai Har, Amanda (Qualified Accountant of Value Convergence Holdings Limited), aged 34, 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 worked for Deloitte Touche Tohmatsu. Whilst there, she was responsible for supervising and managing the financial and compliance audits for listed & public companies, especially in trading and banking industries. She holds a Honours Degree in Accountancy from The Hong Kong Polytechnic University.

Deloitte.
德勤

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

We have audited the financial statements of Value Convergence Holdings Limited (the "Company") and its subsidiaries (together as the "Group") on pages 31 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 2nd March 2006

Consolidated Income Statement

For the year ended 31st December 2005

	Notes	2005 HK$'000	2004 HK$'000
Revenues	6	**115,986**	163,257
Cost of sales of computer hardware and software		**–**	(23,810)
Other income		**1,560**	3,207
Net increase in fair value of trading investments		**651**	–
Net losses of other investments		**–**	(2,113)
Staff costs		**(27,889)**	(41,027)
Depreciation of property, plant and equipment		**(2,627)**	(4,390)
Amortisation of trading rights		**(507)**	(507)
Impairment of available-for-sale investments		**(120)**	–
Commission expenses		**(37,812)**	(50,440)
Finance costs	9	**(14,595)**	(8,108)
Other operating expenses		**(25,899)**	(27,981)
Gain on disposal of subsidiaries	8	**–**	26,384
Operating profit	7	**8,748**	34,472
Taxation credit	10, 27	**1,495**	–
Profit for the year		**10,243**	34,472
Attributable to:			
Equity holders of the parent		**10,243**	34,255
Minority interests		**–**	217
		10,243	34,472
Basic earnings per share (HK cents)	12	**4.17**	14.38
Diluted earnings per share (HK cents)	12	**4.12**	N/A

Consolidated Balance Sheet

As at 31st December 2005

	Notes	**2005 HK$'000**	2004 HK$'000
Non-current assets			
Goodwill	15	**19,705**	19,705
Trading rights	16	**2,279**	2,786
Property, plant and equipment	17	**1,841**	4,641
Available-for-sale investments	19	**680**	–
Investment securities	20	**–**	4,800
Statutory deposits for investment banking and financial services business	21	**3,216**	3,359
Other intangible assets	22	**547**	547
		28,268	35,838
Current assets			
Accounts receivable	23	**319,499**	306,189
Prepayments, deposits and other receivables	24	**4,845**	3,782
Trading investments	25	**44,956**	–
Investment in convertible bonds	26	**4,000**	–
Other investments	25	**–**	40,641
Amount due from an investee company	21	**–**	6
Amounts due from fellow subsidiaries	21	**194**	1,857
Deferred tax assets	27	**1,495**	–
Bank balances and cash	21	**69,275**	50,916
		444,264	403,391
Current liabilities			
Accounts payable	28	**33,381**	36,466
Accrued liabilities and other payables		**11,262**	11,209
Short-term bank borrowings	29	**28,000**	15,000
Amount due to ultimate holding company	21	**5,356**	4,858
Amount due to an investee company	21	**6**	–
Amounts due to fellow subsidiaries	21	**8,579**	3,547
Loans from ultimate holding company	21	**211,900**	211,900
		298,484	282,980
Net current assets		**145,780**	120,411
Total assets less current liabilities		**174,048**	156,249
Capital and reserves			
Share capital	30	**24,964**	23,815
Reserves		**149,084**	132,434
Total equity		**174,048**	156,249

The financial statements on pages 31 to 78 were approved by the Board of Directors on and are signed on its behalf by:

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

Balance Sheet

As at 31st December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Investments in subsidiaries	18	**10**	10
Amounts due from subsidiaries	18	**50,000**	344,997
		50,010	345,007
Current assets			
Accounts receivable	23	**–**	1,385
Prepayments, deposits and other receivables	24	**407**	555
Other investments	25	**–**	5,918
Amounts due from subsidiaries	18	**414,869**	97,519
Amounts due from fellow subsidiaries	21	**480**	1,791
Bank balances and cash	21	**9,754**	7,525
		425,510	114,693
Current liabilities			
Accrued liabilities and other payables		**196**	351
Amount due to ultimate holding company	21	**7,356**	6,948
Amounts due to subsidiaries	18	**88,010**	78,964
Amount due to a fellow subsidiary	21	**3,000**	3,100
Loans from ultimate holding company	21	**211,900**	211,900
		310,462	301,263
Net current assets (liabilities)		**115,048**	(186,570)
Total assets less current liabilities		**165,058**	158,437
Capital and reserves			
Share capital	30	**24,964**	23,815
Reserves	31	**140,094**	134,622
Total equity		**165,058**	158,437

Ho Hung Sun, Stanley
Director

Ho, Lawrence Yau Lung
Director

Consolidated Statement of Changes In Equity

For the year ended 31st December 2005

	Attributable to equity holders of the parent						
	Share capital	**Share premium**	**Capital reserve**	**Exchange reserve**	**Retained profits (accumulated losses)**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	23,815	–	123,758	1,494	(25,579)	–	123,488
Profit for the year	–	–	–	–	34,255	217	34,472
Exchange difference transferred to income statement arising from winding up of an overseas subsidiary	–	–	–	(1,494)	–	–	(1,494)
Total recognised income for the year	–	–	–	(1,494)	34,255	217	32,978
Disposal of subsidiaries	–	–	–	–	–	(217)	(217)
At 1st January 2005	23,815	–	123,758	–	8,676	–	156,249
Exchange difference arising on translation of financial statements of an overseas subsidiary	–	–	–	(61)	–	–	(61)
Net expense recognised directly in equity	–	–	–	(61)	–	–	(61)
Profit for the year	–	–	–	–	10,243	–	10,243
Total recognised income for the year	–	–	–	–	10,243	–	10,243
Exercise of share options	1,149	6,475	–	–	–	–	7,624
Share issue expenses	–	(7)	–	–	–	–	(7)
At 31st December 2005	**24,964**	**6,468**	**123,758**	**(61)**	**18,919**	**-**	**174,048**

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	2005 HK$'000	2004 HK$'000
Profit before taxation	**8,748**	34,472
Net losses of other investments	**–**	2,113
Depreciation of property, plant and equipment	**2,627**	4,390
Amortisation of trading rights	**507**	507
Gain on disposal of subsidiaries	**–**	(26,384)
Loss (gain) on disposal of property, plant and equipment	**267**	(21)
Exchange gain	**–**	(1,494)
Impairment of available-for-sale investments	**120**	–
Impairment of doubtful receivables	**2,711**	1,587
Interest income from authorised institutions	**(823)**	(99)
Interest expenses	**14,595**	8,108
Operating profit before working capital changes	**28,752**	23,179
Increase in inventories	**–**	(17,432)
Increase in accounts receivable	**(16,018)**	(80,077)
Increase in prepayments, deposits and other receivables	**(1,008)**	(18,719)
Increase in trading investments	**(4,315)**	–
Decrease (increase) in amount due from/to an investee company	**12**	(2)
Decrease (increase) in amounts due from fellow subsidiaries	**1,663**	(4,615)
Decrease in accounts payable	**(3,085)**	(25,282)
Decrease in accrued liabilities and other payables	**(15)**	(14,942)
Increase in amount due to ultimate holding company	**498**	702
Increase in amounts due to fellow subsidiaries	**5,032**	7,328
Net cash from (used in) operations	**11,516**	(129,860)
Interest paid	**(14,580)**	(8,108)
Interest received from authorised institutions	**771**	99
Net cash used in operating activities	**(2,293)**	(137,869)

For the year ended 31st December 2005

	Notes	2005 HK$'000	2004 HK$'000
Investing activities			
Disposal of subsidiaries net of cash and cash equivalents	33	–	(2,489)
Purchase of other investments less proceeds from subsequent disposals		–	(2,112)
Purchase of property, plant and equipment		**(805)**	(669)
Proceeds from disposal of property, plant and equipment		**715**	21
Purchase of investment securities		–	(4,000)
Decrease in pledged bank deposits		–	184
Decrease in statutory deposits for investment banking and financial services business		**143**	860
Net cash from (used in) investing activities		**53**	(8,205)
Financing activities			
Loans from ultimate holding company		–	79,800
Drawdown of bank borrowings		**13,000**	15,000
Proceeds from exercise of share options		**7,624**	–
Share issue expenses		**(7)**	–
Net cash from financing activities		**20,617**	94,800
Increase (decrease) in cash and cash equivalents		**18,377**	(51,274)
Cash and cash equivalents at the beginning of year		**50,916**	102,190
Effect of change in foreign currency translation		**(18)**	–
Cash and cash equivalents at the end of year, represented by bank balances and cash		**69,275**	50,916

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Its parent is Melco Financial Group Limited (incorporated in British Virgin Islands) and its ultimate holding company is Melco International Development Limited (incorporated in Hong Kong). The address of the registered office of the Company is disclosed in the corporate information of the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are investment banking and provision of financial services.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

(a) In the current year, 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 ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005 except for HKFRS 3 "Business Combination" ("HKFRS 3"), HKAS 36 "Impairment of Assets" ("HKAS 36") and HKAS 38 "Intangible Assets" ("HKAS 38"), which have been early adopted by the Group and the Company effective from 1st January 2004.

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 year, 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 income statement. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. HKFRS 2 applies to the share options that are granted after 7th November 2002 and had not yet vested as at 1st January 2005 on a retrospective basis. 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 before 1st January 2005. The application of HKFRS 2 does not have any financial impact to the financial statements of the Group and the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(a) (continued)

Financial instruments

In the current year, 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 application of HKAS 32 has had no material impact on how financial instruments of the Group and the Company are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

The Group and the Company have 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 and the Company classified its investments in 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 or loss. From 1st January 2005 onwards, the Group has classified and measured 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". 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. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. Loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method after initial recognition.

Furthermore, HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to the host contract and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in income statement (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

On 1st January 2005, the Group classified investment in listed securities amounted to HK$40,641,000 held for trading purposes as financial assets at fair value through profit or loss (recorded as trading investments on consolidated balance sheet), investment in unlisted equities amounted to HK$800,000 as available-for-sale investments, and the debt element of the investment in convertible bonds amounted to HK$4,000,000 as loans and receivables. The fair value of the embedded options of the investment in convertible bonds is immaterial and hence no adjustment has been required.

From 1st January 2005, the Group and the Company have classified and measured its financial assets and financial liabilities other than debt and equities securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 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". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in income statement directly. Other financial liabilities are carried at amortised cost using effective interest rate method after initial recognition. The Group and the Company have applied the relevant transitional provisions in HKAS 39. There has been no material effect on how the results for the current accounting period are prepared and presented.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(a) (continued)

Discontinued operations

The Group has applied the transitional provisions in HKFRS 5 "Non-current assets held for sale and discontinued operations" with respect to the presentation of consolidated income statements relating to the discontinued operation in 2004. No amount is restated and the standard is applied prospectively.

(b) The Group and the Company have not early applied the following new HKFRSs and HKFRS interpretations ("HK(IFRIC) – INT") that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new HKFRSs and HKFRS interpretations. Except for HKAS 39 & HKFRS 4 (Amendments) on financial guarantee contracts (which requires financial guarantees to be initially measured at fair value), which may have potential impact to the financial statements, the Directors anticipate that the adoption of these new HKFRSs and HKFRS interpretations should not result in any significant changes in the future as to how the results and financial position are prepared and presented. The Group and the Company are still not in the position to reasonably estimate the impact that may arise from HKAS 39 and HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st January 2006.
[3] Effective for annual periods beginning on or after 1st December 2005.
[4] Effective for annual periods beginning on or after 1st March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising from the acquisition of subsidiary companies before 1st January 2004, the date of early adoption of HKFRS 3, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries, at the date of acquisition. There is goodwill recognised after the adoption of HKFRS 3.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the subsidiaries, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by the Company.

In the Company's balance sheet, the 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.

Revenue recognition

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

- Trading investments such as securities, futures and options are accounted for under HKAS 39 as financial assets at fair value through profit or loss and derivative financial instruments and the net increase or decrease in fair value and the realised gain or loss are accounted for on trade date basis.

- Commission income for broking business is recorded as income on trade date basis.

- Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed.

- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 institutions is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective 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.

Trading rights

Trading rights represent 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.

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 determining the recoverable amount of trading rights, the Group estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the lease term not exceeding three years
Furniture, fixtures and equipment	20-25%
Computer equipment and software	25-33$^{1}/_{3}$%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables, and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including accounts receivable, statutory deposits for investment banking and financial services business, deposit and other receivables and amounts due from fellow subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale investments are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse through income statement in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale investments *(continued)*

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Under HKAS 39, financial liabilities are generally classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Group and the Company's financial liabilities are all classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including accounts payables, accrued liabilities and other payables, short-term bank borrowings, amount due to ultimate holding company/an investee company/ fellow subsidiaries, and loans from ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segregated accounts

From the Group's ordinary business, it acts as a trustee that results in the holding client's monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its balance sheet. As at 31st December 2005, the Group maintained segregated account with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK$1,670,000 (2004: HK$1,390,000) and HK$192,418,000 (2004: HK$232,532,000) respectively, which are not otherwise dealt with in the financial statements.

Employee benefits

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 discounted to the present value when the impact is material.

Share-based payment transactions

For share options granted after 1st January 2005 and share options granted before 1st January 2005 but not yet vested as at 1st January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earning.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December 2005, the carrying amount of goodwill is approximately HK$19,705,000. Details of the recoverable amount calculation are disclosed in Note 15.

Income taxes

As at 31st December 2005, a deferred tax asset of HK$1,495,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in equity and debt securities, borrowings, trade receivables, trade payables and loans from ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

(ii) Interest rate risk

Short-term floating rate bank loans, which are HIBOR-based, are used to fund margin financings of the securities brokerage business which are typically prime-based. The principal risk lies with the interest rate differential between the interbank rate and the best lending rate. The Group mitigates the risk by monitoring the interest rate gap between the short-term bank loans and margin financing facilities and revises the margin financing rate if necessary.

(iii) Other price risk

Other price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices other than arising from interest rate risk or currency risk.

The Group is exposed to equity security price risk through its trading and available-for-sale investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from margin clients with shortfalls. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and Directors of the Company consider the credit risk for such is minimal.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

6. REVENUES AND SEGMENT INFORMATION

Revenues principally arise from the investment banking and financial services business (comprising, among others, provision of initial public offerings, mergers and acquisitions, and other corporate finance related advisory services; and securities, futures and options broking and dealing). The technology business has been discontinued and disposed of on 31st May 2004 to its ultimate holding company and therefore the revenues for the year ended 31st December 2005 reflect revenues for the investment banking and financial services business only.

	2005 *HK$'000*	2004 *HK$'000*
Revenues		
(i) Investment banking and financial services:		
– Brokerage commission from dealing in securities and futures and options contracts	**57,433**	85,589
– Underwriting, sub-underwriting, placing and sub-placing commission	**9,232**	5,638
– Arrangement, management, advisory and other fee income	**19,016**	12,751
– Interest income from clients	**30,305**	24,656
	115,986	128,634
(ii) Sales of technology solution systems and related services	**–**	34,623
	115,986	163,257
Other income		
Interest income from authorised institutions	**823**	99
Dividend income	**667**	938
Service fees from fellow subsidiaries	**–**	1,860
Sundry income	**70**	310
	1,560	3,207
Total income	**117,546**	166,464

6. REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

In previous year, 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 the segregation of the investment banking and financial services segment further into "broking", "margin and other financing" and "corporate advisory and others" is 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 year'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 other segment engages in the provision of corporate advisory, placing and underwriting services, proprietary trading and asset management services.

Year ended 31st December 2005

	Broking	Margin and other financing	Corporate advisory and others	Corporate	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenues	60,273	30,098	25,408		115,779
Intersegment sales	–	207	–		207
	60,273	30,305	25,408		115,986
Segment results	(9,276)	9,613	9,232		9,569
Unallocated costs					(821)
Operating profit					8,748
Taxation credit					1,495
Profit for the year					10,243
Segment assets	48,705	317,265	92,386	14,176	472,532
Segment liabilities	25,601	239,921	18,640	14,322	298,484
Other segment information:					
Depreciation of property, plant and equipment	1,744	–	587	296	2,627
Amortisation of trading rights	507	–	–	–	507
Capital expenditures	297	–	504	4	805
Impairment of doubtful receivables	–	2,711	–	–	2,711

6. REVENUES AND SEGMENT INFORMATION (continued)

Year ended 31st December 2004

	Continuing operation				Discontinued operation		
	Investment banking and financial services						
	Broking	Margin and other financing	Corporate advisory and others	Total	Sale of technology solution systems and related services	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues	88,315	24,715	15,885	128,915	35,504		164,419
Intersegment sales	(9)	(59)	(213)	(281)	(881)		(1,162)
	88,306	24,656	15,672	128,634	34,623		163,257
Segment results	547	13,914	(9,668)	4,793	2,191		6,984
Gain on disposal of subsidiaries	–	–	–	–	26,384		26,384
Unallocated revenues							1,494
Unallocated costs							(390)
Operating profit							34,472
Taxation							–
Profit for the year							34,472
Segment assets	96,751	268,204	64,356	429,311	–	9,918	439,229
Segment liabilities	49,646	226,918	1,448	278,012	–	4,968	282,980
Other segment information:							
Depreciation of property, plant and equipment	3,049	–	583	3,632	367	391	4,390
Amortisation of trading rights	507	–	–	507	–	–	507
Capital expenditures	172	–	308	480	177	12	669
Impairment of doubtful receivables	–	1,484	103	1,587	–	–	1,587

6. REVENUES AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

Year ended 31st December 2005

No geographical segment analysis is presented for the year ended 31st December 2005 as over 90% of the Group's revenues, segment results and the location of assets during the year ended 31st December 2005 are derived from or located in Hong Kong.

Year ended 31st December 2004

	Revenues	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	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		1,494		
Unallocated costs		(390)		
Operating profit		34,472		
Investment securities			4,800	
Total assets			439,229	

7. OPERATING PROFIT

	2005 HK$'000	2004 HK$'000
Operating profit is stated after crediting and charging the following:		
Auditors' remuneration	**905**	968
Loss (gain) on disposal of property, plant and equipment	**267**	(21)
Operating leases in respect of land and buildings	**2,525**	3,521
Net exchange gain	**(70)**	(171)
Impairment of doubtful receivables	**2,711**	1,587

8. DISCONTINUED 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 financial statements as discontinued operation. The revenue, results and net assets involved in the disposal are as follows:

	1st January 2004 to 31st May 2004 HK$'000
Revenue	34,623
Operating costs	(32,432)
Operating profit	2,191
Finance costs	–
Profit before taxation	2,191
Taxation	–
Profit after taxation	2,191
Minority interests	(217)
Profit attributable to shareholders	1,974
Net cash outflow from operating activities	(11,313)
Net cash outflow from investing activities	(169)
Total net cash outflow	(11,482)

8. DISCONTINUED OPERATION (continued)

	As at 31st May 2004 *HK$'000*
Non-current assets	1,411
Current assets	53,091
Total assets	54,502
Current liabilities	(52,769)
Minority interests	(217)
Net assets	1,516
Consideration *(Note)*	27,900
Net assets sold	(1,516)
Gain on disposal of discontinued 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 discontinued operation	(2,489)

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

9. FINANCE COSTS

	2005 ***HK$'000***	2004 *HK$'000*
Interests on bank loans and overdrafts wholly repayable within five years	**5,647**	2,686
Interests on loans from ultimate holding company and a fellow subsidiary	**8,948**	5,422
	14,595	8,108

10. TAXATION

No provision for Hong Kong or overseas profits tax has been made in the financial statements as the assessable profits of individual company within the Group for the years ended 31st December 2005 and 31st December 2004 were offset by the previously unrecognised tax losses. The tax credit represent deferred tax asset recognised in current year and details are set out in note 27.

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

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**8,748**	34,472
Calculated at Hong Kong profit tax rate of 17.5%	**1,531**	6,033
Effect of different taxation rates in Macau	**–**	(40)
Income not subject to taxation	**(135)**	(4,617)
Expenses not deductible for taxation purposes	**108**	–
Utilisation and recognition of previously unrecognised tax losses	**(3,664)**	(5,324)
Unrecognised deferred tax assets arising from estimated tax losses	**665**	3,948
Taxation credit	**(1,495)**	–

11. DIVIDENDS

No dividends have been paid or declared by the Company during the year ended 31st December 2005 (2004: Nil).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the parent of approximately HK$10,243,000 for the year ended 31st December 2005 (2004: HK$34,255,000) and the weighted average number of 245,863,681 (2004: 238,154,999) ordinary shares in issue during the respective years.

The calculation of the diluted earnings per share for the year ended 31st December 2005 is based on the Group's profit attributable to equity holders of the parent of approximately HK$10,243,000 and the weighted average number of 248,631,088 ordinary shares in issue during the year. Accordingly, the effect of dilutive potential ordinary shares relating to share options is 2,767,407.

Diluted earnings per share has not been presented for the year ended 31st December 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings per share.

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 ***HK$'000***	2004 *HK$'000*
Wages and salaries	**25,343**	38,423
Staff welfare	**613**	730
Recruitment costs	**290**	201
Unutilised annual leave	**404**	(89)
Termination benefits	**266**	810
Pension costs – contributions to defined contribution plans	**986**	1,307
Forfeiture of pension contributions	**(13)**	(209)
Reversal of provision for long services payment	**–**	(146)
	27,889	41,027

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of which are held in separate trustee-administered funds. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme have switched to the MPF Scheme and all new eligible employees joining the Group on or before December 2000 are all under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

The Group's contribution to both retirement 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.

14. 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:

	Ho, Lawrence Yau Lung	**Lee Jun Sing**	**Sham Sui Leung, Daniel**	**Tyen Kanhee, Anthony**	**Patajo-Kapunan, Lorna**	**Tsui Yiu Wa, Alec**	**Ko Chun Fung, Henry**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005								
Fees	–	21	151	151	140	–	–	463
Other emoluments								
Salaries and other benefits	600	–	–	–	–	–	–	600
Retirements benefits scheme contribution	12	–	–	–	–	–	–	12
Total emoluments	612	21	151	151	140	–	–	1,075
2004								
Fees	–	–	47	33	120	65	–	265
Other emoluments								
Salaries and other benefits	600	–	–	–	–	–	549	1,149
Retirements benefits scheme contribution	12	–	–	–	–	–	6	18
Total emoluments	612	–	47	33	120	65	555	1,432

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

During the two years ended 31st December 2005, no share options 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 32 to the financial statements. No value in respect of the share options granted during the year has been charged to the consolidated income statement (2004: Nil).

During the two years ended 31st December 2005, no Directors waived or agreed to waive any emoluments. No emoluments have been paid to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the two years ended 31st December 2005 are all employees. The details of the emoluments payable to these five individuals are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**6,214**	6,733
Retirement benefits scheme contribution	**60**	54
Performance related incentive payments	**–**	3,136
	6,274	9,923

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

	Number of individuals	
	2005	2004
Emolument bands		
Nil – HK$1,000,000	**2**	–
HK$1,000,001 – HK$1,500,000	**1**	3
HK$1,500,001 – HK$2,000,000	**2**	–
HK$2,500,001 – HK$3,000,000	**–**	1
More than HK$3,000,000	**–**	1

15. GOODWILL

	HK$'000
COST	
At 1st January 2004, 1st January 2005 and 31st December 2005	19,705
IMPAIRMENT	
At 1st January 2004, 1st January 2005 and 31st December 2005	–
CARRYING VALUE	
At 1st January 2005 and 31st December 2005	19,705

Impairment testing on goodwill

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the amount has been allocated to two individual cash generating units ("CGUs"), margin and other financing, and corporate advisory and others and the carrying amount of goodwill had been allocated as below:

	2005 ***HK$'000***	2004 *HK$'000*
Margin and other financing	**10,094**	10,094
Corporate advisory and others	**9,611**	9,611
	19,705	19,705

During the year ended 31st December 2005, management of the Group determines that there are no impairments of the two CGUs containing goodwill.

The basis of the recoverable amounts of the CGUs and the major underlying assumptions of the CGUs are the same and are summarised below:

The recoverable amounts of the CGUs have been determined on the basis of value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period. The discount rate used is 7.75% for the 3-year period. Another key assumption is the budgeted revenue, which is determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed the aggregate recoverable amount of the CGUs.

16. TRADING RIGHTS

	HK$'000
COST	
At 1st January 2004, 1st January 2005 and 31st December 2005	5,066
AMORTISATION AND IMPAIRMENT	
At 1st January 2004	1,773
Provided for the year	507
At 1st January 2005	2,280
Provided for the year	507
At 31st December 2005	2,787
CARRYING VALUE	
At 31st December 2005	2,279
At 31st December 2004	2,786

Trading rights are amortised over 10 years from 6th March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

17. PROPERTY, PLANT AND EQUIPMENT

THE 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)	–	–
Disposals	–	(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
Additions	401	150	254	805
Disposals	(265)	(142)	(1,303)	(1,710)
Transfers *(note 36)*	(466)	(184)	(65)	(715)
Exchange difference	5	4	4	13
At 31st December 2005	**4,315**	**7,722**	**8,272**	**20,309**
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
Disposals	–	(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
Charge for the year	1,311	858	458	2,627
Disposals	(37)	(110)	(1,296)	(1,443)
Exchange difference	5	2	2	9
At 31st December 2005	**3,756**	**7,004**	**7,708**	**18,468**
NET BOOK VALUE				
At 31st December 2005	**559**	**718**	**564**	**1,841**
At 31st December 2004	2,163	1,640	838	4,641

18. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**10**	10

Amounts due from subsidiaries (non-current):

Included in the amounts are loans to subsidiaries of HK$50 million (2004: HK$216.8 million) which are unsecured, interest-bearing at prime rate minus 2% per annum while the remaining are interest free. The carrying amounts at the balance sheet date approximate their fair value.

Amounts due from subsidiaries (current):

Included in the amounts are loan to a subsidiary amounted to HK$50 million (2004: HK$ 50 million) which is unsecured, repayable on by March 2006 (2004: March 2005), and amounts due to subsidiaries amounted to HK$111 million (2004: HK$50 million) which is unsecured, interest-bearing at prime minus 2 % or HIBOR plus 1.25 to 2% and repayable on demand while the remaining are unsecured, interest free and repayable on demand. The carrying amounts at the balance sheet date approximates their fair values.

Amounts due to subsidiaries (current):

Amounts due to subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts at the balance sheet date approximate their fair value.

The following is a list of the principal subsidiaries of the Group as at 31st December 2005:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued share capital**	**Effective interest held**
VC Financial Group Limited [1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
VC 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 [2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	100%

18. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/TO SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
VC 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 [2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
VC Securities Investments Limited [2]	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
VC Asset Management Limited [2]	Hong Kong	Provision of asset management services to clients in Hong Kong	7,000,000 ordinary shares of HK$1 each	100%
VC Investment Management Limited [2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
VC Finance Limited [2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
VC 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	2 ordinary shares of MOP$24,000 and MOP$1,000 each	100%
VC Services Limited [1]	Hong Kong	Provision of management services to group companies Hong Kong	10,000 ordinary shares of HK$1 each	100%
VC Strategic Investments 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

None of the subsidiaries had issued any debt securities at the end of the year.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2005 HK$'000	2004 HK$'000
Unlisted equity investments, at cost	2,000	–
Impairment losses	(1,320)	–
	680	–

The amount represents unquoted equity instrument for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The impairment losses are not reversible.

20. INVESTMENT SECURITIES

	2005 HK$'000	2004 HK$'000
Unlisted equity investments, at cost	–	2,000
Unlisted debt investments, at cost	–	4,000
	–	6,000
Impairment losses	–	(1,200)
	–	4,800

21. OTHER FINANCIAL ASSETS AND LIABILITIES

Statutory deposits for investment banking and financial services business

The amounts represent deposits with various exchanges and clearing houses. They are non-interest bearing. The carrying amount of these assets at the balance sheet date approximates their fair value.

Amount due from/to an investee company/fellow subsidiaries/ultimate holding company

The amounts are resulted from the normal course of operations. They are non-interest bearing, unsecured, repayable on demand and in general aged less than a year. The carrying amounts of these balances at the balance sheet date approximate their fair value.

Bank balance and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates with an original maturity of three months or less. The carrying amount of these assets at the balance sheet date approximates their fair value.

Loans from ultimate holding company

The loans from ultimate holding company are for operation need. They are unsecured and bear interest at prime rate minus 2% per annum or HIBOR plus 1.25-2% per annum. The loans from the ultimate holding company were repayable upon written notice given from the ultimate holding company. The fair value of the amount at the balance sheet date approximates the corresponding carrying amounts.

22. OTHER INTANGIBLE ASSETS

	HK$'000
COST	
At 1st January 2004, 1st January 2005 and 31st December 2005	1,839
IMPAIRMENT	
At 1st January 2004, 1st January 2005 and 31st December 2005	1,292
CARRYING VALUE	
At 31st December 2005 and 31st December 2004	547

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

23. ACCOUNTS RECEIVABLE

THE GROUP

	2005 HK$'000	2004 HK$'000
Accounts receivable arising from the ordinary course of business of dealing in *(Note a)*:		
– Securities transactions:		
Clearing houses and brokers	**6,362**	46,940
Cash clients *(Note c)*	**134,395**	92,482
Margin clients	**177,937**	165,656
– Futures and options contracts transactions		
Brokers	**133**	132
HKCC	**44**	44
Accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services *(Note b)*	**628**	935
	319,499	306,189

THE COMPANY

	2005 HK$'000	2004 HK$'000
Accounts receivable arising from the ordinary course of business of dealing in securities transactions *(Note a)*:		
– Brokers	**–**	1,385

23. 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. The decision for rate changes is on management's discretion subject to notification to clients. 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 2005, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK$5,266,133,000 (2004: HK$543,717,000). 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:

THE GROUP

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**115,847**	133,507
31 – 90 days	**12,852**	4,520
Over 90 days	**12,058**	1,395
	140,757	139,422

THE COMPANY

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**–**	1,385

(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:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**409**	228
31 – 90 days	**64**	552
Over 90 days	**155**	155
	628	935

23. ACCOUNTS RECEIVABLE (continued)

Notes:

(c) The accounts receivable from cash clients as at 31st December 2005 (2004: HK$12,000) did not include any amount due from related parties in respect of transactions in securities undertaken for their accounts. There was no other accounts receivable in respect of transactions in securities undertaken for the accounts of the Directors or related parties as at 31st December 2005 (2004: Nil).

The fair value of the Group's and the Company's accounts receivable at the balance sheet date approximates the corresponding carrying amounts.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair value of the Group's and the Company's deposits and other receivables included in the amounts at the balance sheet date approximates the corresponding carrying amounts.

25. TRADING INVESTMENTS AND OTHER INVESTMENTS

	2005	2004
	HK$'000	*HK$'000*
THE GROUP		
Trading investments		
Equity securities listed in Hong Kong, at market value	**44,956**	–
Other investments		
Equity securities listed in Hong Kong, at market value	**–**	40,641
THE COMPANY		
Other investments		
Equity securities listed in Hong Kong, at market value	**–**	5,918

The fair value of trading investments have been determined by reference to the quoted bid price.

26. INVESTMENT IN CONVERTIBLE BONDS

	2005	2004
	HK$'000	*HK$'000*
Unlisted convertible bonds	**4,000**	–

The amount represents debt element of the convertible bonds while the derivative portion relating to the conversion option was accounted for separately with illegible fair value. The convertible bonds have a maturity date of 6th January 2006 and they have been subsequently settled in full at the maturity date.

27. DEFERRED TAX ASSETS

	Estimated tax losses HK$'000
At 1st January 2004 and 1 January 2005	–
Credited to income statement for the year *(Note 10)*	1,495
At 31st December 2005	**1,495**

As at 31st December 2005, the Group and the Company have estimated unused tax losses of HK$159,669,000 and HK$46,002,000 (2004: HK$169,910,000 and HK$47,698,000) respectively to carry forward against future taxable income. A deferred tax asset has been recognised in respect of HK$8,546,000 (2004: Nil) to the extent that realisation of the related tax benefit through future taxable profits is probable. These estimated tax losses have no expiry date but subject to the approval of the Hong Kong Inland Revenue Department.

28. ACCOUNTS PAYABLE

Accounts payable arising from the ordinary course of business of dealing in securities transactions *(Note a)*:

	2005 **HK$'000**	2004 *HK$'000*
Cash clients *(Note b)*	**28,899**	32,494
Margin clients	**4,482**	3,972
	33,381	36,466

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 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$1,000 as at 31st December 2005 (2004: HK$111,000) 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 2005 (2004: Nil).

The fair value of the Group's accounts payable at the balance sheet date approximates the corresponding carrying value.

29. SHORT-TERM BANK BORROWINGS

The amounts represent short-term bank borrowings repayable on demand. They are partially secured by a charge over certain marketable securities from margin clients. The Company also provided corporate guarantee for the facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to interest rate risk. The terms of the facilities are generally renewed annually. The fair value of the amounts at the balance sheet date approximates the corresponding carrying amounts.

30. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.1 each	
	No. of shares	**Amount**
		HK$'000
At 31st December 2004 and 31st December 2005	10,000,000,000	1,000,000

	Issued and full paid Ordinary shares of HK$0.1 each	
	No. of shares	**Amount**
		HK$'000
At 1st January 2004 and 2005	238,154,999	23,815
Exercise of share options	11,486,227	1,149
At 31st December 2004 and 31st December 2005	249,641,226	24,964

31. RESERVES

THE COMPANY

	Share premium	Capital reserve	Retained profits (accumulated losses)	Total
		(Note)		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	–	123,758	(8,726)	115,032
Profit for the year	–	–	19,590	19,590
At 31st December 2004	–	123,758	10,864	134,622
Loss for the year	–	–	(996)	(996)
Exercise of share options	6,475	–	–	6,475
Share issue expense	(7)	–	–	(7)
At 31st December 2005	6,468	123,758	9,868	140,094

Note: Recorded capital reserve was arisen from the Company's capital reorganisation effective on 28th May 2003.

32. 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 recognising their contributions and in retaining employees who will continue to make valuable contribution to the Group. All options are vested when granted.

(i) Pre-IPO share option plan

Options 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 were expired on 8th October 2005. 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.

During the year ended 31st December 2005, Pre-IPO Share Options to subscribe for a total of 5,868,698 underlying Shares granted to the Directors of the Company and employees lapsed as one employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of the Group and the others have not exercised when the share options were expired on 8th October 2005. Since the date of the grant of the Pre-IPO Share Options up to the expiry date 8th October 2005, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows:

2005

Categories of grantees	**Grant date of options**	**Exercise price per share**	**Balance as at 1st January 2005**	**Granted during the year**	**Exercised during the year**	**Lapsed/ cancelled during the year**	**Balance as at 31st December 2005**
Director of the Company	**6th April 2001**	**HK$3.60**	**4,606,510**	**-**	**-**	**(4,606,510)**	**-**
Employees	**6th April 2001**	**HK$3.60**	**1,262,188**	**-**	**-**	**(1,262,188)**	**-**
			5,868,698	**-**	**-**	**(5,868,698)**	**-**

2004

Categories of grantees	Grant date of options	Exercise price per share	Balance as at 1st January 2004	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31st December 2004
Director of the Company	6th April 2001	HK$3.60	8,478,020	–	–	(3,871,510)	4,606,510
Employees	6th April 2001	HK$3.60	1,262,188	–	–	–	1,262,188
			9,740,208	–	–	(3,871,510)	5,868,698

32. 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 2005, options to subscribe for an aggregate of 3,258,168 and 10,950,565 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, which in total represents approximately 5.7% (2004: 11.5%) of the shares of the Company in issue as at 31st December 2005. 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.

During the year ended 31st December 2005, certain Share Options to subscribe for a total of 1,654,323 underlying Shares granted to eight 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 year ended 31st December 2005, certain Share Options to subscribe for a total of 756,227 and 10,730,000 underlying shares at an exercise price of HK$1.0 and HK$0.64 per share respectively granted to a total of 42 employees were exercised (2004: None). Since the date of the grant of the Share Options up to 31st December 2005 and 31st December 2004, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

2005

Categories of grantees	Grant date of options	Exercise price per share	Balance as at 1st January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31st December 2005
Directors of the Company	9th July 2002	HK$1.00	982,114	-	-	-	-	982,114
Employees	9th July 2002	HK$1.00	1,782,539	(903,553)	-	(19,642)	(164,502)	694,842
Employees	25th March 2004	HK$0.64	23,160,565	(2,050,000)	-	(10,730,000)	(1,480,000)	8,900,565
Other eligible persons	9th July 2002	HK$1.00	1,424,065	903,553	-	(736,585)	(9,821)	1,581,212
Other eligible persons	25th March 2004	HK$0.64	-	2,050,000	-	-	-	2,050,000
			27,349,283	-	-	(11,486,227)	(1,654,323)	14,208,733

32. SHARE OPTIONS (continued)

(ii) Share option scheme (continued)

2004

Categories of grantees	Grant date of options	Exercise price per share	Balance as at 1st January 2004	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31st December 2004
Directors of the Company	9th July 2002	HK$1.00	1,473,171	(491,057)	–	–	–	982,114
Employees	9th July 2002	HK$1.00	1,821,823	–	–	–	(39,284)	1,782,539
Employees	25th March 2004	HK$0.64	–	–	23,160,565	–	–	23,160,565
Other eligible persons	9th July 2002	HK$1.00	933,008	491,057	–	–	–	1,424,065
			4,228,002	–	23,160,565	–	(39,284)	27,349,283

In respect of the share options exercised during the year, the weighted average share price before the share options being exercised is HK$2.04.

33. DISPOSAL OF SUBSIDIARIES AND SIGNIFICANT NON-CASH TRANSACTION

	As at 31st May 2004 *HK$'000*
Net assets disposed	
Property, plant and equipment	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

33. DISPOSAL OF SUBSIDIARIES AND SIGNIFICANT NON-CASH TRANSACTION (continued)

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)

34. CONTINGENT LIABILITIES

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

35. COMMITMENTS

(a) Capital commitments

At 31st December 2005, the Group and the Company did not have any material commitments contracted but not provided for in respect of purchase of property, plant and equipment (2004: Nil).

(b) Commitments under operating leases

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 **HK$'000**	2004 *HK$'000*
Not later than one year	**4,539**	3,218
Later than one year and not later than five years	**10,108**	615
	14,647	3,833

Operating lease payments represent rentals payable by the Group for certain of its office properties. Rentals are fixed for an average of three years.

At 31st December 2005 and 31st December 2004, the Company does not have any operating lease commitments.

36. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions:

THE GROUP

	2005	2004
	HK$'000	*HK$'000*
Transfer of property, plant and equipment to fellow subsidiaries	**715**	–
Rental paid to fellow subsidiaries	**178**	303
Rental charged to a fellow subsidiary	**–**	165
Technical, network and other service fees charged to fellow subsidiaries and ultimate holding company	**–**	1,918
Technical, network and other service fees charged from fellow subsidiaries	**2,869**	1,112
Sales of computer hardware and software to related companies	**–**	23,616
Purchases of computer hardware and software from a fellow subsidiary	**272**	93
Brokerage commission income/interest income earned from certain directors of the Group or their relatives	**145**	243
Interest expenses charged on loans from ultimate holding company and a fellow subsidiary	**8,948**	5,422
Management fee paid to a fellow subsidiary/ultimate holding company	**3,600**	3,000
Financial advisory and arrangement fees charged to ultimate holding company	**900**	2,500
Proceeds on disposal of subsidiaries to ultimate holding company	**–**	27,900

The balance with related parties are set out on the balance sheet and in the respective notes.

36. RELATED PARTY TRANSACTIONS (continued)

THE COMPANY

	2005	2004
	HK$'000	*HK$'000*
Management fee charged to fellow subsidiaries	**–**	1,131
Brokerage commission income earned from certain Directors of the Company or their relatives	**–**	8
Interests expenses charged on loans from ultimate holding company and a fellow subsidiary	**8,948**	5,422
Management fee paid to ultimate holding company	**–**	3,000
Proceeds on disposal of subsidiaries to ultimate holding company	**–**	27,900

The balance with related parties are set out on the balance sheet and in the respective notes.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

THE GROUP

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**6,165**	5,017

THE COMPANY

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**463**	1,432

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Company's operating results and market standards.

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 2005	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003	Year ended 30 September 2002	Year ended 30th September 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Revenues	**115,986**	163,257	126,159	10,313	3,634
Profit/(loss) attributable to equity holders of the parent	**10,243**	34,255	(31,936)	(91,161)	(28,380)
Assets and liabilities					
Total assets	**472,532**	439,229	424,531	61,211	60,737
Total liabilities	**(298,484)**	(282,980)	(301,043)	(3,994)	(6,190)
Minority interests	**–**	–	–	(70)	–
Total equity	**174,048**	156,249	123,488	57,147	54,547

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 Tuesday, 4th April 2006 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 2005.

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

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

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 authorizations 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 recognised 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 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;

(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."

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

ORDINARY RESOLUTION

"**THAT** conditional on the GEM Listing Committee of The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting the listing of and permission to deal in the shares of the Company to be issued pursuant to the exercise of any options ("Options") granted under the share option scheme of the Company adopted on 29th November 2001 ("Share Option Scheme"), the directors of the Company be and are hereby authorised, at their absolute discretion, to grant, in accordance with the terms of the Share Option Scheme, all applicable laws and the requirements of The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange as may be amended from time to time, Options and to allot and issue shares pursuant to the exercise of such Options up to 10% of the issued share capital of the Company at the date of passing of this Resolution."

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

Hong Kong, 2nd March 2006

Registered office:
28th Floor, 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.