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VALUE CONVERGENCE HOLDINGS LIMITED

滙盈控股有限公司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.valueconvergence.com>

(Stock Code: 8101)

MAJOR TRANSACTION

Financial adviser to Value Convergence Holdings Limited



VC CAPITAL LIMITED

滙盈融資有限公司

(A wholly-owned subsidiary of Value Convergence Holdings Limited)

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.valueconvergence.com.

CHARACTERISTICS OF GEM

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

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

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

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition Agreement”	the sale and purchase agreement dated 31 August 2004 and completed on 17 September 2004 relating to the sale and purchase of the Acquisition Shares and entered into between, inter alia, Wealth Generator and the Purchasers
“Acquisition Shares”	the 3,809,627,884 shares in Wanji Pharmaceutical Holdings which have been acquired by the Purchasers in accordance with the Acquisition Agreement
“Advance”	each advance drawn down under the Facility pursuant to the Loan Agreement
“Asia Capitol”	Asia Capitol Technology Partners Limited, a company incorporated in the British Virgin Islands with limited liability and is one of the Purchasers. It is wholly owned by Asia Capitol Global Limited, an investment holding company incorporated in the British Virgin Islands which is owned as to 99.01% by Ms. Leung Yee Man and as to 0.99% by Ms. Wong Mei Yuk, Mia, all of the above parties are Independent Third Parties
“associate(s)”	has the meaning ascribed in the GEM Listing Rules
“Board”	board of Directors
“Borrower”	CV Capital Partners Limited, a company incorporated in the British Virgin Islands with limited liability and one of the Purchasers
“Company”	Value Convergence Holdings Limited, a company incorporated in Hong Kong, and the shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“Facility”	the term loan facility of HK\$70 million under the Loan Agreement
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an independent third party not connected with the directors, chief executive, substantial shareholder or management shareholder of the Company or any of its subsidiaries or an associate of any of them under the GEM Listing Rules
“Latest Practicable Date”	14 October 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Lender”	VC Brokerage Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Loan”	at any time, the aggregate of all Advances outstanding at such time
“Loan Agreement”	the loan agreement dated 31 August 2004 entered into between the Lender and the Borrower with respect to the Facility
“Macau”	the Macau Special Administrative Region of the PRC
“Melco”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the main board of the Stock Exchange and the controlling shareholder of the Company
“Melco Financial”	Melco Financial Group Limited, a wholly-owned subsidiary of Melco
“Offer”	the mandatory cash offer made by VC Capital Limited on behalf of the Borrower in accordance with the Takeovers Code to acquire the shares in Wanji Pharmaceutical Holdings not already owned by the Purchasers or parties acting in concert with any of them
“Offer Shares”	the shares in Wanji Pharmaceutical Holdings acquired or to be acquired by the Borrower pursuant to the Offer
“PRC”	the Peoples’ Republic of China
“Prime Rate”	the prime rate for HK\$ from time to time announced by The Hong Kong and Shanghai Banking Corporation Limited

DEFINITIONS

“Purchasers”	the purchasers of 3,809,627,884 issued shares of Wanji Pharmaceutical Holdings, which represent approximately 70 per cent. of the entire issued share capital of Wanji Pharmaceutical Holdings as at the Latest Practicable Date in accordance with the Acquisition Agreement, namely, the Borrower, Asia Capitol, Messrs Yen Shiao Hua Sheridan, Li Kin Keung, Dennis and Cheong Chow Yin, all of which are Independent Third Parties
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“S\$”	Singapore dollars, the lawful currency of Singapore
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Wanji Pharmaceutical Holdings”	Wanji Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability which shares are listed on the main board of the Stock Exchange
“Wealth Generator”	Wealth Generator Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Ms. Chen Shini, an Independent Third Party

LETTER FROM THE BOARD



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

(Incorporated in Hong Kong with limited liability)

Website: <http://www.valueconvergence.com>

(Stock Code: 8101)

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

Mr. SHAM Sui Leung, Daniel

Dr. TYEN Kanhee, Anthony

*Registered office, head office and
principal place of business:*

28 Floor, The Centrium

60 Wyndham Street

Central

Hong Kong

18 October 2004

To the shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

On 3 September 2004, the Board announced that the Lender has entered into the Loan Agreement with the Borrower on 31 August 2004 whereby the Lender has agreed to make available to the Borrower a term loan facility of up to HK\$70 million for the purposes of (i) satisfying the Purchasers' obligation under the Acquisition Agreement; and (ii) enabling the Borrower to acquire the Offer Shares.

The purpose of this circular is to give you further information regarding the Loan Agreement and the transaction which constitutes a major transaction of the Company for the purposes of the GEM Listing Rules.

LETTER FROM THE BOARD

THE LOAN AGREEMENT DATED 31 AUGUST 2004

Date: 31 August 2004

Parties:

Lender	VC Brokerage Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
Borrower	CV Capital Partners Limited, a company incorporated in the British Virgin Islands with limited liability and one of the Purchasers

Facility

The Lender has agreed to make available to the Borrower a term loan facility in the maximum principal amount of up to HK\$70 million, comprising:

- (a) the Tranche A Facility of up to a maximum aggregate amount of HK\$48 million; and
- (b) the Tranche B Facility of up to a maximum aggregate amount of HK\$22 million.

The Facility has been and will be financed by internal resources of the Lender. As at the Latest Practicable Date, the Borrower has drawn HK\$38 million under the Tranche A Facility and has not drawn any amount under the Tranche B Facility. The Advance drawn by the Borrower has not been repaid as at the Latest Practicable Date.

The Loan is secured by a personal guarantee from Mr. Luk Chung Po who is an Independent Third Party, share mortgages over the Acquisition Shares, the Offer Shares and a maximum of approximately 53 million shares in Armarda Group Limited, a company listed on the Singapore Exchange Securities Trading Limited (based on the closing price of S\$0.125 per share as quoted on the Singapore Exchange Securities Trading Limited, such shares had a market valuation of approximately S\$6.625 million, or approximately HK\$30.5 million, assuming the exchange rate is HK\$4.6 : S\$1) and a charge over accounts.

Purpose

The Borrower shall apply the proceeds of all Advances towards and for the following purposes:

- (1) the Tranche A Facility to satisfy the Purchasers' payment obligations under the Acquisition Agreement; and
- (2) the Tranche B Facility to enable the Borrower to acquire the Offer Shares.

Wanji Pharmaceutical Holdings is an Independent Third Party. The directors, chief executive, substantial shareholders or management shareholder of the Company or its subsidiaries or any of their respective associates do not have any interest in Wanji Pharmaceutical Holdings as at the Latest Practicable Date.

LETTER FROM THE BOARD

Interest

The Facility bears interest at the rate of three per cent. per annum over the Prime Rate, which was arrived at arm's length negotiation basis under normal commercial terms, taken into account the repayment capability of the Borrower by assessing the credit worthiness of the Borrower which is acceptable to the Lender, the securities held by the Lender, the term of the Loan and the prevailing market rate. The interest rate charged by the Lender for a loan facility is on a case by case basis.

Repayment

Subject to the terms of the Loan Agreement:

- (a) all outstanding amounts of the Loan and interest under the Tranche A Facility shall be forthwith repaid in full on the date falling 12 months after the date of the first drawdown under the Tranche A Facility; and
- (b) all outstanding amounts of the Loan and interest under the Tranche B Facility shall be forthwith repaid in full on the date falling three months after the closing date of the Offer.

Conditions to each Advance

The obligation of the Lender to make any Advance under the Loan Agreement is subject to, among other things, the conditions that :

- (1) the proceeds of each Advance will be applied directly towards the purposes as stipulated in the Loan Agreement and disclosed in the paragraph "Purpose" above; and
- (2) each of the conditions in the Acquisition Agreement for the purpose of completion of the sale and purchase of the Acquisition Shares pursuant to the Acquisition Agreement has been satisfied or has been waived by the Purchasers after obtaining the prior written consent of the Lender (which consent shall not be unreasonably withheld or delayed).

LETTER FROM THE BOARD

FURTHER INFORMATION ABOUT THE BORROWER

The Borrower is an investment holding company incorporated in the British Virgin Islands with limited liability and with shareholding structure as follows:

Compelling Vision Holdings Limited (<i>Note 1</i>)	52%
Homeriver Holdings Incorporated (<i>Note 2</i>)	42%
Able Corporate Group Limited (<i>Note 3</i>)	4%
Mr. Lam Wai Hung, Freddie	2%
	<hr/>
Total	<u>100%</u>

Note 1: Compelling Vision Holdings Limited, an investment holding company incorporated in the British Virgin Islands which is beneficially owned by its two directors, as to 82% by Mr. Luk Chung Po and as to 18% by Mr. Chong Tin Yam, Alex.

Note 2: Homeriver Holdings Incorporated, an investment holding company incorporated in the British Virgin Islands which is wholly beneficially owned by its sole director Mr. Wang Ling.

Note 3: Able Corporate Group Limited, an investment holding company incorporated in the British Virgin Islands which is beneficially owned by its sole director, Ms. Peng Jui-Chen.

All of the above parties are Independent Third Parties, save for the provision of the Facility by the Lender and accordingly, the Group is deemed a concert party of the Purchasers under the Takeovers Code. Save for entering into of the Acquisition Agreement, the Borrower has not conducted any business since its incorporation. As at the Latest Practicable Date, the Borrower and its shareholders and parties acting in concert with any of them (as defined under the Takeover Codes) do not have any interest in the Shares of the Company.

Save for the Facility, there has been no provision of loan facilities by the Lender to the Borrower.

REASONS FOR THE PROVISION OF THE FACILITY

The Group provides investment banking and financial services, including corporate finance advisory services, initial public offerings, mergers, acquisitions and takeovers. It also provides broking and dealing services for clients in securities and futures and options contracts, mainly on the Hong Kong Stock Exchange and Hong Kong Futures Exchange. In addition, it provides financial services like margin financing, securities underwriting, placing arrangement, investment advice and management and company-based research products focusing on Hong Kong, Macau and the PRC markets. The Lender, a wholly-owned subsidiary of the Company, is one of the investment banking and financial services units. The Directors are of the view that the provision of the Facility is in line with the present strategy of the Company, which is to continue to develop its investment banking and financial services business. The Directors also believe that the provision of the Facility is fair and reasonable and in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE TRANSACTION ON THE GROUP

The Lender will earn an interest income based on the interest rate charged to the Borrower at the rate of three per cent. per annum over the Prime Rate on the Advance. There will be no material change on the Group's assets and liabilities following the completion of the Loan Agreement by virtue of the fact the Facility has been financed by internal resources of the Lender. The decrease in cash balance of the Group will be offset by the increase in account receivable from the Borrower of the same amount.

APPROVAL BY THE MAJOR SHAREHOLDER OF THE COMPANY

As the percentage ratios for the purpose of Chapter 19 of the GEM Listing Rules regarding the maximum loan amount under the Facility exceeds 25% for the Company, the provision of the Facility constitutes a major transaction of the Company and is subject to and conditional upon, among other things, the approval of the Shareholders at a general meeting of the Company. Melco Financial is interested in approximately 67.57% of the entire issued share capital of the Company and has confirmed to the Company that it does not have any interest regarding the provision of the Facility to the Borrower by the Lender. To the best of the Directors' knowledge, information and belief, no Shareholders have a material interest regarding the provision of the Facility to the Borrower by the Lender and hence no Shareholders are required to abstain from voting in the general meeting of the Company. Melco Financial has applied to the Stock Exchange in relation to the acceptance of a written certificate given by Melco Financial in respect of its approval regarding the provision of the Facility to the Borrower by the Lender in lieu of a resolution to be passed at the general meeting of the Shareholders.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the board of
Value Convergence Holdings Limited
Lawrence Ho
President and Vice Chairman

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated profit and loss accounts and consolidated balance sheets of the Group for the three period/years ended 31 December 2003, 30 September 2002 and 30 September 2001 respectively as extracted from the relevant annual reports of the Group for the period/years presented and the unaudited consolidated profit and loss accounts of the Group for the six months ended 30 June 2004 and 31 March 2003 respectively as extracted from the relevant interim reports of the Group for the periods presented. The Company has changed its year end date from 30 September to 31 December since 2003.

Consolidated Profit and Loss Accounts

	Unaudited		Period from 1 October 2002 to 31 December 2003 HK\$'000	Audited	
	Six months ended 30 June 2004 HK\$'000	31 March 2003 HK\$'000		Year ended 30 September 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
Turnover	100,070	29,335	126,159	10,313	3,634
Other revenues	2,604	546	696	846	1,166
Other income	1,819	-	10,186	-	-
Changes in work-in-progress	-	-	(140)	(72)	(98)
Work performed by the Group and capitalised under fixed assets	-	-	-	-	2,904
Cost of inventories sold	(23,810)	(14,324)	(27,942)	(44)	-
Staff costs	(24,419)	(17,872)	(48,709)	(19,350)	(19,659)
Depreciation and amortization	(3,871)	(6,060)	(16,678)	(12,352)	(5,039)
Provision for doubtful receivables	-	-	(2,056)	(40)	(3,907)
Impairment of fixed assets	-	-	(3,080)	(11,534)	-
Impairment of investment securities	-	-	-	-	-
- unlisted equity securities	-	-	(1,200)	-	-
Impairment of intangible assets	-	-	-	(46,396)	-
Commission expenses	(26,901)	(3,362)	(31,119)	(527)	-
Other operating expenses	(15,535)	(13,045)	(34,350)	(11,591)	(7,297)
Gain on disposal of subsidiaries (discontinuing operation)	26,384	-	-	-	-
Operating profit/(loss)	36,341	(24,782)	(28,233)	(90,747)	(28,296)
Finance costs	(3,674)	(159)	(3,773)	(1)	(84)
Share of losses of associated companies	-	-	-	(568)	-
Profit/(loss) before taxation	32,667	(24,941)	(32,006)	(91,316)	(28,380)
Taxation	-	-	-	-	-
Profit/(loss) after taxation	32,667	(24,941)	(32,006)	(91,316)	(28,380)
Minority interests	(217)	236	70	155	-
Profit/(loss) attributable to shareholders	<u>32,450</u>	<u>(24,705)</u>	<u>(31,936)</u>	<u>(91,161)</u>	<u>(28,380)</u>
Basic earnings/(loss) per share (HK cents)	<u>13.6</u>	<u>(18.1)</u>	<u>(16.2)</u>	<u>(118.1)</u>	<u>(58.3)</u>
Diluted loss per share	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheets

	Unaudited		Audited		
	As at 30 June 2004 HK\$'000	As at 31 March 2003 HK\$'000	As at 31 December 2003 HK\$'000	As at 30 September 2002 HK\$'000	As at 30 September 2001 HK\$'000
Non-current assets					
Fixed assets	6,415	17,608	9,773	13,232	15,729
Intangible assets	21,646	25,214	22,998	–	–
Investment securities					
– unlisted equity securities	800	2,000	800	2,000	–
Deposits and fundings for investment					
banking and financial services business	3,431	3,547	4,219	–	–
Other non-current assets	1,047	1,197	1,072	–	–
Current assets					
Inventories	–	728	1,817	916	253
Other investments	44,813	–	40,638	–	–
Trade receivables, prepayments, deposits and other receivables	284,850	110,647	240,836	14,840	6,829
Due from an investee company	6	4	4	4	–
Amounts due from fellow subsidiaries	4,789	–	–	–	–
Pledged bank deposits	–	–	184	–	–
Bank balances and cash	49,672	45,552	102,190	30,219	37,926
	<u>384,130</u>	<u>156,931</u>	<u>385,669</u>	<u>45,979</u>	<u>45,008</u>
Current liabilities					
Trade payables, accruals and other payables	51,942	59,740	136,303	3,994	6,190
Amounts due to ultimate holding company	6,071	652	4,673	–	–
Amounts due to fellow subsidiaries	4,754	–	67	–	–
Loan from ultimate holding company	142,100	–	160,000	–	–
Bank loans and overdrafts	58,158	16,217	–	–	–
	<u>263,025</u>	<u>76,609</u>	<u>301,043</u>	<u>3,994</u>	<u>6,190</u>
Net current assets	<u>121,105</u>	<u>80,322</u>	<u>84,626</u>	<u>41,985</u>	<u>38,818</u>
Total assets less current liabilities	<u>154,444</u>	<u>129,888</u>	<u>123,488</u>	<u>57,217</u>	<u>54,547</u>
Financed by:					
Share capital	23,815	238,155	23,815	68,044	45,000
Reserves	130,629	(108,101)	99,673	(10,897)	9,547
Shareholders' funds	154,444	130,054	123,488	57,147	54,547
Minority interests	–	(166)	–	70	–
	<u>154,444</u>	<u>129,888</u>	<u>123,488</u>	<u>57,217</u>	<u>54,547</u>

Consolidated Cash Flow Statements

	Unaudited		Period from 1 October 2002 to 31 December 2003 HK\$'000	Audited	
	Six months ended			Year ended 30 September 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
	30 June 2004 HK\$'000	31 March 2003 HK\$'000			
Net cash used in operating activities	(102,201)	(9,893)	(58,515)	(22,379)	(20,845)
Investing activities					
Purchase of subsidiaries net of cash and cash equivalents acquired	-	(105,818)	(105,626)	19,965	(4,000)
Expenses paid in connection with acquisition of subsidiaries	-	-	-	(3,306)	(1,137)
Deposits paid for acquisition of subsidiaries	-	-	-	(10,779)	-
Net proceeds from disposal of subsidiaries	25,411	-	-	-	-
Proceeds from disposal of other investments included in the net assets of subsidiaries acquired	-	21,000	21,000	-	-
Interest income from authorised financial institutions	38	-	421	849	1,098
Purchase of fixed assets	(572)	(3,551)	(7,723)	(2,071)	(11,276)
Sale of fixed assets	21	10	11	259	-
Purchase of investment securities	-	-	-	(2,000)	-
Purchases of other investments less proceeds from subsequent disposals	(2,771)	-	(30,452)	-	-
Decrease/(Increase) in other non-current assets	788	(259)	(931)	-	-
Decrease/(Increase) in pledged bank deposits	184	-	(184)	-	700
Net cash from/(used in) investing activities	23,099	(88,618)	(123,484)	2,917	(14,615)
Financing activities					
(Repayment to)/loan from ultimate holding company	(27,900)	-	160,000	-	-
Contribution from minority shareholders	-	-	-	225	-
Net proceeds from issue of shares	-	97,627	97,627	10,412	73,669
Payments of capital element of finance lease	-	-	-	-	(826)
Payments of interest element of finance lease	-	-	-	-	(84)
Interest-bearing bank borrowings	58,158	16,217	-	-	-
Interest paid	(3,674)	-	(3,773)	-	-
Net cash from financing	26,584	113,844	253,854	10,637	72,759
(Decrease)/increase in cash and cash equivalents	(52,518)	15,333	71,855	(8,825)	37,299
Cash and cash equivalents at beginning of periods/years	102,190	30,219	30,219	37,926	627
Effect of change in foreign currency translation	-	-	116	1,118	-
Cash and cash equivalents at end of periods/years	49,672	45,552	102,190	30,219	37,926
Analysis of balances of cash and cash equivalents:					
Bank balances and cash	49,672	45,552	102,190	30,219	37,926

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2003 as extracted from the Company's 2003 annual report.

Consolidated Profit and Loss Account

For the period from 1 October 2002 to 31 December 2003

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

Consolidated Balance Sheet*As at 31 December 2003*

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

Balance Sheet*As at 31 December 2003*

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

Consolidated Cash Flow Statement*For the period from 1 October 2002 to 31 December 2003*

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

Consolidated Statement of Changes in Equity*For the period from 1 October 2002 to 31 December 2003*

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

Notes to the Accounts*31 December 2003***1. CHANGE OF FINANCIAL YEAR END DATE**

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(b) Consolidation

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

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

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

(c) Subsidiaries

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

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

(d) Revenue recognition

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

- Revenue from sales of computer hardware and software are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.
- Sale of trading and back-office systems are recognised upon satisfactory delivery and/or installation of the system to the customers.
- System customisation and network support fees are recognised on completion of the customisation and network support work which generally coincides with the time when the customised software and network support is accepted by the customers.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(d) Revenue recognition** *(Continued)*

- Revenues from content management and subscription, data management, hosting services, ASP licence fees and hook up fees are recognised when the services are rendered.
- Revenue from provision of maintenance services is recognised on a straight-line basis the period of the respective agreements.
- Messaging fees are recognised on an accrual basis in accordance with the terms of the corresponding agreements.

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

- All transactions related to securities trading, futures and options contracts dealings and commission income are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.
- Underwriting commission, sub-underwriting commission, placing commission and sub-placing commission are recognised in the profit and loss account in accordance with the terms of the underlying agreement or deal mandate when relevant services are rendered.
- Arrangement, management, advisory and other fee income are recognised when the relevant services are rendered.
- Interest income from margin financing clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

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

(e) Intangibles*(i) Goodwill*

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

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

(ii) Trading rights

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

(iii) Impairment of intangible assets

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(f) Fixed assets**

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

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

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

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

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

(g) Investment in securities*(i) Investment securities*

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

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

(ii) Other investments

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

(h) Trade receivables

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(i) Contracts in progress**

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

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

(j) Cash and cash equivalents

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

(k) Inventories

Inventories comprise stocks and work in progress.

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

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

(l) Provisions

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

(m) Contingent liabilities

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(n) Deferred taxation**

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

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

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

(o) Operating leases

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

(p) Translation of foreign currencies

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

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

(q) Research and development costs

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

(r) Segregated accounts

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(s) Employee benefits***(i) Pension obligations*

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

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

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

(ii) Employee leave and long service payment entitlement

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

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

(t) Borrowing costs

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

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

(u) Segment reporting

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

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

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

3. REVENUES AND TURNOVER

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

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

4. SEGMENT INFORMATION

Primary reporting format – business segments

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

- (i) Sales of technology solution systems and related services
- (ii) Investment banking and financial services

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

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

4. SEGMENT INFORMATION (Continued)

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

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

Secondary reporting format – geographical segments

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

4. SEGMENT INFORMATION *(Continued)*

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

5. OPERATING LOSS

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

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

6. FINANCE COSTS

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

7. TAXATION

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

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

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

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

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

9. DIVIDENDS

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

10. LOSS PER SHARE

The calculation of the basic loss per share for the period from 1 October 2002 to 31 December 2003 is based on the Group's loss attributable to shareholders of approximately HK\$31,936,000 (year ended 30 September 2002: HK\$91,161,000) and the weighted average number of 197,634,724 ordinary shares (year ended 30 September 2002: 77,198,235 ordinary shares, restated) in issue during the respective periods after adjustment of the number of shares in issue prior to the rights issue on 5 February 2003 by the factor of 1.36 and the share consolidation of every 10 shares to 1 share, on 28 May 2003 (please refer to note 20 for details). The basic loss per share for the year ended 30 September 2002 has been restated accordingly.

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

11. STAFF COSTS (INCLUDE DIRECTORS' EMOLUMENTS)

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

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

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

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

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

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

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

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

	Number of individuals Period from 1 October 2002 to 31 December 2003	Year ended 30 September 2002
Directors	1	3
Employees	4	2
	<u>5</u>	<u>5</u>

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

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

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

	Number of individuals Period from 1 October 2002 to 31 December 2003	Year ended 30 September 2002
HK\$nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	1	–
More than HK\$2,000,000	1	–
	<u>4</u>	<u>2</u>

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

13. FIXED ASSETS

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

14. INTANGIBLE ASSETS

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

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

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

15. INVESTMENTS IN SUBSIDIARIES

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

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

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

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

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

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
iAsia Online Systems Limited*	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US\$1 each	100%
Elixir Group Limited*	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK\$1 each	77.5%
Elixir Group (Macau) Limited	Macau	Provision of hardware and software in Macau	2 ordinary shares of MOP450,000 and MOP50,000 each	77.5%
VC CFN Corporation Limited*	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
VC CEF Brokerage Limited [#]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK\$1 each	100%
VC CEF Futures Limited [#]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK\$1 each	100%
VC CEF Capital Limited [#]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK\$1 each	100%
VC CFN Capital (Shenzhen) Limited**	PRC	Provision of consultancy services in the PRC	—	100%
VC CFN Investments Limited	Hong Kong	Provision of security investment service to group companies in Hong Kong	2 ordinary shares of HK\$1 each	100%
iAsia Services Limited*	Hong Kong	Provision of management service to group companies in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
iAsia Network Solutions Limited*	British Virgin Islands	Provision of system customisation and network support services in Hong Kong	1 ordinary share of US\$1 each	100%
iAsia Technology (Asia) Limited*	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%

* Shares held directly by the Company

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

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

16. INVENTORIES

	Group	
	As at 31 December 2003 <i>HK\$'000</i>	As at 30 September 2002 <i>HK\$'000</i>
Merchandise	1,776	735
Work-in-progress	41	181
	<u>1,817</u>	<u>916</u>

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

17. OTHER INVESTMENTS

	Group and Company	
	As at 31 December 2003 <i>HK\$'000</i>	As at 30 September 2002 <i>HK\$'000</i>
Equity securities listed in Hong Kong	<u>40,638</u>	<u>–</u>
Market value of the listed equity securities	<u>40,638</u>	<u>–</u>

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

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

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

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

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

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

19. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

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

20. SHARE CAPITAL

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

Notes:

- (a) On 5 February 2003, the Company issued 1,020,664,287 new ordinary shares of HK\$0.10 each at par on the basis of three rights shares for every two existing shares held payable in full on acceptance with bonus shares to be issued in the proportion of two bonus shares for every three rights shares subscribed.
- (b) Under the Company's capital reorganisation effective on 28 May 2003, the then share premium of approximately HK\$45,878,000 was eliminated against the accumulated losses. The paid up and the nominal value of each of the then 2,381,549,999 issued ordinary shares of the Company was also reduced by HK\$0.09 from HK\$0.10 to HK\$0.01 and the reduced amount was eliminated against the accumulated losses. The surplus credit arising from the elimination of share premium and reduction of share capital against the accumulated losses was credited to a special capital reserve of the Company. Further, every 10 adjusted shares of HK\$0.01 each was consolidated into one reorganised share of HK\$0.10 each.

22. SHARE OPTIONS

(i) Pre-IPO share option plan

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

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

For the period from 1 October 2002 to 31 December 2003, certain Pre-IPO Share Options comprising a total of 516,979 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively) which had been granted to one employee lapsed as the relevant employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of the Group. Since the date of the grant of the Pre-IPO Share Options up to 31st December 2003 and 30 September 2002, none of the Pre-IPO Share Options were exercised. Movements in the number of Pre-IPO Share Options outstanding during the period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

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

22. SHARE OPTIONS (Continued)

(ii) Share option scheme

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

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

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

During the period from 1 October 2002 to 31 December 2003, certain Share Options to subscribe for a total of 682,569 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively) granted to ten employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of the Group. Since the date of the grant of the Share Options up to 31 December 2003 and 30 September 2002, none of the Share Options were exercised. Movements in the number of Share Options outstanding during the period are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) respectively):

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

23. RELATED PARTY TRANSACTIONS

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

- (a) The amount due from an investee company and the amounts due to ultimate holding company and a fellow subsidiary are unsecured, interest free and have no fixed terms of repayment.
- (b) The trade receivables, prepayments, deposits and other receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK\$3,510,000 (2002: nil).
- (c) The trade payables, accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK\$10,180,000 (2002: nil).
- (d) Loan from ultimate holding company is unsecured, interest-bearing at prime rate minus two per cent per annum and repayable upon written notice of the ultimate holding company.
- (e) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

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

Notes:

- (i) Fixed assets were transferred from a related company based on their carrying value stated in the books of the related company.
- (ii) The Group leased certain office space from a related company. The lease rental was charged according to actual floor space utilised at normal commercial terms.
- (iii) Service fees charged and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.
- (iv) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.
- (v) Interest expense on loan from ultimate holding company and a fellow subsidiary was charged at prime rate minus two per cent. per annum.
- (vi) The amount of management fee charged by ultimate holding company is determined based on mutual agreement between the Company and the ultimate holding company.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

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

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries

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

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries (Continued)

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

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

Note:

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

25. COMMITMENTS

(i) Operating lease commitments

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

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

(ii) Financial commitments

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

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

26. COMPARATIVE FIGURES

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

27. APPROVAL OF ACCOUNTS

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

3. INDEBTEDNESS

(a) Bank borrowings

As at the close of business on 31 August 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had bank borrowings totalling HK\$61 million in which an amount of HK\$10 million was secured by margin clients' listed securities with market value of approximately HK\$24.4 million. A corporate guarantee to a bank amounted to HK\$70 million was granted to a subsidiary by the Company.

(b) Loans from ultimate holding company

As at the close of business on 31 August 2004, the Group had loans from ultimate holding company of approximately HK\$211.9 million. The loans from ultimate holding company are unsecured, interest bearing and repayable upon written notice of the ultimate holding company.

(c) Contingent liabilities

As at the close of business on 31 August 2004, the Group did not have any material contingent liabilities.

(d) Capital commitments

As at the close of business on 31 August 2004, the Group did not have any material capital commitments.

Save as aforesaid and apart from intra-Group liabilities, the Group did not, at the close of business on 31 August, 2004 have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases or other finance lease commitments, guarantees or other significant contingent liabilities.

As at the Latest Practicable Date, the Directors were not aware of any material change in respect of the indebtedness or other contingent liabilities of the Group since 31 August 2004.

4. WORKING CAPITAL

The Directors are of the opinion that the Group will, following the execution of the Loan Agreement and taking into account the present internal financial resources and the present available credit facilities, have sufficient working capital for its present requirements.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2003, the date to which the latest published audited accounts of the Group were made up to.

6. FINANCIAL AND TRADING PROSPECTS

In view of the Group's strong and professional management team and the strong support from Melco, the Directors believe that the Group can become a regional premier investment banking group in Hong Kong, Macau and the PRC. With the signing of the Closer Economic Partnership Arrangement (CEPA) by the PRC with Hong Kong and Macau respectively, the Directors believe that the Group would be better positioned to expand its PRC business and to assist the mainland customers and counterparts to develop and expand their businesses. The Group has set up new offices in Shenzhen, Beijing and Shanghai during the first half of 2004 in order to expand our deal sourcing capability for the investment banking business as well as to provide better financial service offerings to our PRC clients. The Directors are of the view that the provision of the Facility is in line with the present strategy of the Company, which is to continue to develop its investment banking and financial services business. The Directors also believe that the provision of the Facility is fair and reasonable and in the interest of the Shareholders as a whole.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this circular 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 circular misleading; and
- (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

As at the Latest Practicable Date, the relevant interests or short positions of the Directors and 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 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 Directors, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in Shares

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

Notes:

1. Dr. Stanley Ho will be taken to be interested in 7,384,651 Shares as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of the Company.
2. Mr. Lawrence Ho will be taken to be interested in 4,232,627 Shares as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of the Company.
3. Dr. Lee Jun Sing will be taken to be interested in 6,299,702 Shares as a result of him being beneficially interested in the entire issued share capital of Best Summit International Limited which in turn holds approximately 2.65% of the issued share capital of the Company.
4. The personal interests of the relevant Directors represent their respective derivative interests in the Company comprising the physically settled options as more particularly mentioned in sub-section headed "Derivative interests" below.

(b) Derivative interests

Pursuant to the Pre-IPO Share Option Plan adopted by the Company on 14 March 2001 and the Share Option Scheme adopted by the Company on 29 November 2001 as respectively described in the section headed "Details of Outstanding Options Granted" below, as at the Latest Practicable Date, the Directors have options granted by the Company to subscribe Shares as follows:

Name of Director	Date of grant	Note	Exercise price per Share HK\$	Number of underlying Shares comprised in the options outstanding as at the Latest Practicable Date	Expiry date
Dr. Stanley Ho	6 April 2001		3.6	735,000	8 October 2005
Mr. Lawrence Ho	6 April 2001		3.6	735,000	8 October 2005
	9 July 2002	(1)	1.0	491,057	8 July 2012
Dr. Lee Jun Sing	6 April 2001		3.6	3,136,510	8 October 2005
	9 July 2002	(1)	1.0	491,057	8 July 2012

Note:

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

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

Exercisable period	Percentage of underlying Shares comprised in the options which become exercisable
For options granted on 6 April 2001 pursuant to the Pre-IPO Share Option Plan:	
Commencing from the business day immediately following the first six months of the commencement of the trading of the Shares on GEM	Up to 50%
Commencing from the business day immediately following the first anniversary of the commencement of the trading of the Shares on GEM and ending approximately 4.5 years after the date of grant	All Shares in respect of which the option has not been previously exercised
For options granted on 9 July 2002 pursuant to the Share Option Scheme:	
Commencing from the date of grant up to the date falling six months thereafter	Up to 50%
Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date of grant	All Shares in respect of which the option has not been previously exercised

As at the Latest Practicable Date, none of the Directors had exercised their Options.

(c) Interests in shares and equity derivatives of Melco

Name of Directors	Nature of interests	Notes	Number of shares of Melco interested	Number of underlying shares of Melco interested	Approximate percentage of shares of Melco interested
Dr. Stanley Ho	Corporate	(1)	2,377,500	-	0.63%
	Personal	(1)	12,646,367	-	3.33%
Mr. Lawrence Ho	Corporate	(2)	182,455,599	-	48.07%
	Corporate	(3)	-	19,565,216	5.15%
	Personal	(4)	1,816,306	-	0.48%
	Personal	(4)	-	1,800,000	0.48%

Notes:

1. Dr. Stanley Ho will be taken to be interested in 2,377,500 shares of Melco as a result of him being beneficially interested in the respective entire issued share capitals of Sharikat Investments Ltd. and Dareset Ltd. which in turn hold an aggregate of approximately 0.63% of the issued share capital of Melco. Apart from that, Dr. Stanley Ho personally holds 12,646,367 shares of Melco
2. Mr. Lawrence Ho is taken to be interested in 57,754,512 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 15.22% of the issued share capital of Melco. He is also taken to be interested in 124,701,087 shares of Melco as a result of him being interested in 77% of issued share capital of Better Joy Overseas Ltd. (“Better Joy”) which in turn holds approximately 32.85% of the issued share capital of Melco.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in Melco’s shares through Better Joy are taken into account. Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 11.51% and 40.99% of Melco’s shares.

3. Two convertible notes respectively due 2005 and 2006 were issued by Melco to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreement as disclosed in the announcement and the circular of Melco respectively dated 19 March 2004 and 23 April 2004. As at 30 June 2004, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per share, a total of 19,565,216 shares will be issued to Better Joy. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy, he is deemed to be interested in these 19,565,216 underlying shares.

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

4. The personal interests of Mr. Lawrence Ho comprises of his personal holding of 1,816,306 shares in Melco and derivative interests in Melco comprising the physically settled options which were granted on 19 February 2004 and may be exercised, as for 900,000 options, during the period from 19 February 2005 to 7 March 2012 and as for the other 900,000 options, during the period from 19 February 2006 to 7 March 2012, at an exercise price of HK\$2.405 per Melco’s share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives 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 Directors, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

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

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 the Latest Practicable Date, 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.

4. DETAILS OF OUTSTANDING OPTIONS GRANTED

(a) Pre-IPO Share Option Plan

As at the Latest Practicable Date, Pre-IPO Share Options to subscribe for an aggregate of 5,868,698 underlying Shares granted on 6 April 2001 pursuant to the Pre-IPO Share Option Plan were outstanding. The following are details of the outstanding Pre-IPO Share Options:

Categories of grantees	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options	Exercise price per Share HK\$	Pre-IPO Share Options duration
Directors of the Company	3	4,606,510	3.6	6 April 2001 to 8 October 2005
Employees	3	1,262,188	3.6	6 April 2001 to 8 October 2005
Total	<u>6</u>	<u>5,868,698</u>		

Details of the grant of Pre-IPO Share Options to the Directors of the Company are disclosed in the sub-section headed “Derivative interests” under the section of “Directors’ and chief executive’s interests in the Company and its associated corporations” above.

During the period between 31 December 2003 and the Latest Practicable Date, certain Pre-IPO Share Options to subscribe for a total of 3,871,510 underlying Shares granted to 2 directors lapsed as the relevant directors failed to exercise the same within 3 months after the relevant directors ceased to be the directors of the Company. Since the date of the grant of the Pre-IPO Share Options up to the Latest Practicable Date, none of the Pre-IPO Share Options was exercised.

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

(b) Share Option Scheme

As at the Latest Practicable Date, Share Options to subscribe for an aggregate of 27,359,104 underlying Shares granted on 9 July 2002 pursuant to the Share Option Scheme were outstanding. The following are details of the outstanding Share Options:

Categories of grantees	Total no. of grantees	No. of underlying Shares to be issued upon the exercise of the Share Options	Exercise price per Share HK\$	Share Options duration
Directors of the Company	2	982,114	1.0	9 July 2002 to 8 July 2012
Employees	23	1,792,360	1.0	9 July 2002 to 8 July 2012
Employees	58	23,160,565	0.64	25 March 2004 to 8 July 2012
Other eligible persons	6	1,424,065	1.0	9 July 2002 to 8 July 2012
Total	<u>89</u>	<u>27,359,104</u>		

Details of the grant of Share Options to the Directors of the Company are disclosed in the sub-section headed “Derivative interests” under the section of “Directors’ and chief executive’s interests in the Company and its associated corporations” above.

During the period between 31 December 2003 and the Latest Practicable Date, certain Share Options to subscribe for a total of 29,463 underlying Shares granted to 3 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 the Latest Practicable Date, none of the Share Options was exercised.

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

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Group within the two years preceding the date of this circular and are or may be material:

- (a) a sale and purchase agreement dated 28 September 2002 entered into between the Company and CEF Brokerage Holdings Limited and CEF Holdings Limited in relation to the sale and purchase of the entire issued share capital of CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited in consideration of an aggregate sum of HK\$126,000,000;
- (b) an underwriting agreement and a supplemental agreement dated 28 September 2002 and 9 October 2002 respectively entered into between the Company and Melco whereby Melco agreed to underwrite the rights issue of not less than 1,020,664,287 new ordinary shares of the Company at HK\$0.10 each;
- (c) a banking facility letter issued by Standard Chartered Bank dated 4 October 2002 offering to grant to the Company such banking facilities of not exceeding HK\$90 million for the purpose of financing the acquisition of CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited; and
- (d) a letter dated 20 December 2002 issued by the Company to Melco confirming the mutual consent of the Company and Melco to extend the deadline of fulfilment of all conditions to the underwriting agreement from 20 December 2002 to 31 January 2003.

6. DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed herein, as at the Latest Practicable Date:

- (a) 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);
- (b) none of the Directors has any interest, direct or indirect, in any assets which have been, since 31 December 2003 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) there is no subsisting contract or arrangement in which any Director is materially interested and which is significant in relation to the business of the Group.

7. LITIGATION

Saved as disclosed herein, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. COMPETING INTERESTS

Dr. Stanley Ho, the Chairman and an executive Director, 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 the Latest Practicable Date, none of the Directors, the substantial Shareholders or their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

9. GENERAL

- (a) The registered office, head office and principal place of business of the Company is at 28/F., The Centrium, 60 Wyndham Street, Central, Hong Kong. The share registrar and transfer office of the Company is Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The qualified accountant of the Company is Ms. Fung Wai Har. Ms. Fung is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants.
- (c) The company secretary of the Company is Mr. Tsang Yuen Wai, Samuel, a solicitor admitted in Hong Kong, England and Wales and Australia.
- (d) The compliance officer of the Company is Mr. Lawrence Ho, President and Vice Chairman of the Company.
- (e) The audit committee of the Company was formed on 14 March 2001 and is currently comprising the independent non-executive directors of the Company, Attorney Patajo-Kapunan, Lorna, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kanhee, Anthony. The terms of reference of the audit committee have been established with regard to Rules 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to (i) review the Company’s annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the board; and (ii) review and supervise the financial reporting process and internal control procedures of the Group.
- (f) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.