



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

(incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 8101)

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2004

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The board (the “Board”) of Directors (the “Directors”) of Value Convergence Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 30th September 2004, together with the unaudited comparative figures for the three months and nine months ended 30th June 2003 (The Company has changed its financial year end date from 30th September to 31st December with effect from 2003).

BUSINESS REVIEW

On 31st May 2004, the Group completed the disposal of its technology business and is currently focusing its development on the investment banking and financial services business. Hence, the results of operations for the three months ended 30th September 2004 included only the results of the investment banking and financial services business while the nine months ended 30th September 2004 (“the review period”) included the results of both the investment banking and financial services business and the technology business.

The Group’s consolidated turnover amounted to approximately HK\$25.8 million and HK\$125.9 million for the three months and nine months ended 30th September 2004 respectively (three months and nine months ended 30th June 2003: HK\$22.6 million and HK\$51.9 million respectively), an increase of approximately 14.1% and 142.4% over the comparative periods respectively. Also, the loss attributable to shareholders amounted to approximately HK\$6.0 million for the three months ended 30th September 2004 and the profit attributable to shareholders amounted to approximately HK\$27.6 million for the nine months ended 30th September 2004 (three months and nine months ended 30th June 2003: loss of approximately HK\$2.4 million and HK\$27.1 million respectively).

Investment banking and financial services business

The Group’s investment banking and financial services business primarily comprises brokerage (securities, futures and options broking and dealing) and investment banking (corporate finance advisory service, initial public offerings, mergers and acquisition advisory services).

During the review period, the local stock market had experienced high volatility. The market sentiments in both the HK and US markets improved steadily and investors’ sentiment was bullish during the first quarter of 2004. The Hang Seng Index had risen from 12,575 at the beginning of 2004 to close at 13,928 on 18th February 2004. The local stock market then experienced a significant correction starting from March 2004 amidst the fear of rising interest rate in the US. The Hang Seng Index slid to its lowest at 10,967 on 17th May 2004 and closed at 12,285 at the end of June 2004. During the third quarter, the local stock market had recovered steadily. The Hang Seng Index reached its hike of 13,304 on 21st September 2004 and closed at 13,120 on 30th September 2004. The September closing Hang Seng Index represents a rise of 19.6% from its lowest of 10,967 on 17th May 2004. The average daily market turnover of the Hong Kong stock market including GEM for the three months and nine months ended 30th September 2004 were HK\$12.3 billion and HK\$15.3 billion respectively (three months and nine months ended 30th June 2003: HK\$8.1 billion and HK\$6.6 billion). We expect that the stock market will continue to experience high volatility for the last quarter of 2004.

The brokerage business depends very much on the total market turnover. As a result of increased stock market activities during the review period, business volume and transactions for the Group's brokerage division were increased. The brokerage division also managed to gain market shares in the stock, futures and options markets. In addition, the investment banking division had completed several placement and IPO transactions during the review period. The Group had 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. This helps to open up new opportunities for the Group and build up our competitive edge in the business.

The implementation of the strategic and operational initiatives to the Group's operations, including cost rationalization, over the past year and the strengthening of the management team in the investment banking and financial services business have positioned the Group in a favorable position to weather market volatility and capture market opportunities. In addition, the Group's research team has established a solid reputation in providing quality and independent company analyses and research reports. Also, the Group is gradually building up its asset management capability and a team of asset management professionals has been appointed to explore new options and to add values to the Group in the near future.

During the three months and nine months ended 30th September 2004, turnovers attributed to the investment banking and financial services business were approximately HK\$25.8 million (100% of the total turnover) and HK\$91.2 million (72.5% of the total turnover) respectively as compared to approximately HK\$15.2 million (67.5% of the total turnover) and HK\$24.5 million (47.3% of the total turnover) for the three months and nine months ended 30th June 2003 respectively. For the three months ended 30th September 2004, this business segment recorded a loss before finance costs and taxation of approximately HK\$4.4 million, however, this segment recorded a profit before finance costs and taxation of approximately HK\$4.4 million for the nine months ended 30th September 2004 (three months and nine months ended 30th June 2003 (since the acquisition from 18th December 2002): a profit before finance costs and taxation of approximately HK\$1.0 million and a loss before finance costs and taxation of approximately HK\$10.2 million respectively). The Group has made achievements in its financial performance during the review period as compared to the comparative periods in previous year owing to improved market activities, the Group's improved competitiveness in increasing market share as well as its continuing focus on margin improvement and cost rationalisation.

Technology business

In line with the Group's strategy in focusing its business on the investment banking and financial services, the Group had disposed of its technology business during the first half of 2004. On 19th March 2004, the Company entered into a sale and purchase agreement with Melco International Development Limited ("Melco"), the Company's ultimate holding company, whereby the Company had agreed to sell and Melco had agreed to purchase the entire issued share capital of the iAsia Group, including iAsia group of companies and Elixir group of companies, for a consideration of HK\$27.9 million. The consideration was settled in cash and sale proceeds were used to repay a shareholder's loan owed by one of the Company's subsidiaries to the Melco Group. The Company also gave a guarantee to Melco that the net profit (after tax and minority interest) of the iAsia Group will not be less than HK\$4 million for the year ending 31st December 2004, failing which the Company will compensate the shortfall (up to a maximum of HK\$4 million) on a dollar for dollar basis. This disposal

constituted a disclosable and connected transaction of the Company under the GEM Listing Rules and a circular incorporating the necessary details of the disposal was prepared and sent to the Company's shareholders on 23rd April 2004. Independent shareholders' approval in relation to the transactions had been obtained and the disposal was completed on 31st May 2004. A gain of approximately HK\$26.4 million was recognized upon the completion of the disposal during the nine months ended 30th September 2004.

Prior to the disposal, the Group's technology business, through iAsia Online Systems Limited and other iAsia group of companies ("iAsia"), provided comprehensive online trading and related systems and services to financial institutions and intermediates. During the review period, iAsia had developed the Bullion Deal Matching System, which was well received by the customers. In addition, iAsia has been improving and integrating the existing modules of online trading and related systems to better suit the customers' needs and to enhance the comprehensiveness of the systems. Through Elixir Group Limited ("Elixir") and its Macau subsidiary, Elixir offered clients in Hong Kong, Macau and the PRC full range of hardware systems, system integration services and system network services that complement iAsia's software products.

For the five months ended 31st May 2004, the technology business contributed turnover of approximately HK\$34.6 million, representing approximately 27.5% of the Group's turnover for the nine months ended 30th September 2004. This segment recorded a profit before finance costs and taxation (before gain on disposal of subsidiaries) of approximately HK\$2.2 million during the same period.

OUTLOOK

On 27th August 2004, the HKSAR and the Mainland reached an agreement whereby further liberalization measures under the second phase of the Closer Economic Partnership Arrangement will be introduced. In respect of the securities and futures services sector, the agreement will allow intermediary agencies, which are registered with the Securities and Futures Commission of Hong Kong and satisfied the requirements of the China Securities Regulatory Commission, to set up joint venture brokerage/futures companies in the Mainland. This new development will be effective from 1st January 2005 and is crucial for the building up of a stronger relationship between the investment banking and financial services industry practitioners in Hong Kong and the Mainland. The setting up of new offices in Shenzhen, Beijing and Shanghai by the Group during the review period is a major milestone in the development of the Group's business in China. We will continue to closely monitor the development of these new measures and shall seize every opportunities to expand our business volume and scope through these measures and our PRC offices whenever possible.

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

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

Hong Kong, 10th November 2004

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30th September 2004

	Notes	Unaudited Three months ended 30th		Unaudited Nine months ended 30th	
		September 2004 HK\$'000	30th June 2003 HK\$'000	September 2004 HK\$'000	30th June 2003 HK\$'000
Turnover	(2)	25,787	22,596	125,857	51,931
Cost of inventories sold		–	(2,816)	(23,810)	(17,140)
Staff costs		(8,028)	(8,763)	(32,447)	(26,635)
Depreciation and amortization		(1,075)	(3,583)	(3,846)	(9,643)
Commission expenses		(9,393)	(4,711)	(36,294)	(8,062)
Other operating expenses		(6,487)	(5,803)	(22,022)	(18,859)
Other (expenses) income		(5,262)	818	(839)	1,364
Gain on disposal of subsidiaries	(3)	–	–	26,384	–
(Loss) Profit before finance costs and taxation		(4,458)	(2,262)	32,983	(27,044)
Finance costs		(1,537)	(276)	(5,211)	(435)
(Loss) Profit before taxation		(5,995)	(2,538)	27,772	(27,479)
Taxation	(4)	–	–	–	–
(Loss) Profit after taxation		(5,995)	(2,538)	27,772	(27,479)
Minority interests		–	169	(217)	405
(Loss) Profit attributable to shareholders		<u>(5,995)</u>	<u>(2,369)</u>	<u>27,555</u>	<u>(27,074)</u>
Basic (loss) earnings per share (HK cents)	(5)	<u>(2.52)</u>	<u>(0.99)</u>	<u>11.57</u>	<u>(15.90)</u>

NOTES TO THE ACCOUNTS

1. Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention.

The principal accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual report of the Company for the fifteen months ended 31st December 2003 except for the nine months ended 30th September 2004 since the Group has early adopted Hong Kong Financial Reporting Standard No. 3 “Business Combination” (“HKFRS 3”), Hong Kong Accounting Standard No. 36 “Impairment of Assets” (“HKAS 36”) and Hong Kong Accounting Standard No. 38 “Intangible Assets” (“HKAS 38”) issued by the HKICPA.

The early adoption of HKFRS 3 has resulted in a prospective change in the accounting policy for goodwill. Until 31st December 2003, goodwill was amortized using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount. With the adoption of HKFRS 3, the Group has ceased to amortize goodwill from 1st January 2004 and accumulated amortization as at 31st December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From the period ended 31st December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The Group has reassessed the useful lives of its intangible assets and no adjustment has resulted from this reassessment. There was no impact on opening retained earnings at 1st January 2004 and the goodwill amortization of approximately HK\$550,000 and HK\$1,649,000 was not charged for the three months and nine months ended 30th September 2004 respectively with the adoption of HKFRS 3. The early adoption of HKAS 36 and HKAS 38 have no material impact on the accounts of the Group.

The financial year end date of the Company has been changed from 30th September to 31st December with effect from 2003. As a result, the comparative figures for the unaudited consolidated profit and loss account and the related notes to the accounts are not directly comparable. Certain comparative figures have been reclassified to conform to the current period’s presentation.

2. Turnover

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

	Three months ended		Nine months ended	
	30th		30th	
	September	30th June	September	30th June
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Investment banking and financial services	25,787	15,249	91,234	24,543
Sales of technology solution systems and related services	–	7,347	34,623	27,388
	<u>25,787</u>	<u>22,596</u>	<u>125,857</u>	<u>51,931</u>

3. Discontinuing operation

On 31st May 2004, the Group completed the disposal of the whole technology business to its ultimate holding company. The assets and liabilities involved in the disposal are as follows:

	<i>HK\$'000</i>
Fixed assets	1,411
Inventories	19,249
Trade receivables, prepayments, deposits and other receivables	28,595
Amounts due from group companies	2,842
Bank balances and cash	2,489
Trade payables, accruals and other payables	(48,404)
Amounts due to group companies	(4,449)
Minority interests	(217)
	<u>1,516</u>
Gain on disposal of subsidiaries	<u>26,384</u>
	<u>27,900</u>
Satisfied by:	
Cash (by way of settlement of loan from ultimate holding company)	<u>27,900</u>
Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:	
Cash consideration	27,900
Bank balances and cash disposed	(2,489)
	<u>25,411</u>
Net inflow of cash and cash equivalents from the disposal	<u>25,411</u>

4. Taxation

No provision for Hong Kong or overseas profits tax has been made in the accounts as the Group has no estimated assessable profits after offsetting accumulated tax losses for the nine months ended 30th September 2004 (nine months ended 30th June 2003: nil).

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has estimated unrecognized tax losses of HK\$178,145,000 as at 30th September 2004 (31st December 2003: HK\$285,603,000) to carry forward against future taxation 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 and the PRC.

5. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the Group's unaudited loss attributable to shareholders of approximately HK\$5,995,000 for the three months ended 30th September 2004 and unaudited profit attributable to shareholders of approximately HK\$27,555,000 for the nine months ended 30th September 2004 (three months and nine months ended 30th June 2003: loss of approximately HK\$2,369,000 and HK\$27,074,000 respectively) and the weighted average number of 238,154,999 and 238,154,999 ordinary shares (three months and nine months ended 30th June 2003: 238,154,999 and 170,324,354 ordinary shares, after adjustment of the number of shares in issue prior to the rights issue on 5th February 2003 by the factor of 1.36 and the share consolidation of every 10 shares to 1 share on 28th May 2003) in issue during the respective periods.

Diluted earnings (loss) per share has not been presented for the three months and nine months ended 30th September 2004 and the three months and nine months ended 30th June 2003 because the exercise prices of the share options were higher than the average market price of the Company's shares during the respective periods.

6. Reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Unaudited Accumulated losses <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st October 2002	118,362	–	(130,103)	844	(10,897)
Issue of shares	(68,044)	–	–	–	(68,044)
Expenses incurred with issue of shares	(4,440)	–	–	–	(4,440)
Capital reorganization	(45,878)	123,758	136,460	–	214,340
Loss attributable to shareholders	–	–	(27,074)	–	(27,074)
Exchange differences arising on translation of accounts of an overseas subsidiary	–	–	–	(15)	(15)
	<u>–</u>	<u>123,758</u>	<u>(20,717)</u>	<u>829</u>	<u>103,870</u>
Balance at 30th June 2003	<u>–</u>	<u>123,758</u>	<u>(20,717)</u>	<u>829</u>	<u>103,870</u>

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Unaudited (Accumulated losses)/ Retained profit <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st January 2004	–	123,758	(25,579)	1,494	99,673
Profit attributable to shareholders	–	–	27,555	–	27,555
Reserves transferred to profit and loss account arising from an overseas subsidiary	–	–	–	(1,494)	(1,494)
	<u>–</u>	<u>123,758</u>	<u>1,976</u>	<u>–</u>	<u>125,734</u>
Balance at 30th September 2004	<u>–</u>	<u>123,758</u>	<u>1,976</u>	<u>–</u>	<u>125,734</u>

INTERIM DIVIDEND

No dividends have been paid or declared by the Company during the nine months ended 30th September 2004 (2003: nil).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director of the Group had a material interest, whether directly or indirectly, subsisted during or at the end of the nine months ended 30th September 2004 or at any time during such period.

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

As at 30th September 2004, the relevant interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

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

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

(ii) Derivative interests in the Company

Pursuant to the pre-IPO share option plan adopted by the Company on 14th March 2001 (“Pre-IPO Share Option Plan”) and the share option scheme adopted by the Company on 29th November 2001 (“Share Option Scheme”) as respectively described in the section headed “Details of Outstanding Options Granted” below, as at 30th September 2004, the Directors of the Company have options granted by the Company to subscribe Shares in the Company as follows:

Name of Director	Date of grant	Exercise price per Share HK\$	Number of underlying Shares comprised in the options outstanding as at 30th September 2004	Expiry date
Dr. Stanley Ho	6th April 2001	3.6	735,000	8th October 2005
Mr. Lawrence Ho	6th April 2001	3.6	735,000	8th October 2005
	9th July 2002 (Note)	1.0	491,057	8th July 2012
Dr. Lee Jun Sing	6th April 2001	3.6	3,136,510	8th October 2005
	9th July 2002 (Note)	1.0	491,057	8th July 2012

Note:

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

As at 30th September 2004, none of the Directors had exercised their options.

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

Name of Directors	Nature of interests	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	–	3.35%
Mr. Lawrence Ho	Corporate	(2)	182,455,599	–	48.33%
	Corporate	(3)	–	19,565,216	5.18%
	Personal	(4)	1,816,306	–	0.48%
	Personal	(4)	–	1,800,000	0.48%

Notes:

1. Dr. Stanley Ho is taken to be interested in 2,377,500 shares of Melco as a result of him being beneficially interested in the respective entire issued share capitals of Sharikat Investments Ltd. and Dareset Ltd. which in turn hold an aggregate of approximately 0.63% 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 15.30% 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 33.03% 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 11.58% and 41.21% of Melco’s shares.

3. Two convertible notes respectively due 2005 and 2006 were issued by Melco to Better Joy on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of Melco respectively dated 19th March 2004 and 23rd April 2004. As at 30th September 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 consist of (a) his personal holding of 1,816,306 shares in Melco and (b) derivative interests in Melco in the form of physically settled options granted on 19th February 2004, which may be executed, as to 900,000 options, during the period from 19th February 2005 to 7th March 2012 and as to the other 900,000 options, during the period from 19th February 2006 to 7th March 2012, at an exercise price of HK\$2.405 per Melco’s share.

Save as disclosed above, as at 30th September 2004, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2004, so far as is known to the Directors of the Company, the following persons (other than a director or chief executive of the Company) had an interest or 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 (formerly “Melco Finance and Technology Limited”), which is a wholly-owned subsidiary of Melco.

Save as disclosed above, as at 30th September 2004, so far as is known to the Directors, there is no other person who had an interest or a short position in the shares and underlying shares (including interests in options, if any) of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO.

DETAILS OF OUTSTANDING OPTIONS GRANTED

(i) Pre-IPO share option plan

As at 30th September 2004, options to subscribe for an aggregate of 9,005,208 underlying Shares granted on 6th April 2001 (“Pre-IPO Share Options”) pursuant to the Pre-IPO Share Option Plan were outstanding. The following are details of the outstanding Pre-IPO Share Options:

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	6th April 2001 to 8th October 2005
Employees	4	4,398,698	3.6	6th April 2001 to 8th October 2005
Total	<u>7</u>	<u>9,005,208</u>		

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

Exercisable period	Percentage of underlying Shares comprised in the options which become exercisable
Commencing from the business day immediately following the first six months of the commencement of the trading of the Shares on GEM	Up to 50%
Commencing from the business day immediately following the first anniversary of the commencement of the trading of the Shares on GEM and ending approximately 4.5 years after the date of grant	All Shares in respect of which the option has not been previously exercised

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

During the nine months ended 30th September 2004, certain Pre-IPO Share Options to subscribe for a total of 735,000 underlying Shares granted to one director lapsed as the relevant director failed to exercise the same within 3 months after the relevant director ceased to be the director of the Company. Since the date of the grant of the Pre-IPO Share Options up to 30th September 2004, none of the Pre-IPO Share Options was exercised or cancelled.

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

(ii) **Share option scheme**

As at 30th September 2004, options to subscribe for an aggregate of 27,359,104 underlying Shares (“Share Options”) 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\$	Date of grant	Share Options duration
Directors of the Company	2	982,114	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	23	1,792,360	1.0	9th July 2002	9th July 2002 to 8th July 2012
Employees	58	23,160,565	0.64	25th March 2004	25th March 2004 to 8th July 2012
Other eligible persons	6	1,424,065	1.0	9th July 2002	9th July 2002 to 8th July 2012
Total	<u>89</u>	<u>27,359,104</u>			

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

Exercisable period

Percentage of underlying Shares comprised in the options which become exercisable

Commencing from the date of grant up to the date falling six months thereafter

Up to 50%

Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date of grant

All Shares in respect of which the option has not been previously exercised

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

During the nine months ended 30th September 2004, certain Share Options to subscribe for a total of 29,463 underlying Shares granted to three 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 30th September 2004, none of the Share Options was exercised or cancelled.

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

CORPORATE GOVERNANCE

The Company has complied throughout the period with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company's audit committee was formed on 14th March 2001 and is currently comprised of the independent non-executive Directors of the Company, Attorney Lorna Patajo-Kapunan, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kanhee, Anthony. The terms of reference of the audit committee have been established with regard to Rule 5.29 of the GEM Listing Rules.

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

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

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

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the nine months ended 30th September 2004.

COMPETING INTERESTS

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

Save as disclosed above, as at 30th September 2004, none of the Directors, the substantial shareholders or the management shareholders of the Company or their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

As at the date hereof, the board of directors of the Company comprises three executive directors, namely, Dr. Stanley Ho (Chairman), Mr. Lawrence Ho (President and Vice Chairman) and Dr. Lee Jun Sing and three independent non-executive directors, namely, Attroney Patajo-Kapunan, Lorna, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kanhee, Anthony.

This announcement 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.